

India Studies in Business and Economics

Runa Sarkar  
Annapurna Shaw *Editors*

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# Essays on Sustainability and Management

Emerging Perspectives

 Springer

# **India Studies in Business and Economics**

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Editors

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ISSN 2198-0012                      ISSN 2198-0020 (electronic)  
India Studies in Business and Economics  
ISBN 978-981-10-3122-9            ISBN 978-981-10-3123-6 (eBook)  
DOI 10.1007/978-981-10-3123-6

Library of Congress Control Number: 2016956631

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This Springer imprint is published by Springer Nature  
The registered company is Springer Nature Singapore Pte Ltd.  
The registered company address is: 152 Beach Road, #22-06/08 Gateway East, Singapore 189721, Singapore

## **Acknowledgements**

This edited volume was undertaken under IIM Calcutta's Centre for Environment and Development Policy (CDEP) initiative and financial support. We express our thanks to CDEP and to the then CDEP Coordinator, Anup K. Sinha for his encouragement and backing. We also thank all the contributors to the volume who despite their existing workload enthusiastically responded to our call for papers on sustainability and cooperated with us to bring out this volume. Finally, we thank both our families for their whole hearted support and belief in the success of this endeavour.

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# Introduction

**Runa Sarkar and Annapurna Shaw**

In the second decade of the twenty-first century, with more and more empirical evidence being compiled, doubts regarding the system-changing impacts of human activities on the earth's resources and climate are fast diminishing. Increasingly, it is accepted that over the last three centuries in particular, with increasing industrialisation and urbanisation of the planet and a growing population, the sustainability of the earth as a congenial living habitat is under threat. It is also acknowledged by a dominant mainstream of experts and thinkers that these negative impacts can be minimised if sustainability issues are brought centre stage in decision-making and planning about the use of the earth's limited resources. Thus sustainability has become a buzzword in policy-making and business strategies though the roots of sustainability are older and come from many disciplines—economics, engineering, biology and ecology, geography, philosophy, literature and social anthropology. Most religious texts too, reflecting ancient wisdom, have had something to say about humans and their relationship with Nature, exemplified recently by the Papal Letter on climate change.

Clearly, sustainability is central to the earth's future and survival. But what constitutes sustainability, and how can it be achieved? Since the 1980s these questions have been debated at various global forums. They are important for emanating from the concept of sustainability are the steps that determine the practices constituting 'sustainability'. The concept continues to require focused attention and scrutiny because it is used today by different people in widely varying contexts, and can mean distinct things. We come across categories starting from a sustainable business organisation, a sustainable city, sustainable livelihoods, sustainable technologies, sustainable consumption and a sustainable development strategy for an entire community, to even sustainable finance. In the context of developing economies, often sustainability initiatives aimed at the future are at loggerheads with development needs of the present making the concept even more contentious. For the purpose of this book, we have defined sustainability as meeting the economic, social and environmental needs of the present population keeping in mind the fact that future generations too will require adequate resources to survive. Sustainable development embodies living within ecological means while meeting

basic social and material needs. Social needs subsume the notion of cultural sustainability which implies that what is culturally valuable ought to be preserved over time. Hence the human species can maintain or even improve its quality of social life. In some policy documents, we also have ‘financial’ needs put in place of ‘economic’ or material needs.

Sustainability is obviously trans-disciplinary, and, has to perforce integrate and synthesise many different disciplinary perspectives to understand the relationship between ecological and socioeconomic systems, and to find ways to improve it (Endter-Wada et al. 1998; Bäckstrand 2003). To ensure sustainability we may have to re-impose long run constraints by developing institutions to bring the global, long-term, multi-species, multi-scale, whole-systems perspective to bear on shorter term sociocultural evolution (Pahl-Wostl et al. 2008). This entails innovative studies, with research into science and technology informing the policy and management processes. The narrow confines of a discipline, no matter how rigorous, cannot adequately deal with the growing uncertainties, increasing rates of change, different stakeholder perspectives, and growing interdependence that are characteristics of sustainability. The problems of sustainability are not amenable to solutions based either on knowledge of small parts of the whole or on assumptions of constancy and stability of fundamental ecological economic or social relationships. The nonlinear nature of changes in resource systems coupled with the deep inter-linkage between social and natural systems necessitate a synthesis of conceptual frameworks from disparate literatures for a comprehensive understanding. Management science is very well suited for such cross-disciplinary work.

Social responses to ecological challenges may trigger learning and innovative designs towards sustainability. Thus at the heart of sustainable development is the renewal and release of opportunity, both social and ecological, at relevant temporal and spatial scales. This underlines a vital role for business, in addition to government, which are the key drivers of development and change. Almost all business decisions involve social and environmental issues. All decisions, whether they are about how much to pay executives, what technologies to install in a new manufacturing facility, and how and when to retire old plants, affect the firm’s stakeholders and the natural environment. In fact, most organisations now discuss the wide-ranging impacts of social and environmental issues on their Web sites and in their annual reports. Most firms also have a supplementary sustainability report.

Extant scholarship in the areas of sustainability and management started with a focus on describing and explaining how organisations interact with the natural environment, through various levels of empirical and theoretical analysis. This was followed by attempts to weave in the social dimension to understand sustainable organisational forms and their impacts on ecosystems and social welfare. Perspectives that emerged from these analyses underlined the need for developing deep stakeholder networks and cross-cultural collaborations within and across firms, markets, governments, civil society organisations and finally communities. This in turn would foster the creation of innovative business models, change consumer behaviour patterns and reorient business assumptions to recognise the limitations of the ecosystem, challenging the business-as-usual mode. The literature

showcases several initiatives taken by transnational corporations, as well as small and medium enterprises, towards meeting sustainability objectives (Sharma and Rudd 2003).

A key objective of this volume of essays is to help in clarifying the meaning of sustainability and the continuing debates surrounding the concept and its ramifications for ground level practice in managing organisations, and for public policy in the Indian context. It brings together sustainability enthusiasts, practitioners from disparate fields and academics working at the Indian Institute of Management Calcutta, who have engaged with each other to determine the direction of future research and make recommendations on policy. The volume presents a kaleidoscope of different views of sustainability depending on the point of view and academic training of the researcher. Further, it demonstrates that all these views can indeed come together to form a multilayered and complex construction of sustainability. Grounded in the Indian socio-political environment, the chapters contain reflections and intellectual contributions on the deep interrelationships of sustainability with society, and its changing needs; business organisations are one set of institutions that constantly evolve to address those emerging needs.

With the world's second largest population and a rising middle class of consumers, India's position on global warming and climate change, is increasingly being seen as critical to the global achievement of sustainability. Ideas of sustainability, in the Indian context, can be regarded as the building blocks upon which larger policies pertaining to the environment will be shaped. What are these ideas and what do they suggest in regard to the way business should be conducted in India? Can religion and ethics enable a greater green consciousness and sense of environmental justice? Along with a "Make in India" must there also be in place a plan to "Reduce, Reuse and Recycle in India"? What will be the role of business organisations and the corporate sector? What will be the role of new technologies and innovations in different sectors? Showcasing the wide variety of sustainability research being conducted within IIM Calcutta, this volume touches upon some of these issues, as is briefly discussed below.

The contributions have been divided into the following five themes: (1) sustainability as a normative concept; (2) sustainability concept at the global level, (3) sustainability practices in Indian organisations and consumer behaviour; (4) sustainability, corporate governance and corporate social responsibility and (5) sustainability: a critique of organisational practice and government regulation. The themes reflect both new and continuing issues confronting management in the country today. The book began as an initiative of IIM Calcutta's Centre for Development and Environment Policy to bring together researchers across the institute to initiate a dialogue among them. This was followed by an authors' workshop, conducted in the winter of 2014, to share ideas and ensure a coherent flow of articles in the volume. While the chapters do overlap to some extent in their coverage of certain basic themes, the multiple perspectives will, one hopes, enrich the readers' understanding of the pluralistic nature of the subject. What follows is a brief overview of the contents of this volume.

In the first theme, there are larger questions that are discussed in relation to sustainability. Modern management theory is limited by a fractured epistemology, which separates humanity from nature, and truth from morality. Reintegration is necessary if organisational science is to support ecologically and socially sustainable development. The volume opens with Sinha providing in Chap. 1 a thought-provoking discussion of what notions of the ‘good life’ would mean under sustainable development with its restraint on resource use and a concern for the future. The “good life” as conventionally understood is closely tied to material consumption of the present, or owning and using an ever-growing collection of goods and services in one’s lifetime. Moving away from the concept of a good life based on purely material consumption to one based on well-being could provide a way to reconcile the requirements of sustainability, both of the present and the future, with those of individual and societal fulfilment. The time dimension in sustainability that Sinha’s essay highlighted with respect to the future and its needs resurfaces in the next essay as well. Bhuyan, in Chap. 2, argues that unless global social justice is ensured under a fair institutional arrangement based on the Rawlsian principles of justice, the relationship between development and sustainability would remain contentious. The crux of the argument revolves around the primarily intragenerational focus of social justice as compared to the intergenerational focus of sustainability. While highlighting the critical importance of meeting the basic needs of the present generation, organisations and institutions must explore the common ground between justice and sustainability. The sustainability of planet earth and its life forms will depend not only on human material well-being and technological progress but also on the ability of human beings to live in peace and harmony with each other. In Chap. 3, experiential insights from Hinduism, Buddhism, Jainism, Islam and Christianity are presented by Bhatta to illustrate inclusive communication in the Indian religious and philosophical tradition, which could serve as suitable conflict prevention and resolution strategies. The essay brings forward, from the religious literature, examples of noteworthy and replicable proactive actions to promote both social and environmental sustainability.

From the broad, overarching questions raised by the essays in theme one, we move on to the actual use of the concept of sustainability in global and multi-lateral institutions. In Chap. 4, Rajesh Babu attempts to make sense of the inter-linkages and conflicts in the legal foundations of sustainable development as part of the architecture of the WTO. The chapter concludes that given the focus of the WTO on trade governance and the substantive reluctance of developing countries with respect to any sort of sustainability related obligations, there is a legitimacy deficit for sustainability, as an implementable concept, in the WTO discourse.

In the third thematic section of the volume, we turn to actual sustainability practices among Indian organisations, linking them to type of firm and consumer behaviour. In Chap. 5, Datta and Mitra, using an in-depth exploratory case study of an MNC auto manufacturer in India, illustrate how managing a sustainable supply chain can be viewed as a dynamic capability for a firm. They conclude that the “Mere adoption of environmental, ethical or quality standards or lean and green practices is not sustainable unless MNCs share objectives clearly, work closely with



partners to implement the practices ...". This is followed, in Chap. 6, by an article by Sista, to understand the state of research in the domain of green marketing and then to focus on the situation in India. It is an exploratory essay, providing directions for research to further the understanding of the issue in India. In Chap. 7, Mishra, Jain and Motiani delve into the attitudes of the Indian consumer on green packaging with an empirical study. Using the theory of reasoned action, they conclude that awareness and knowledge of green packaging leads to positive beliefs about it, and as an outcome consumers are willing to pay a premium for it.

The fourth thematic section focuses on sustainability practices in the context of corporate sustainability, corporate governance and corporate social responsibility. These are fields with highly permeable boundaries and there are a number of research traditions that feed into these areas, as is evident from the chapters in this section. The first chapter comes from a finance specialisation while the second from marketing. Ghosh in Chap. 8 uncovers the overlaps and causality between corporate governance and corporate social responsibility and discusses their implications. In Chap. 9, Singh and Agarwal visit the concept of sustainability as a dilemma for business to conclude that organisations have taken the sustainability route to explore market-based opportunities at the bottom of the pyramid, which proves to be a win-win situation for both business and society.

Despite the positive benefits of corporate sustainability, organisations have a long way to go before they can be termed as truly sustainable. The last section of this volume attempts to highlight these concerns by critiquing organisational practice and government regulation in the context of sustainability. In Chap. 10, Goel using ITC as an example illustrates that for an organisation to be committed to sustainability there have to be strong internal systems in place and sustainability has to be a core value embedded in the organisational culture. This is followed by Chap. 11 where Jammulamadaka traces the history of corporate social responsibility regulations in India from 2000 till the notification of the complete set of rules in February 2014. She emphasises the drastic change that has emerged in the shared understanding within the government on the ambit of corporate social responsibility, with sustainability and social issues being largely left out in the final rules. What impact it will have on actions on the ground remains a topic for future research.

Thus we come to the end of the volume on a mixed note of both greater involvements of different sectors of business in green concerns as well as the challenges that lie ahead. The eleven essays of the volume reflect both a concern with the larger ethical and moral issues around global sustainability as well as the more local issues of the sustainability practices of Indian firms and the behaviour of the Indian consumer. The larger questions about sustainability and its relation to societal values provide an important window to understanding the necessary conditions for sustainability to become a part of the quotidian practices of people, organisations and government. While there has been fairly widespread acceptance of sustainability as a concept within larger firms in the country, what exactly they are doing about it and whether it results in positive benefits for the local area needs more careful study. For the government, there continues to be a critical role through

regulation and monitoring as well as by example. Passing on welfare expenses onto the corporate sector via the 2 % mandated expenditure on CSR need not necessarily lead to more sustainable outcomes as some corporations seek to enhance their bottom line rather than actually promote sustainability for its own sake. When sustainability practices become a part of the core values of the firm as in the Dutta and Mitra or Goel (Chaps. 5 and 10), long-term gains for the environment are more likely.

To conclude, a heterogeneity of perspectives is provided by the essays in this volume which will ensure that the reader is left with a grasp of the current state of how sustainability relates to society and business in India, and in which direction this understanding might go in the future. However, two areas that remain unexplored in these essays are first, the sustainability practices of small businesses and entrepreneurs and secondly, that of government organisations or PSU's. These can be the subject of a separate volume in the future. What is evident at the end, moreover, is that a number of exciting challenges lie ahead for researchers and management practitioners alike and, above all, the importance of these challenges for the health and survival of planet earth.

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**Part I**  
**Sustainability as a Normative Concept**

# Chapter 1

## Sustainable Development and the Concept of a Good Life

Anup Sinha

*Man is fully responsible for his nature and his actions.*  
Jean Paul Sartre (1946)

**Abstract** This chapter analyses the relationship between sustainable development and the general consensus about what constitutes the idea of good living in the material sense of the term. If sustainable development is viewed as a new and desirable approach to economic transformation then what implication would it have for changes in production technologies of businesses and consumption patterns of households? Sustainable development has to be seen as a *process* that can be replicated over time and space for future generations of people who will inhabit the earth. It relates to a fair distribution of resources and access to productive resources, across generations, keeping natural resource constraints in mind. The ‘business as usual’ pattern, as it is often referred to, is the practice of treating natural resources as a free (and perhaps even inexhaustible) gift, and would have to undergo substantial change. What then would be the new set of rules of the game of business? Would it be local rules for local games as against the overwhelming dominance of the large multinational corporation? Finding a harmonious balance with nature for the present and future generations throws up radically complex problems that warrant radical solutions beyond the institutional structure of market-based capitalism. The charm of the good life in a sustainable future would be very different from the seduction of an ever-growing collection of goods and services that constitutes the good life in the age of global capitalism.

### 1.1 Introduction

Discussions on the quality of life are rich and diverse with contributions coming from economists as well as philosophers. There are many different ways of approaching the issue. There are alternative measures too, if one is interested in moving beyond the philosophical arguments into more objective metrics. Common

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perceptions about what constitutes a good life, however, ultimately revolve around the amount of material consumption one can afford or access. The more the actual consumption, the better it is considered to be. Decisions to consume are viewed independent of time. The notion of time in consumption decisions is considered explicitly only when the lifetime consumption of an individual is being considered.

One might raise a question that whether the notion of the good life would be significantly different if the process of development would be one that could be sustained across generations, rather than one individual's lifetime. The notion of time is germane in the concept of sustainable development. The commonly used definition of sustainability as development that meets the needs of the present generation without sacrificing the needs of future generations involves time in a way that is much longer than an individual's lifetime and, more importantly so, moves beyond the individual to a whole generation of human beings (see Dasgupta 2001; Neumayer 2013; Martini 2012). Sustainable development, as opposed to the usual notions of economic development and aggregate material growth of production in a society, is supposed to take cognisance of the significant constraints imposed by the availability of natural resources and their planetary boundaries. Hence, to ensure sustainable development, unrestricted material growth of physical goods would have to be contained and checked.

It is in this sense that the common conception of the good life in today's world of industrial capitalism and its associated consumerism might be difficult to reconcile to a notion of the good life that would be implied in a world where development was sustainable. It may be difficult even to imagine an alternative good life where material consumption is consistent with sustainable use of exhaustible resources. Even if one could imagine it, how would it evolve and change from the current emphasis on unrestricted material consumption? What would be the characterisation of its goodness? Would there be alternative ways of arranging one's life so that it is considered good? When one takes a long-range view of time, would not the concept of a sustainable good life itself be subject to change and alteration? These are questions that involve not only the individual, but the community and the institutions of governance as well that set the social environment within which choices are made available and actually exercised. This paper discusses some of these issues and attempts to identify some significant aspects of a good life consistent with sustainable development.

## 1.2 Dimensions of a Good Life

Arguably, the most common conception of a good life is rooted in material consumption of goods and services (see Sinha 2004). This is, to a certain extent, quite understandable since the task of staying alive is dependent on whether one has the wherewithal to consume even the biologically minimum food, clothing, and shelter. One also requires oxygen and water. However, the former set of items is considered to be more important than the latter. Food, clothing, and shelter require an

individual to have an entitlement to access them either through economic means like income and wealth, or through political or social entitlements. Air and water are supposed to be so abundant and freely available that the question of access is not considered to be of any significance.

If material consumption is the fundamental fulcrum on which the quality of a good life depends, and access to it depends for most people (and in most situations) on the ability to buy these goods, the next important aspect of the good life is considered to be the amount of income or the amount of wealth an individual has, since these are instrumental in getting the needed goods and services. It may be noted that most individuals can and do consume more than the bare minimum required to survive and be alive. It is in this sense that the instruments of income and wealth are considered valuable. More of these are better to the extent it allows one to consume more. Individuals aspire to have more income and wealth precisely because they desire to consume more (and a larger variety) of goods and services. Income, wealth, and consumption constitute an interrelated triplet of measures that most people, most of the time, consider to be the fundamental (if not the entire) basis of a good life. This image of the good life is a very powerful one.

The act of consumption, however, opens up other aspects of material living that need consideration if one has to probe the meaning of a good life (see Sen 1984a, b, 1986). Three such aspects are immediately apparent. The first is why do people consume more than the bare minimum necessary to stay alive? There must be some positive reasons if individuals do this voluntarily without being pressurised (though there could be some extreme reasons for doing it such as keeping up with the Joneses which is often referred to as the demonstration effect). Hence, there must be something that consumption leads to—a subjective feeling of pleasure or happiness, or satisfaction. The second follows from the biblical aphorism that man (and woman too) cannot live by bread alone. If that is indeed so, then can consumption be non-material? Can one consume feelings such as being loved, cared for, being recognised by other people, or taking a stand on a controversial issue which one believes to be a morally correct one? The third thing of importance that emerges from the act of consumption is the fact that no one individual can consume all things in all quantities at one time, or even during one's lifetime. How then and on what basis are the choices made on what to consume?

### 1.3 Individual Well-being

This broadens the discussion of the concept of a good life beyond purely material consumption, which is often referred to in the social sciences as the concept of well-being. Individual well-being has been looked at in two distinct but interrelated ways. The first revolves round the subjective aspects of a person's being. The individual is supposed to be the best judge of her own conditions. Mainstream economics and its use of the philosophical tradition of utilitarianism is an example of this approach. The individual's happiness or satisfaction of wants and desires is

the key to well-being, based on the individual's subjective preferences for all alternative consumption possibilities (see Little 1957; Robbins 1935; Sen 1979a, b). The second, while not denying the importance of subjective aspects of well-being, focuses attention more on a person's ability to do things in life that are of value. These are based on a person's capabilities. These capabilities are chosen from a set of possible 'functionings' that can be attained by the individual. Functionings are a combination of being something or doing something. Life can then be seen as a set of functionings chosen by the individual. Examples of functionings can vary from elementary things, such as being healthy, being employed, and having a place to live, to more complex states, such as being happy, having self-respect, and attaining self-actualisation. Capability, as a measure of well-being, is understood as the freedom to achieve valuable functionings (see Sen 1983, 1984c, 1985a, b, c).

The feasible set of functionings from which an individual makes choices is, however, determined by rights and entitlements that are often beyond the control of an individual (see Sen 1984c). A person may wish to be in good health. One requirement of achieving this capability is to have access to healthcare facilities in the event of being struck by an illness or injury. However, this may not be possible, if health facilities are unavailable in the person's residential neighbourhood. These outcomes (the presence of accessible healthcare facilities) are usually determined by the prevailing state of affairs of society where the person is living. Hence, this approach shifts attention from the pure mental states and psychology to more objective conditions that determine the quality of life of the individual as an outcome of preferences and feasible choices determined by the person's relative position in the social state of affairs. It is in this sense that the understanding of individual well-being as a more nuanced conception of the good life takes the discussion beyond the individual into larger issues of access to resources, social situations, and public policies (see Sen 1979a, b, 1999; Nussbaum and Sen 1983).

## 1.4 The Subjective Aspects of Well-being

The subjective aspect distinguishes between the constituents of well-being and their objective determinants. The constituents are obviously quite diverse, beginning from an individual's assessment of her life as a whole, from the quality of family and personal life, and professional life, to different aspects of living that a person values such as having a sense of purpose, commitment to causes, fulfilment of goals, and how the person is looked upon by her community of peers. There are other personal issues too that revolve around an individual's own perceptions or feelings. These feelings could be valued by the person, such as the feeling of pleasure, a sense of security and peace, and a perception of self-actualisation. The valuation could be possible for unpleasant feelings too, such as pain or sorrow, humiliation, or a sense of deprivation. All these, taken together, constitute the subjective well-being of the individual. They include psychological evaluations or perceptions about positive and negative aspects of mental states.

These valuations are difficult to estimate unless they are reported by the individual. Even if they are, they cannot be really compared across individuals. They do reflect the differences in the determinants of the subjective valuations of an individual where features of the social, political, and natural environment all get woven together. The person's position in society is also an important determinant. Somebody on the verge of starvation may put an extraordinarily high valuation on having two square meals a day. Or, a person unable to achieve a specific consumption goal, say getting to a bunch of grapes, might under value them by believing the grapes to be sour (see Elster 1983). However, the important thing to note is that these constituents of well-being are determined by circumstances and opportunities that have instrumental value. The constituents, on the other hand, can be considered to be of intrinsic worth.

For analytical tractability, all intrinsic worth is often subsumed into one metric. In mainstream economic theory for instance, the only measure of intrinsic worth is taken to be utility, a subjective concept. Everything else that can be of value to the individual is considered to be of instrumental value only. This approach has been extensively critiqued as being too narrow a concept (see Nozick 1974; Rawls 1971; Sen 1977, 1987).

## 1.5 Lifestyles and the Quality of Life

One other aspect of well-being indicative of the quality of life of an individual is the concept of lifestyles. A lifestyle is viewed as the combination of preferences and the access to resources including income and wealth (see Bliss 1983). The two together determine what kind of life the individual leads. Lifestyle is understood as the synthesis of what is consumed and what set of preferences the individual has. It is argued that preferences can be chosen, or they might evolve (endogenous preferences) just like goods and services can (see Hammond 1976). Usually, mainstream economic theory assumes that preferences of individuals are constant. The set of prices or incomes or even the availability of goods (new goods come into being) can change. Allowing preferences to change makes lifestyles easier to define but makes comparison more difficult. For example, can one compare the well-beings or even some simpler measure like the standard of living of two people with different lifestyles without bringing in the preferences of the evaluator? How do we compare the standard of living of a nomadic tribesman with that of a Wall Street fund manager? One might argue that the nomadic tribesman if given the choice would like to emulate the lifestyle of the fund manager. People do migrate between lifestyles—a villager may migrate to the city and adapt to a completely different lifestyle. However, can we be so sure if we try to compare the fund manager's standard of living with that of a hippie's? Bliss (1983) argues that lifestyles are closely related to the productivity of the economy. The strict work discipline of advanced market economies allows for enlarged choices in consumption, but simultaneously constricts the time spent on supplying labour, or reduces variety in



the nature of work done to earn a living. In short, different lifestyles cannot be ranked.

Lifestyle is quite distinct from the image of a rational individual with constant preferences used widely in mainstream economics. Ideas, values, and beliefs of individuals along with their preferences are formed and shaped by the interactions experienced in social living within a community. Interactions also occur within families and kinfolk, and in places of work. Lifestyles do change, evident from the fact that not many in today's world live as hunter-gatherers. Sometimes, lifestyles can change abruptly, but more often they do so gradually. Lifestyles can be altered by force, for instance if there is a sudden environmental change, or if there is a sharp change in prices or incomes that makes consumption in the current lifestyle unattainable. The gradual change in lifestyle occurs when people leave a lifestyle and choose a different one (a new one that may have emerged or an older existing one). It is possible that a lifestyle becomes unviable as many people exit and less than a critical amount remain. Lifestyle is a dynamic concept that accounts for people living in a community or in some collective unit and accounts for changes in the environment that may erode or even abruptly change a particular lifestyle.

The subjective approach views the individual's well-being as very person-specific, which makes comparisons across different people and comparisons over time difficult. However, it does emphasise the importance of considering aspects of living beyond material consumption of goods and services or some purely quantitative measure of income or wealth that provides the means to attain a chosen level of consumption.

## 1.6 Well-being and Objective Conditions

The capability approach, mentioned above, is a very comprehensive way of emphasising the objective conditions that shape one's overall well-being (see Sen 1985b, 1999). Capabilities like having good health and being educated can be instrumental in contributing to the subjective well-being of the individual. However, the expansion of the feasible opportunity set of functionings through which new capabilities can be attained, for instance the freedom to do things and achieve goals, is considered of intrinsic worth. The freedom to choose from an expanding set of feasible functionings is considered an end in itself. Hence, over time (for instance, the life of an individual) different freedoms to do and be things assume a great deal of importance. The capabilities attained help the individual achieve material needs and requirements. They also help the individual attain other aspirations and goals related to self-realisation, acceptance in a community of peers, having meaningful relationships, and so on.

Two things are worth noting at this stage. The first is that capabilities can be viewed as a set of determinants of well-being rather than its constituents. So having a capability of good health, or having education and the associated capability to read and write, can be viewed as contributing to the more subjective aspects of

well-being. The second aspect worth noting is that some of the capabilities can be observed and measured (at least to some partial extent) and can certainly be compared across individuals and over time. Take, for example, the level of a person's education with the explicit understanding that education is a capability that expands one's functionings. Suppose the person has studied up to 10 years in school. One might safely conclude that another person in a very similar schooling system who has spent only 5 years in school has a lower level of educational attainment and hence has a relatively lower capability in terms of education.

Of course, there could be some debate as to who would be the best judge of this (see Dasgupta 2010). The individual may look at contextual marginal changes in capabilities. If in a village the person with ten years of schooling is the most educated person, the individual in question would take that to be an exceptionally high degree of attainment. An uninvolved observer (economist or policy maker) might judge this attainment to be very low if in the rest of society most people are college graduates. This leads one to conclude that if there is a lack of knowledge or information about what constitutes an adequate education there might be imperfect vision. In such cases, a question might be raised as to the adequacy of the role of the individual to measure or estimate one's own well-being.

Evaluating and measuring capabilities are not easy tasks. These entail attaching relative weights to alternative functionings and capability sets. Based on this, there could be serious debate and differences of opinion. Proponents of this approach (see Sen 1999) have argued for looking at the possibility of attaching different sets of weights to different functionings and then allowing public debate to allow for improvements brought about by critical scrutiny.

Secondly, there are issues of having individual-specific information about needs and requirements to attain specific capabilities. Looking at a uniform measure could be seriously misleading. For instance, consider a very wealthy person who is caught and indicted in a case of white-collar crime like fraud or corruption and has to serve a long spell of imprisonment. His well-being may be considered to be high in terms of wealth, but his capability may be seriously constrained by staying in jail. On the other hand, if he avoids the indictment by spending all his wealth as bribes in hushing up the investigation, he becomes poor but avoids serving time in jail. Is he better off being poorer but avoiding going to jail? Obviously, there could be differences in the valuation of the capability that wealth provides and the freedom to go about as he chooses outside the confines of a prison wall.

Evaluation can focus on the realised functionings which essentially revolves round what a person is actually able to do. Alternatively, the focus can be on the real opportunities measured by the person's capability set. The two approaches provide different kinds of information. The first approach reveals what a person does, while the second approach tells us about the things the person is free to do. The concept of capabilities and freedoms not only brings us into the arena of observable and a distinctly wider range of the aspects of well-being, it also links the individual (with all her subjective desires and fears) to a social world (see Scanlon 1983) where the outcome of public policies, more often than not, determines the feasible set of functionings that can be attained.

## 1.7 Concern for Others as an Influence on Well-being

Before trying to link a person's ability to enjoy a good quality of life with public policy outcomes, it may be worthwhile to discuss another aspect of an individual's quality of life. Since people live their lives in social contexts of family, friends, co-workers, and fellow human beings, it is only expected that any person would have varying degrees of concern for others revealed through a wide range of emotions. These emotions could be positive or negative, and they would have an impact on the well-being of the individual (see Nagel 1970; Sen 1977, 1985c; Arrow 1977; Breyer and Gigliotti 1980). Sen (1977) talks about two such aspects of living that influence the well-being of an individual—sympathy and commitment. A feeling of sympathy (or hatred as negative sympathy) could affect the well-being of the person in an instrumental sense. For instance, a friend's loss might affect a person's well-being negatively. Commitment, on the other hand, is about anticipated (or possible) levels of well-being. It is quite possible that acting according to commitment might actually reduce an individual's well-being. This reduction is chosen consciously over an available alternative that would not have reduced the well-being of the person in question. For instance, one could choose not to intervene in a situation where an unknown woman is being harassed from the fear of facing possible physical violence. If the person does intervene, it is from a commitment to individual freedom or a commitment to human dignity, anticipating the possibility of bodily injury arising from the attempt to intervene. Actions arising from a sense of commitment are distinct from actions arising out of narrowly defined self-interest.

The important thing to note is that the concept of commitment as a basis for action makes a distinction between personal choice and personal welfare. In this sense, one perhaps needs to move beyond the concept of preferences as being more than something related to consumption only. Preferences are something that determine choice in a much wider sense. Harsanyi (1955) makes a distinction between a person's ethical preferences and other subjective preferences, the former based on impersonal social considerations, while the latter are based on interests. In this context, one need not restrict the consideration for others (through sympathy or commitment) only to persons who are alive and belong to the current generation of human beings inhabiting the earth. One might easily consider the sympathy or commitment that a person might have for future generations. Yet unborn people could include not only one's own progenies but all human beings who will inhabit the earth in all future time. The impersonal social space can be surprisingly large, including other generations of humans as well as other living beings, and nature in the widest sense (see Newman 2011; Nolt 2015).

Some scholars (see Sen 1977) have suggested that one could consider in the context of moral judgements a ranking of preference orderings (meta-rankings) to say that one ranking is more ethical than another ranking. The purpose here is not to get into the nuances of the arguments that scholars have provided. It suffices for the purpose at hand that when we introduce concepts such as commitment and

possibility of actions beyond self-interest we introduce moral judgements and ethical values as an integral part of the quality of one's life. Moral agency and moral obligations or duties towards humanity (including future generations) cannot be ignored when considering well-being and the quality of a person's life.

Moral agents are those who are free and can reflect, and have the rational capacity to be responsible for choices they make. Moral agents have moral standing in the sense that their continued existence or well-being has intrinsic value. Hence, their interests and well-being must be considered when deciding on any action. Moral duties are owed by moral agents to all those with moral standing. Usually, human beings are considered to have moral standing because they have moral agency, personhood (self-consciousness), and can communicate (have language). Sometimes, the ability to feel pain is taken as an extended criterion for identifying those with moral standing. Hence, all living creatures are supposed to have sentience (the ability to feel pain). Moving beyond bio-centric morality, moral standing can even be extended to being part of nature—including the entire natural world.

## **1.8 Time and Sustainable Development—The Changing Quality of Life**

So far, the discussion has centred round an individual with multiple dimensions of well-being—subjective as well as objective aspects of the good life, including consideration for others, living and unborn. In the process of understanding the context in which decisions are made and choices exercised, it is evident that the individual cannot be looked at in isolation, detached from a community or society of other people along with public policies whose outcomes determine the available options from which choices are made. Public policies might change over time as they do in real societies. It has been noted earlier that preferences of individuals as well as the circumstances in which they exercise choices or try to attain goals can also change. Therefore, it becomes important to note that the concept of the good life itself and the well-being of the individual might both change over time. The core question raised in this context would be can we think of the possibility that the well-being of individuals as well as that of different individuals populating different generations over time can all achieve a non-declining level of well-being. In other words, can well-being be sustained over time?

What is to be sustained such that inter-generational well-being is non-decreasing? One widely accepted approach is to ensure that society's stock of wealth is non-diminishing (see Dasgupta 2001) so that at least an equivalent stream of income can be generated from it. Capital is supposed to be substitutable so that one kind of machine or material could be substituted for another. Similarly, knowledge could be replaced too, say from using oil to drive a car to nuclear energy-powered electric batteries. Ecologists and scientists would be quick to point out that not all capital is fungible as economists quite often presuppose (see

Neumayer 2013). One can hardly think of substituting freshwater, or clean air, or the fertility of the topsoil, or the cyanobacteria that form the base of oceanic food webs. Hence, one may think of a set of substitutable economic and social capital (institutions, rules of functioning) and a distinct non-substitutable set of natural capital. Sustainable development would imply a non-decreasing stock of both the sets of capital.

Mere bequests of a stock of non-decreasing capital, including natural capital, are clearly not enough. All these forms of capital could be maintained while having a terribly unequal distribution of power and wealth where political or corporate elites might keep wealth to themselves holding down a dominated and powerless populace. In such a case of absence of freedom, the provision of basic needs for everybody of the current generation would be unattained. Hence, the best way to view sustainability from an anthropocentric perspective is to ensure a non-diminishing measure of human well-being that includes not only income and wealth, but also basic capabilities such as health, education, political voice, natural capital, and the freedom to choose one's lifestyle from an expanding set of functionings. Intra-generational equality is as important as inter-generational equality for development to be made sustainable.

Sustainable development is distinguished from the usual considerations of economic development in terms of ensuring that development is not just a one-off change in the state of affairs of a society. Rather, it has to be seen as a *process* that can be replicated over time and space for future generations of people who will inhabit the earth (see Sinha 2012; Sinha 2013; Martini 2012). Indeed, sustainable development is essentially a critique of thinking about development as mere economic growth accompanied by improvements in the average income and standard of living attained by a given population. It is more about a fair distribution of resources and access to productive resources, across generations, keeping within the bounds of the planetary natural resource constraints.

Acceptable as it may seem at first glance, the social solution may be difficult to arrive at, and even more difficult to implement. First of all, it entails a basic understanding of the role of nature in the process of economic activities and especially the kinds of constraints this role might throw up. The second problem is agreeing about what exactly is to be bequeathed to future generations. Would it be some subjective notion of utility or satisfaction measured with the help of a social welfare function, or some more tractable concept of well-being? The third issue is about how much importance we attach to the well-being of future generations of yet unborn people (see Koopmans 1960). Does one treat them to be as important as we consider ourselves, or does one discount their well-being only because they are born at a later date? Next, depending on how one resolves the first three questions, one has to agree upon a time-path of resource allocation and the resultant social well-being from those resources accruing to successive generations.

In solving the dynamic resource allocation problem, there are bound to be many complications too. People living in a society normally prefer to consume things in the present time as opposed to waiting for the future. This is referred to as time preference or impatience and is usually considered in economic theory to be a

subjective choice exercised by the individual. How would the social rate of time preference be chosen? Is there a well-defined method of arriving at this number? The social planner chooses some number that could be low implying that society (assumed to live forever) would consider today's consumption as important as tomorrow's consumption (consumption being taken as a rough and ready measure of social well-being). On the other hand, a large amount of poverty and current levels of material deprivation might compel a planner to treat the consumption in the here and now to be more important than the future, especially the distant future. An implication of this would mean having more to consume now. The opportunity of productive investment on the other hand implies that if one sacrifices and saves for the future, the action will be rewarded with a positive rate of return on investment, usually captured in the rate of interest as the reward for waiting. This in turn would imply society would try to consume a little less now and save for a future attracted by the rewards earned from saving. Finally, the nature of the social well-being function with some reasonable properties such as diminishing marginal gains would imply a smooth distribution of income over time. This is referred to in economic theory as the 'aversion' to inequality. If marginal gains are diminishing, then a tiny amount of consumption (again taken as a rough indicator of social well-being) withdrawn from the future and reallocated to the present would imply that the loss (of future consumption) would be less than the gain (in current consumption). The dynamic decision problem could exert pulls in three different directions. Society's choice would depend on the *combination* of values chosen for the allocation of resources over time with the values of time preference and the aversion to inequality playing a critical role in determining dynamic outcomes.

There are complicated ethical choices too, even when an individual allocates personal resources over time, say the lifetime of the individual, and the terminal bequests left for the next generation. When it comes to an entire society making a decision to ensure that development is sustainable in the sense that inter-generational well-being is chosen in such a fashion that it is non-decreasing (see Dasgupta 2001), the complexity is compounded. How does society ethically choose a set of numbers for planning its allocation of resources as a representative of a large set of individuals each of whom has a particular ethical ranking of states of affairs (current and in the future)? Obviously, the role of the public policy planner becomes complicated. For instance, it would be of great convenience for the planner, if she knew that an overwhelmingly large number of persons (whom she is supposed to represent) had a strong ethical preference for guaranteeing a non-diminishing level of well-being for future generations, even if it entails making current sacrifices for the purpose. The complexity of sustainable development does not stop there. Even if all these issues could be resolved or a consensus arrived at, the pathway to sustainability would entail some sacrifices to be made by the current generation of people living on the planet. What would be the quantum of this sacrifice and how would the cost of making the sacrifice be shared across individuals and nations?

## 1.9 Having a Good Life and Living Well

Let us assume, for arguments sake, that these complex problems mentioned in the preceding section are actually resolved. If the world is to move from a material consumption-oriented lifestyle as the basis of a good life, and transit to a more sustainable pattern of production and consumption, then it is rather obvious that the relative importance of an ever-increasing level of consumption would perforce have to be reduced. The social choice of the way resources are allocated over time would, as discussed above, determine the material conditions under which individual choices have to be made, and they could be much more restricted than what the contemporary global market economies offer.

There are two interrelated issues worthy of mention. If the world were to indeed move from the current pattern of resource use and waste to a sustainable model of development, then the dominant preference of a good life measured to a large extent by the level of material consumption would have to be altered, and the set of feasible material choices would have to be reduced. On the other hand, given the limitations of social choice that a planner faces, a change in the preferences and ethical positions of a significant number of individuals in society would actually help and hasten the transition to a more sustainable world.

This is where, one might easily see, the concern for others assumes a major role. The concern for others may have different motivations, such as sympathy or commitment. On seeing suffering a person might feel sympathy and act to prevent or mitigate the problem. It could also well be that the person has a commitment to reduce suffering in the world and that might motivate her to act. There could be a plurality of reasons for concern. It may also be mentioned that commitments evolve over time. Changing circumstances, life's experiences, or anticipations about future states of affairs might contribute to this change. For instance, a person repeatedly seeing physical violence may be moved to act as the abhorrence to it grows, or a person on witnessing a growing scarcity of natural resources like groundwater may become committed to promote and support more sustainable practices of consuming and conserving water.

How can these moral positions as commitments be viewed and understood? Moral positions can contribute as a determinant of a good life for the person who believes she is doing the right thing. It is also of consequential significance if the person believes that the moral act benefits others directly or indirectly by improving a given state of affairs. It serves one's self as well as others. However, it is unlikely that all individuals would achieve a full integration of moral values as individuals and as citizens (or just as members of the human race). One might try and take it up as a continuing project of living well rather than just having a good life (see Dworkin 1978). As Dworkin (2011) puts it:

Philosophers have pressed the question 'Why be moral?' because it seems odd to think that morality, which is often burdensome, has the force it does in our lives just because it is *there*, like an arduous and unpleasant mountain we must constantly climb but that we might

hope wasn't there or would somehow crumble. We want to think that morality connects with human purposes and ambitions in some less negative way, that it is not all constraint, with no positive value.

One way of establishing the link between having a good life and living well would be to make personal choices consistent with one's own perceptions and interpretations of what obligations we have towards others—living as well as unborn. It is in this sense that our concept of morality can guide us in living well. This is a somewhat intermediate position between Hobbes's (see Skinner 1996) ethical position that self-interest and survival are of the greatest moment, or the other extreme such as Hume's position (see Broackes 1995) that one's own interests are exactly equal to everybody else's. The argument being made here is that the quest for morality in terms of duties towards others need not be divorced from the best individual goals a person might choose.

Hence, living well can be thought of as a chosen quality of life, or rather the process of migration to a different lifestyle. Living well is, however, more than that. It is essentially about *striving* for a good life, within a chosen lifestyle which includes creating the conditions where all can have a good life not only in the present but in the foreseeable future as well (see Brenkett 1983; Fromm 1979; Tucker 1980). Living well goes beyond the satisfaction of instinctual drives and desires. It lies in seeking a life that is good: a life that one might take pride in having lived. This goal can be explained only if we recognise that we have a responsibility to live well, and living well is all about *creating* a life that is not only pleasurable, but good in a critical way.

## 1.10 Concluding Remarks

When one considers sustainable development, a time dimension inevitably enters into a person's choices and actions. These choices and actions perforce must include responsibility to others, living and unborn, and can even be considered to extend to the entire natural world we live in. One is responsible for one's actions today, and many of them have important consequences for the future. It is in this sense that one might be held responsible for future consequences of one's current actions. However, are responsibilities for one's own actions boundless? It could be quite terrifying and appalling to think so. There must be some limit.

In order to be ethically responsible for one's actions that might cause negative consequences (injury, damage, or harm), then one must be able to cause the injury, recognise how it was caused, and how one could have acted in less harmful ways (presence of superior alternatives). If a person cannot meet any of these conditions, then the person's ethical responsibility obviously gets reduced. It may be argued, however, that as a person gains knowledge and attains power to do things, the conditions become easier to meet, and hence, responsibility grows. Where then is the limit of one's responsibilities?



The limit of a person's responsibility must lie between one's capability to cause harm and one's capability to protect and preserve. A person living in a primitive society would only be able to cause harm to a limited geographical space (may be only within walking distance), and the capability to protect would be confined to family and close associates such as immediate neighbours. In the modern world of globalised economies, the human society's capabilities to cause harm, as well as its capabilities to protect, are pervasive and powerful, not confined to territorial spaces and kinship ties. If the capacity for harm becomes far greater than the capacity to protect, then one observes careless acts that cause injury and harm. It is patently evident that modern society's capacity to cause harm is far more than its capacity to protect and preserve. The limits to responsible choices and actions must then be bounded by the capacity to protect and preserve, thereby minimising callous and selfish acts of causing harm to others across space and over time.

It is also obvious that an individual's (or society's) capacity to protect is neither comprehensive nor complete. Even with these imperfections, one might bind one's actions to the capacity to protect from harm—to live one's life more carefully and consciously. In the process, one may choose a lifestyle (with preference orderings and consumption patterns) that is seemingly simple, but where having a good life is congruent with the continuing project of living well.

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## Chapter 2

# Sustainable Development and the Agenda of Global Social Justice

Nisigandha Bhuyan

**Abstract** This chapter explores the concept of “*just* sustainability”. The notions of “sustainability” and “social justice” share the common agenda of conservation of nature. As per the Brundtland report, sustainability is conceived as a test of humanity’s ability to meet “the needs of the present without compromising the ability of future generations to meet their own needs”. However, there are different paradigms of sustainability in the literature, namely the “green” or environmental agenda and the “social justice” focused “brown” or poverty reduction agenda. While the more immediate focus of social justice and/or environmental justice (both social justice and environmental justice focus on distributive conceptions of justice: human security issues related to justice, equity, human rights, and poverty reduction, and so on) is intragenerational, the more pressing focus of sustainability is intergenerational. The agendas of “social justice” and “sustainability” thus seem to be conflicting. In this chapter, I focus on the interdependency of social justice/environmental justice and “sustainability” even when sustainability is framed as green environment and social justice focuses on the brown social agenda of poverty reduction. The paper builds on the argument that unless global social justice (intragenerational access) is ensured under a fair social and institutional arrangement, the relationship of economic growth with sustainable development will always remain contentious and sustainable development will remain a mere ideal. I conclude that organisations and institutions must explore the common ground between justice and sustainability.

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## 2.1 Introduction

There are competing conceptions of sustainability just as there are various dimensions of social justice.<sup>1</sup> Sustainability is the goal of a process called “sustainable development” (Diesendorf 2000) which entails limits on economic growth and other human activities to the capacity of nature for self-regeneration (Nieto and Neotropica 1997). As defined in *Our Common Future* (1987), “sustainable development is the kind of development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” Published by the World Commission on Environment and Development (WCED), this report is the starting point of most current discussions of sustainable development. The definition underlines the strong linkage between current social issues related to human security and social equality (with their emphasis on need fulfilment and poverty reduction) with sustaining environments for future carrying capacity through sustainable economic growth.

In particular, both sustainability and social justice are universalistic notions and share the common concern of resource constraint and need fulfilment. Even the different versions of sustainability advocate something in common, i.e., the conservation of natural resources for meeting the needs of both the current and future generations. Similarly, social justice is conditioned on both inter and intragenerational equitable availability and access to (natural) resources for all. Access to resources would generate opportunities for worthwhile living (live the way they have reason to value) today for all and that would impact the worthwhile living of all tomorrow.

Though both sustainability and social justice share a common agenda, Agyeman (2005) notes three different paradigms of sustainability:

1. Environmental Justice Paradigm (EJP) developed at the 1991 People of Color Environmental Leadership Summit that represents an environmental ideological framework that links environmental concerns with labour and social justice concerns. This model gets reflected in the Brundtland Commission report.
2. The New Environmental Paradigm (NEP) developed by sociologists William R. Catton and Riley E. Dunlap in 1978 influences the work of most environmental and sustainability organisations, but the paradigm is cognisant of intergenerational but not intragenerational equity or justice. This paradigm set out an environmental stewardship agenda that willy-nilly does not recognize the relationship between environment and social inequality. Following this paradigm, the focus of the sustainability debate is projected as a battle between future generations vis-à-vis us or green environment in the future versus brown poverty reduction now (Anand and Sen 2000; Langhelle 2000; Agyeman 2005)

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<sup>1</sup>Capabilities and real opportunities of Amartya Sen are most recent additional dimensions to social justice.

because of which the pressing claims of the less privileged today get overlooked ignoring the intragenerational aspect of sustainable development.

3. Just Sustainability Paradigm (JSP) is an emerging discursive frame that links EJP and NEP. This paradigm is referred to as an egalitarian conception of sustainable development. Sustainability is defined as “The need to ensure better quality of life for all, now and into the future, in a just and equitable manner, while living within the limits of supporting ecosystems.”

The focus of this chapter is just sustainability, and I argue that both sustainability and social justice are universalistic concepts that include the now and the future, but without catering to the brown now, the green future is meaningless and cannot be pursued.

## 2.2 The Paradigms in Perspective

There exists a predominant ideological stance that development runs counter to sustainability. If development means unlimited and unending growth in production and consumption, then sustainable development is an oxymoron (Deb 2006). Sustainable development implies “development without growth beyond environmental carrying capacity where development means qualitative improvement and growth means increase” (Daly 1996). Development can be sustainable if it ensures conservation and equitable (re)distribution that caters to the needs of everyone (especially the world's impoverished) of the present generation. Growth is neither sustainable nor *just* as unwarranted growth furthers mindless exploitation and abuse of nature by certain sections (either nation, or organisation, or individual, or a combination of these) of the society where the benefits are disproportionately distributed, whereas the burden is either inadvertently shared by all (as in the case of climate change and global level pollution) or shifted/dumped to poorer or less developed countries (countries being used as dumping grounds for hazardous chemicals or used as sites for hazardous industries and so on). It is an undisputable fact that the pursuit of economic and industrial growth without calculated and adequate control measures for industrial pollution and waste disposal degrades the environment beyond retrieval that is possible with the earth's natural curative capacity. The argument in favour of a qualitative improvement of individualistic rational utility is an extremely contentious and separatist view as it completely delineates individualistic well-being from holistic well-being. One must not ignore the fact that human biological well-being (in the sense of being fit to survive) is dependent more on ecological integrity than on economic growth (that damages the ecology). The very concept of sustainability encompasses intergenerational concerns and therefore is more a community, global, futuristic, and universal concern than an individual concern, especially when the separation of individual welfare from the common welfare and quality of life for a selected few comes at a cost to the quality of the commons. Hence, the capitalist theory of growth with all its axiology and

assumptions does not seem favourable to sustainability because general/collective well-being is not the outcome of the well-being of single individuals especially when the well-being of the few comes at a cost to the commons. In fact, it is the capitalist paradigm that has raised the question of not only ecological sustainability but also the sustainability of our own species along with others.

These resultant socioecological anomalies of the present manifestations of capitalism call for reflection as they are significant and unless addressed and attended to will lead to a crisis that would in turn necessitate either a total shift of paradigm, i.e., a new socio-political-economic system or devastation. What we probably need now to immediately address the anomalies is some sort of “just and fair” institutions that would ensure the dual goals of just and fair distribution and minimise exploitation of ecology—just sustainability.

The main thesis/argument of this chapter is that social justice is a precondition to sustainable development. Sustainable development is the balancing of human efforts to meet human needs without destroying/damaging/degrading the natural environment. The agenda of social justice at the global level simply aims at correcting the misdistribution of the resources freely available in nature. This principle later extends to resources created out of social cooperation and contribution.

## 2.3 Understanding Sustainability and Sustainable Development

### 2.3.1 *Conditions of Unsustainability*

It is usually true that values are honoured more in their breach rather than in their observance. When un-sustainability is the issue at hand, the ways and means of sustainability suddenly gain importance for humanity. From the discourse on sustainability, it appears that there is a constant tension between the struggle for human advancement and availability of resources in nature. Human ambition for advancement is pitted against nature’s carrying capacity. If human advancement entails increasing consumption which ultimately burdens nature and ecology and depletes natural resources, then this tension is genuine and a cause of concern for many who want to see humanity thrive. This concern finds expression in the words of a famous scientist of our time, Stephen Hawking, who opines that “if humanity is to survive long-term, it must find a way to get off planet Earth—and fast” and should move to space and settle on other planets, otherwise our species could be at risk of extinction (2010).<sup>2</sup>

It may also be possible that the tension may not be exclusively due to human advancements *per se*, but the direction that human advancements take due to indistinct conceptions of human life goals and the means to their achievement

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<sup>2</sup><http://www.space.com/8924-stephen-hawking-humanity-won-survive-leaving-earth.html>.

further fostered by abstruse socioeconomic and sociopolitical institutions and their policies that perpetuate and ignore at least two fundamental evils: the negative impact of economic/industrial activity on the environment and disparities of consumption patterns between the rich and the poor. Economic policies in the past have ignored the cost of environmental impacts of economic activities that resulted in excessive exploitation of the environment by a few industrialists and industrial nations that in turn promoted overconsumption, chemical waste generation, and global warming and climate change. So both the extent and pattern of consumption are responsible for the current state of un-sustainability (or concern for sustainability) of the physical world.

### ***2.3.2 Sustainability as Human Responsibility***

It is very interesting to note that human civilization has almost always acted against the forces of nature and inhibited nature to the maximum extent possible but when the need of the time is to arrest such disruptive activities, ironically, casual questions are asked about human legitimacy to intervene in the evolutionary process. An escapist yet significant question raised is “how can human beings, fallible and vulnerable creatures in this vast universe, be held responsible for the sustainability of the universe?” If this question is to be addressed with sincere rational deliberation, then are we not discounting the fact that significant environmental problems are due to human exploitation of nature? The inconsiderate, uncalculated, and uncoordinated manipulations of the physical environment have created two interesting and interdependent problems: excessive consumption and concentration of resources in excess with select nations/groups/people, on the one hand, and lack of satisfaction of basic needs and requirements of the common mass/majority of nations, on the other hand. As mentioned before, un-sustainability is not only due to the capacity constraints of the physical environment but also due to the constraints of the social and political institutional arrangements of the world order that fail to facilitate the process of catering to the basic needs of a significant chunk of the population. Marshall (1890) noted that “there is no justification for extreme poverty side by side with great wealth. The inequalities of wealth, though less than they are represented to be, are a serious flaw in our economic organisation” (p. 714). There also exists a casual propensity to rationalise such a situation with the argument that people are poor because they fail to be self-reliant and they are detestable for their sloth (Furnham 2003). It is Yunus who not only pointed out but also proved that “people are poor not because they were stupid or lazy. They worked all day long, doing complex physical tasks. They were poor because the financial institution in the country did not help them widen their economic base” (2003, p. 50). Sen (1999) also noted that “freedom to achieve well-being is to be understood in terms of people’s capabilities, that is, their real opportunities to do and be what they have reason to value” and these opportunities are to be provided by the institutional arrangements that regulate economic development. The existing institutions and

arrangements not only fail to cater to the minimum basic needs of the masses but also fail to minimise the harm to nature. Arguably, as the famous saying of Mahatma Gandhi goes, “The world has enough for everyone’s need, but not enough for everyone’s greed.” Ironically, increased industrialisation is an effort for increased abundance and well-being of humanity; however, the concentration of wealth in the hands of a select few results in a situation which perpetrates the greed of accumulation in both the haves and the have-nots of the world; the wealthy attempt to accumulate more, as do the deprived and needy. Such ongoing behavioural traits, particularly, since the advent of the modern capitalist production system, have resulted in tremendous irreversible pressure on nature. This has become a vicious circle where human need for well-being destroys the well-being of the very cosmos on which the very existence of humans depends. To control this kind of “un-sustainability”, we need to examine and minimise “injustice” in our society and world at large.

We need to ensure a just and fair world where the basic needs and requirements of every single being (human) stand fulfilled, and we need to rethink/rearrange the sociopolitical environment in a manner that would facilitate the conditions of social justice and access and reasonable use by all. In such a situation, every single attempt at development is sustainable and growth will be limited to qualitative improvements in people’s lives as opposed to quantitative or materialistic improvements with increasing disparity.

### ***2.3.3 Sustainable Development***

As described above, “the commitment to sustainability is a moral commitment to sustaining the conditions in which human well-being can be achieved not only now and in the near future but also into the more distant future” (Dower 2004). Sustainable development, as defined by the Brundtland Commission report (1987), is the kind of “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (p. 27). The commission emphasises that environment is beyond physicality and includes social and political atmospheres and circumstances: “...the “environment” is where we live; and “development” is what we do in attempting to improve our living. The two are inseparable. The goal of sustainable development is to take account of environmental objectives in economic policy. “The two key concepts of sustainable development are: the concept of “needs”, in particular the essential needs of the world’s poorest people, which should be given overriding priority; and the idea of limitations, imposed by the state of technology and social organisation, of the environment to meet both present and future needs. One of the resolutions of Brundtland Commission is to recommend ways in which concern for the environment may be translated into greater cooperation among developing countries and between countries at different stages of economic and social development and lead to the achievement of common and mutually supportive objectives which take



account of the *interrelationships between people, resources, environment and development* (emphasis added) (p. 5).

In a sense, the concept of sustainability does not exclude social justice (need satisfaction), just as the concept of social justice does not exclude sustainability (conservation of resources). However, some argue that sustainability being a cost and constraint, pursuing the goal of sustainability is unjust to the present generation of poor people living in miserable conditions in third world countries (Beckerman 1992). To Beckerman, growth and development are in fact necessary for intra-generational social justice. He vehemently argues for intragenerational social justice as the primary objective of growth, followed by environmental sustainability and intergenerational justice. He posits that economic growth will be able to deal with important environmental problems for 75 % of the world's population that live in developing countries. Their problems are severe and acute and require immediate attention: poverty, premature mortality, malnutrition and undernourishment, illiteracy, insecurity and no access to (safe) drinking water, decent sanitation, health care, and nutrition. While there is no denying that growth may be concomitant with unintended negative impacts on the environment, developing countries can be provided with technological assistance to minimise energy wastage and reduce carbon dioxide emissions. But growth cannot be stalled for sustainability which is again, according to him, a hard concept in the absence of any knowledge of future preference patterns and technological possibilities. Beckerman's concern is also expressed by Anand and Sen (2000): "the demand of sustainability is in fact, a particular reflection of universality of claims—applied to the future generation vis-a-vis us." However, "universalism also requires that in our anxiety to protect the future generations, we must not overlook the pressing claims of the less privileged today."

As pointed out above, development seems to be the only option available to fight against conditions of deprivation, poverty, malnutrition, fatal diseases, and other avoidable human miseries. To some extent, development has been successful as it brings better access to the means of sustenance and generates a good quality of material existence. But the overriding argument is that development can no longer afford to cater only to the already affluent, rather it should give priority to the needs of the world's poorest and not just wait to calculate the spillover effects on the state of living of the poorest of the poor. To the extent that development continues to cater to the affluent, it cannot be sustainable as it creates/perpetuates more unjust conditions of human living and causes significant and unnecessary damage to the physical environment.

To recapitulate the problem described above, in the words of Baker (2005): "In capitalism's Achilles heel capital, poverty and inequality are intertwined." The solution to key social and environmental issues of the age lies in the problem itself that calls for conscious capitalism (Mackey and Sisodia 2003) for the sake of the world and its sustainability and, more importantly, for its own sake.

## 2.4 Global Social Justice

The agenda of global social justice is more an attempt to bring an end to miserable human conditions rather than to bring parity of material possession among citizens of the world. Access to resources is a necessity to avoid conditions of misery and to find opportunities for development/human advancement. In Amartya Sen's language, lack of resource is a condition of unfreedom that hinders the capability of the individual. Lack of resources is also lack of opportunity, and lack of opportunity creates further complication in the "level playing field" and its perpetuation for generations. These differences are prevalent at the individual, societal, cultural, and national level.

Global social justice refers to just distribution of wealth and opportunities at the intragenerational level. Dower explains injustice as a condition of violation of rights of individual(s), nation(s), and organisation(s) by other people, countries, and their economic activities (Dower 2004). Pogge in his book *World Poverty and Human Rights* (2002) argues that the current international economic system (and institutions) systematically harms the poor and their rights to subsistence. However, he believes that this can be altered with proper institutions, international and national policies, laws, and education. Hence, injustice is not a necessary outcome of growth; rather, it is the outcome of unjust and/or malfunctioning institutions.

## 2.5 Sustainable Development and Global Social Justice

Dower (2004) argues that humanity's moral commitment to sustainability includes "sustaining the condition in which social justice can flourish" and hence "justice needs to inform us about how that sustainability is to be pursued" because the sustainability of justice itself is one of the elements of sustainability. This argument demands the ensuring of justice in present human social activity (economic activity, moral legal norms, knowledge, culture, and so on) as a precondition for sustainability. Langhelle (2000) argues extensively that social justice constitutes an inherent part of sustainable development. Sustainable development as introduced in *Our Common Future* (1987) is an economic concept with an ethical framework and political objective. The "global human society" must respond to problems related to both ecology and development with just socioeconomic and sociopolitical institutions that have the potential to consolidate economic development with not only ecological sustainability but also with equal opportunity. Any institution or policy that supports sustainable development must take into account three ground realities as pointed out by Langhelle (2000): (a) that development is conditioned on ecological interdependence, (b) historically, there exists inequality in access and use of the resources of the world, and (c) that there are limits to growth. Without this realisation, the focus would be either too much on development or too much on justice but neither is sustainable.

It is important here to introduce the philosophical perspective of the relationship between social justice and sustainable development. Dobson (1999) asserted the relationship of justice and sustainability in three fundamental ways: (i) The environment is something to be distributed; (ii) justice as functional for sustainability; and (iii) justice to the environment. Langhelle (2000), however, points out a very important facet of the relationship, i.e., sustainability is a necessary condition for justice. He differs from Dobson in asserting that the relationship between physical sustainability and social justice is normative and not just empirical. He states that “how the relationship between social justice and sustainability is structured has profound consequences for environment and development policies” (2014). This idea is certainly getting reflected in the world-level summits seeking to address the issue of climate change.

As per WCED, sustainable development has two important components: (i) meeting the needs of the present generation (priority to be given to the essential needs of the world’s poor) and (ii) limitations to be imposed (by state of technology and/or social organisation) to protect the environment’s ability to meet present and future needs. Going by the first part of the definition, i.e., meeting the needs of the present generation, draws attention to the countries burdened with unfavourable conditions, and hence, this gives rise to the duties and obligations of assistance as pointed out by the famous philosopher John Rawls. These countries as collectives should have their fair share of the world’s resources (Barry 1991, p. 240). Overriding priority should be given to the essential needs of the world’s poor.

In this context, Langhelle attempts to respond to a very logical and relevant question: Will not satisfaction of basic needs and equalisation of opportunities within our generation jeopardise the interest of future generations and the non-human world? He responds that “the priority given to the world’s poor is a moral constraint on possible alternative development trajectories.” This constraint tries to ensure physical sustainability, a necessary condition for justice, and it also aims to ensure that the present injustices are not being translated into the future. This “physical sustainability” refers to both “critical natural capital” as described by Dobson (1999) and “just savings principle” as described by John Rawls (1971). Critical natural capital is critical to the production and reproduction of human life. Just savings principle refers to the preservation of each generation’s gain in culture and civilization; to not endanger the natural system that supports life on earth; and to preserve the ecological conditions of life. This, however, requires respecting, creating, and maintaining just institutions (Langhelle 2000) as advocated by John Rawls.

## 2.6 How Can It Be Sustainable When It Is Unjust?

Economic growth is also supposed to reduce poverty (though not bring equality) and encourage entrepreneurship that would ultimately improve our overall quality of life on earth as a common good/goal. Economic growth is not just the increase of

private incomes. It can significantly improve public facilities and services: basic infrastructure, health care, education, employment and income, and so on. Improved public facilities and services improve the conditions of the poor. If our concern for intergenerational justice is so overemphasised to the extent of prohibiting the improvement of basic public facilities and services, then sustainability would lose its purpose. Anand and Sen argued that “there would be something distinctly odd if we were deeply concerned for the well-being of the future—and as yet unborn—generations while ignoring the plight of the poor today” (p. 2038). Economic growth and development play an undisputable role in achieving sustainability, but the dispute still remains about the fair share of (particularly, for the poor, disadvantaged and neglected) the fruits of economic growth. If we are not able to create institutions that would take care of this fundamental flaw in distribution, efforts at planning for and executing sustainable development are futile.

Hence, the reconciliation of physical sustainability and social justice cannot be secured by a focus “solely on protection” of the environment (as in NEP) because doing so would be the same as doing injustice to the needy and deprived of the present generation. The focus also goes beyond the fulfilment of the basic needs of the deprived. The very ideal of “sustainability” is an ideal of a future (and of course better) world originating in the context of actual conditions that are hostile. And the status quo of the hostile conditions is characterised by the unequal, uneven, and unjust distribution of goods and opportunities. If these hostile conditions cannot be changed now, can they be ever changed in the future or will this status quo lead us to a future that is sustainable? Hence, philosophically and functionally, and most important culturally, social justice constitutes an inherent part of the very conception of sustainability.

To elaborate further, a just society would also be sustainable and not a society where conditions are hostile and unjust. To reassert Dobson, the way this relationship is structured has profound consequences on the institutions, policies, and therefore the physical environment. Functionally, such unjust conditions put unwarranted and uncoordinated pressure on physical sustainability. Finally, most of our needs are socially and culturally determined, and hence, “sustainable development requires the promotion of values that encourage consumption standards that are within the bounds of the ecological possible and to which all can reasonably aspire” (WCED 1987, p. 44).

The next question is how to take forward this universalistic approach to sustainability so that we do not end up sustaining deprivation and misery but sustain peace and values. If the fight against the complex and atavistic human nature (as described by Thomas Hobbes) is not yet over, how do we conceive a universalistic idea of sustainability? How can we move the focus from growth to distribution of the results of growth? How can it move from increase in private incomes to generating resources that can improve social services such as health care and education?

## 2.7 Just Institutions, Justice, and Just Sustainability

Political philosophers including John Rawls and Amartya Sen have all focused on profound structural changes in socioeconomic and institutional arrangements. These still remain to be done and are an important challenge to global society. The problem lies with the fact that institutions that can balance human needs with human aspirations are yet to be a part of the reality of our existence because while there may be a limit to need satisfaction, there is no limit to human aspirations. The present economic order favours the aspirations of some at the cost of the need of the needy and deprived. Interestingly, the structural changes suggested do not have promising provisions for catering to the aspirations of the already well off, and this may be for good reasons. However, since everyone has the right to live the way they have reason to value, how can they be treated as means to some other end? Hence, the complexity of the intrinsic and normative idea of sustainability requires instrumental and functional attention. The only argument in our favour could be our “common future” which is an end in itself where the end and the means to the end merge. To put it in the words of Anand and Sen, “What is to be sustained is the nature of the lives that people can lead, and the fact that in sustaining, human agency would be pivotal.” They indicate that humanity is both the means and the end of the idea of sustainability.

No doubt, injustice is bad for sustainability. Agyeman (2005) refers to the research (Torrás and Boyce 1998) that reveals that countries with more equal income distributions, greater civil liberties and political rights, and higher literacy levels tend to have higher environmental quality. Agyeman introduced the concept of *just sustainability* which can be achieved by a community/society where social needs and economic opportunities are integrally related to environmental limits instead of the focus being on pure environmental sustainability. He (2005) refers to many such organisations at local, national, and global level that focus on community development as well as environmental priorities. He also works out the characteristics of a sustainable society or community that meet social needs by promoting economic success while protecting and enhancing the environment. Five important concerns of justice and sustainability are in the areas of land use planning, solid waste, toxic chemical use, residential energy use, and transportation.

Agyeman’s (2005) examples of such communities and organisations are mostly from well-off countries. The challenge lies in its wide-scale implementation across the developing and underdeveloped countries. Questions pertain to the kind and extent of intervention that is more implementable and immediate. Should the focus be on better public policies? How would we design and more importantly implement such policies?

Anand and Sen (2000) also talk about similar solutions though their plan of implementation is less concrete. They are of the view that it is intrinsically important to improve the condition of existence of the world’s impoverished and it is instrumentally important to enhance their human capital for it will enhance sustainability. Human development is a major contribution to the achievement of

sustainability, and examples that Anand and Sen provide include poverty alleviation as an instrument to protect the environment from degradation and maternal education to raise the quality of life and agency of later generations. These objectives, however, are concrete as they relate to people's ability to generate real opportunities for good living, not impersonal objectives like conserving the environment.

In sum, the functional means to achieve the goal of sustainability is manifold: not to endanger natural systems that support life on earth; preserve the ecological conditions of life; preserve the gains of culture and civilization; and respect, create, and maintain just institutions, but above all it requires a conscious, deliberate will (either in the form of the general will of Rousseau or the macro contracts of ISCT<sup>3</sup>) to work out the trade-offs.

## 2.8 Conclusion

This chapter has highlighted how within the environmental discourse, one anxiety is to protect the interest of future generations and other living beings, while another is to satisfy the basic needs of the present generation. At times, it seems one comes at the cost of the other. But, in principle, they are so interlinked and intertwined that one is the precondition of the other. A just society is sustainable, and a sustainable society can only remain to be just. Since it is a universalistic idea that includes all, we cannot make any sense of it by disconnecting the present misery from future sustainability. Simplistically also, if sustainability means sustaining what is presently existing, we certainly do not want to sustain poverty and/or deprivation. Lastly, and admittedly, our more immediate focus is justice and it is instrumental to sustainability.

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<sup>3</sup>Rousseau's general will is the universal will of the people as a whole. Integrative Social Contracts Theory's macro contract of Donaldson and Dunfee (1999) includes every single participant at any point of time.

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# Chapter 3

## Role of Religion in Conflict Prevention for Social and Environmental Sustainability: Experiential Insights from India

C. Panduranga Bhatta

**Abstract** Religious communities have emerged in the twenty-first century as key forces in a global age, and they are at the cutting edge of conflicts and confrontation. India has had a long tradition of peaceful co-operation among the different religious and philosophical systems. Insights obtained from these systems can be greatly helpful today in preventing and resolving conflicts for human sustenance and in developing an inclusive communication which can reduce much of the conflicts witnessed in the globalised world. The religious and philosophical thinkers of ancient India are known for accommodation, or compromise and their stand for a pacific, conciliatory, and synthesising attitude of mind. And this stand minimised differences and settled the principles and views through adjustment. People in different forums of the world are trying innovative solutions to prevent conflicts that haunt humanity. This chapter tries to provide detailed information about conflict prevention and resolution strategies, exemplars of inclusive communication in Indian religious and philosophical thought traditions from ancient, medieval and modern periods of Indian history besides giving some noteworthy examples of replicable proactive actions from the contemporary world for preventing and resolving conflicts.

### 3.1 Introduction

Today, human beings have become silent spectators of conflicts and violence in various parts of the world. Terrible conflicts have caused war, terrorism, homicides, genocides, car bombings, suicide bombings, brutality and crime in many parts of the world. Now, it is a known fact that conflicts between human beings can never be settled by violence, which is devastating in its nature. Unresolved conflicts definitely destroy human lives, reduce the scope of sustainable growth and

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development, and weaken a country's governing systems besides slowing down all developmental processes. According to a study out of 30 fragile and conflict-affected countries classified as high priority by the Bureau of Crisis Prevention and Recovery of the United Nations Development Programme, only four will be able to meet the Millennium Development Goals (Developing Business 2010).

NGOs and some other groups including some religious communities are deeply concerned about developing a human civilization based on unity and harmony, and they are in search of appropriate means and methods to control destructive forces and give priority to prosperity, peace and safety. The history of religions provides contradictory examples of bright and dark sides throughout the ages all over the world. The bright side of religion is that it has promoted peace, unity, humanism, tolerance, solidarity, love, understanding and harmony in society. The dark side of religion is that it has caused bloodshed and sufferings due to rigidity, conformity, intolerance, hate and violence (Karan Singh 1995). Shockingly, religious communities have started making their presence felt in the twenty-first century as prominent forces and they are at the forefront of conflicts and confrontations. The efforts to revive Christian, Hindu and Islamic faiths in many parts of the world are prominently visible to everyone. In Northern Ireland, Chechnya, Iran, Iraq, Syria, Libya, Ukraine, Afghanistan, Pakistan, Tajikistan, the Middle East, Nigeria, Sudan, Sri Lanka, etc., they are in the forefront of confrontations. When followers of some religions claim and put pressure on others to accept that only their religions contain the revelation of the secret and that is the only way to heaven, conflicts become inevitable. If the world is to be united through religion, it will not be on the basis of this religion or that religion but on the basis of elements drawn from all religions. Unity March undertaken by many leaders of the world in Paris on 11 January 2015 after the France Terror Attack is an outstanding example in this regard (BBC News 2015). About 700,000 people are reported to have taken to the streets across France to protest the three days of deadly attacks in the Paris area.

In this context, without referring to the rise of Islamic State of Iraq and al-Sham (ISIS) and its role in perpetuating religion-based conflicts, our discussion will not be complete. ISIS may be traced back to its roots in 2002, when Abu Musab al-Zarqawi—a Jordanian gained notoriety in the Iraqi insurgency from 2003–2006. Later, he founded a jihadi organisation called Tawhid wal-Jihad in the north of Iraq. ISIS' development since 2013 changed the nature of the group. Instead of remaining as a mere terrorist group, it became an army that can possess and administer territory. It governs according to harshly interpreted principles of Islamic law. Under its rule, minorities, including Shia Muslims, have been subjected to severe human rights violations, including massacres, forced conversion and brutal execution. The same treatment has been meted out to captured foreign journalists and humanitarian aid workers. ISIS believes that improving the quality of people's religion is more important than improving the quality of their lives. It is trying to create an Islamic State that applies its version of *sharia* as state law. Under the influence of ISIS, Saudi

Arabia has adopted parts of this extremist Islam, followed by Nigeria and Boko Haram. Muslims (the vast majority) who reject this version of Islam are often accused of being traitors and disbelievers, and then Jihad is declared on them by the followers of ISIS. Beheadings, killing non-believers, and forcing women to dress in veils are the prominent features of ISIS (Welby 2015).

This chapter contemplates on practical solutions in order to come out of the present crisis so that the agenda of sustainable development and securing safety and peace for all continues without any hindrance. Becoming irreligious may not be the solution, and hence the solution which allows a majority of the people to practice their religious inclinations without being afraid of the other or harming the other is welcomed. In this context, we may assert that the Indian religions do offer ample food for thought on fundamental issues that occupy the centre-stage in today's world: preventing and resolving conflicts, permitting diversity, faith, tolerance and peaceful co-existence, devotion and duty, besides promoting an inclusive thinking. The purpose here is to get some new insights from all quarters. The great spiritual teacher of the world, Lord Buddha, taught non-violence and the avoidance of destruction, not only with regard to fellow human beings but also with regard to plants, trees and even inanimate objects. He preached that all things are a part of the entire cosmos. This gave rise to a new way of looking at the world as a network of phenomena that are fundamentally interconnected and interdependent. This chapter also briefly discusses: an ancient Indian King Ashoka, (ruled during 299 B.C–234 B.C) who is an exemplar of religious tolerance; the Shravanabelagola inscription of Karnataka, an Indian state which highlights the religious tolerance of Vijayanagara kings; Akbar the Great (1543–1605 A.D), an outstanding Mughal ruler of India, who tried to reconcile religious differences by creating a new faith, which incorporated elements of major religions of the world; Swami Vivekananda's famous Chicago speech insisting on tolerance of different faiths; Mahatma Gandhi's respectful attitude towards others' faith; the Dalai Lama's view that while other components of religion divide people and create conflicts, ethics has the powerful potential to unite them on a common footing.

An attempt is also made in this chapter to provide practical insights on conflict prevention for social and environmental sustainability on the basis of means and methods suggested and adopted successfully in Indian religious, philosophical and cultural traditions over a long period of time.

This chapter also showcases people who had championed the cause of religious pluralism from ancient, medieval and modern periods of Indian history. It contains some definite information about the environmental strategies of ancient Indians which helped in sustaining and conserving flora and fauna to a great extent. An attempt is also made at providing some noteworthy examples of replicable proactive actions from the contemporary world for preventing deadly conflicts which may wipe out the human species along with the entire material environment.

### 3.2 Religious Plurality as a Conflict Prevention Strategy

India has had a long tradition of peaceful co-operation among the different religious and philosophical systems which is evidenced in the Indian religious and philosophical works, classics, epigraphy and architectural works. A very important concept that helps in preventing conflicts is a deeper understanding of the concept of interrelatedness and interdependence of human species championed by the Indian religious thought traditions. According to Indian religions, the entire human species is interrelated and interdependent. The concluding verse of the Rigveda urges mankind to develop common ideals and an accommodative spirit in order to prevent conflicts. It exhorts; “*samgacchadhvam, samvadadhvam, samvomanasmi-janatam* (Rigveda, X. 192) meet together, talk together, and may your mind apprehend (the truth) alike”. The central theme of *samvada* (concordance) in this hymn, as opposed to *vivada* (discord) is very significant. Growing through absorption, tolerance, synthesis and accommodation are the foundations of peaceful coexistence suggested in this hymn. Another famous Rigvedic statement *ekam sat viprabahudhavadanti* “Reality is One, whom the wise call by many names” is to be noted in this regard (Rigveda, I. 164. 46). No one can say that the Supreme Reality can be known and approached by following only one particular way as laid down by any one particular religion. Those who entertain a kind of belief that their religion is superior to all other religions are sure to develop an attitude of intolerance towards other religions. Any religion which lays exclusive emphasis on uniformity does not allow freedom in respect of thought, speech and way of life.

Sri Aurobindo observes:

Unity we must create, but not necessarily uniformity. If man could realize a perfect spiritual unity, no sort of uniformity would be necessary... If again he could realize a secure, clear, firmly held unity in the principle, a rich, even an unlimited diversity in its application might be possible without any fear of disorder, confusion or strife (Aurobindo 1950).

Buddhism which has many followers has always encouraged and respected other religions and never tried to replace them by force. It has spread widely from India to Sri Lanka, Southeast Asia, Tibet, China and Japan; and to Europe and North America. It is well known that Buddhism had encountered established religions at all these places, but there is no evidence of conflict with them, and it has demonstrated a remarkable degree of tolerance and flexibility throughout the course of its expansion (Hajime Nakamura 1992). The process adopted by Buddhism to arrive at the truth, which helped its spreading without conflict with other religions, is to include its opposites as one aspect of truth. One of the earliest Buddhist texts mentions that Buddha condemned the tendency prevalent among the religious teachers of his day, who were making a vulgar display of their own doctrines and condemning those of others (Sutta Nipata, 78.2; Anguttara Nikaya, III, 57. I). Buddha asked his followers to avoid all discussions which are likely to aggravate discontent among the followers of different religions and philosophical systems. What he said in this context is worth remembering and emulating:

If anyone were to speak ill of me, my doctrine or my Order, do not bear any ill-will towards him, be upset or perturbed at heart; for if you were to be so, it will only cause you harm. If, on the other hand, anyone were to speak well of me, my doctrine and my Order, do not be overjoyed, thrilled or elated at heart; for if so it will only be an obstacle in the way of forming a realistic judgment as to whether the qualities praised in us are real and actually found in us (DighaNikaya, I. 3).

The greatest obstacle in appreciating others' view points is too much attachment to one's own religious beliefs. As soon as too much attachment is made, people lose the capacities for tolerance, objective criticism, and compassionate action (Dalai Lama 2012). Buddha also advised his followers not to keep aloof from the views of any type of philosophy because if they do so they may become prejudiced.

Another important ancient Indian religion, namely Jainism talks of *anekanta-vada* doctrine (i.e. nonone-sidedness) which captures the spirit of tolerating plural truth claims in all walks of life. The comprehension of a thing from different points of view would help developing the pluralistic outlook necessary for peaceful co-existence. *Anekantavada* helps one in cultivating an attitude of tolerance towards the views of one's adversaries. It does not stop there but encourages people to investigate further as to how and why they hold a different view and how the seeming contradictions can be reconciled (Dwivedi 1975).

Similarly, classical Sanskrit literature also played its role very effectively in developing a religiously pluralistic mind in its readers. The famous Sanskrit poet Kalidasa (c. fourth–fifth century A.D) is the best representative of classical Sanskrit literature. Kalidasa was a devotee of Lord Shiva, but he was not a fanatic. He had thoroughly studied the Upanishads and the Bhagavad Gita, and that study had widened his outlook and liberalised his views. Hence, though his favourite God is Lord Shiva, he still pays homage to the Trinity (Brahma, Vishnu and Maheshvara), as being identical with the Supreme Being in the Kumarasambhava and the Raghuvamsa, respectively. Verses composed by him on this are given below in English translation:

Manifesting thy exalted power through three successive  
states of three existences, O Lord! Thou alone art the  
cause of creation, preservation, and destruction (Kumara Sambhava, II. 6)

I bow to thee, O Lord, who remains  
in three-fold form  
-being the creator of universe in the beginning,  
afterwards the upholder of it  
and last of all being its destroyer (Raghuvamsha, X. 16 and 25)

The three deities-Brahma, Vishnu and Mahesha-are but three visible forms which the Supreme Being assumes on purpose to keep the cyclic process of origin, growth and decay of the Universe. Sometime the Creator, sometime the Maintainer, sometime the Destroyer stands pre-eminent according to circumstances. This sublime truth is expressed in the following verse:

It is essentially the same Being who splits itself into three different deities (for the performance of three different functions), each of whom is prior or posterior to the others by turns. Sometimes Shiva precedes Vishnu, sometimes, Vishnu precedes Shiva, sometimes Brahma precedes either of the two, and they both precede him (Kumarasambhava, VII, 21)

The Mundaka Upanishad states that “as streams and rivulets arise in different parts of the world but ultimately flow into the same ocean, so do all these creeds and religious formulations arise in different times and areas, but ultimately reach the same goal” (Mundaka Upanishad, III. 2.8). Kalidasa gives expression to same idea in his Raghuvamsa:

Just as the course of the Ganga, though flowing in different directions, ultimately fall into the same ocean, so also the paths laid down in various systems of philosophy for the attainment of eternal bliss, though diverse, do all terminate into one Supreme being (Raghuvamsha, X. 26)

The philosophy propagated here goes beyond the barriers of hate and fanaticism that have been built in the name of religion. This verse promotes the concept of infinite possibilities of movements towards the divine; it does not seek to limit or confine people to any particular formulation. It not only accepts but welcomes a multiplicity of paths to the divine but also provides the freedom of worship according to one’s faith. Freedom is only a myth until diversity is given its rightful place in respect of thought and way of life along with the principle of unity.

According to Sri Adi Sankara (c.8th century A.D.), who is the founder of monism (*advaitavedanta* system of philosophy), the underlying reality is the same though it is visualised and worshipped in various ways. He is a philosopher-sage preaching compassion, reconciliation and harmony. The *advaitavedanta* philosophy propagated by him is a harmonious and convincing blend of the best thought of ancient India. His establishment of *pancayatana puja paddhati* and *sanmata* five kinds of worship and six kinds of faiths, respectively, indicate the extraordinary efforts made by him to strengthen the concept of religious pluralism. He found people worshipping many gods-Shiva, Vishnu, Ganapati, Skanda, Durga, Lakshmi, Lalita etc. He looked upon all of them as the legitimate, valid forms of the Supreme, and he asked people not to quarrel about these names and other things. He conceded that forms of worship might vary according to the wishes of the votary even though all express the one supreme principle. This very idea of the identity of one goal albeit in a variety of forms and approaches is the theme of one of the eloquent and often quoted verses of the *Shiva-Mahimna-Stotra* of Pushpadanta which states:

The three Vedas, Sankhya, Yoga, worship of Shiva, worship of Vishnu- taking among these diverse paths, this or that as better or more favourable by reason of the variety in their taste, people ultimately come to you, the One Goal, even as all rivers taking straight or other various courses finally come to the sea (Bhatta 2012)

Bopadeva was a follower of the *advaita* philosophy and his commentary on *Shiva mahimna Stotra* is remarkable in this regard. He says that there is no difference between the impersonal and the personal; the personal form may be that of Shiva and Hari. There are those who quarrel over Shiva and Hari. To show them that Shiva and Hari are one and the same, Bopadeva says, he wrote this commentary called *Hari-Hara-Paksiya*, interpreting each verse first as meaning Hara (Shiva) and then as Hari (Vishnu) (Bhatta 2009).

What is presented above is only a sample of Sanskrit authors who influenced the minds of their readers for accepting religious pluralism without any prejudice. This has been given priority by reputed Sanskrit authors throughout history. Some of the champions of religious pluralism from among kings and queens and their significant contributions are highlighted in the following subheading.

### 3.3 Exemplars of Religious Pluralism

Ashoka, the great, an ancient Indian king was a remarkable champion of religious pluralism and he promoted global religiosity even then (third Century B.C.) as is evident in his Rock Edict 12:

Beloved-of-the-Gods, King Piyadasi, desires-that there should be growth in the essentials of all religions. Growth in essentials can be done in different ways, but all of them have as their root restraint in speech, that is, not praising one's own religion, or condemning the religion of others without good cause. And if there is cause for criticism, it should be done in a mild way. But it is better to honour other religions for this reason. By so doing, one's own religion benefits, and so do other religions, while doing otherwise harms one's own religion and the religions of others. Whoever praises his own religion, due to excessive devotion, and condemns others with the thought "Let me glorify my own religion", only harms his own religion. Therefore contact (between religions) is good. One should listen to and respect the doctrines professed by others. Beloved-of-the-Gods, King Piyadasi, desires that all should be well-learned in the good doctrines of other religions (Radha Kumud Mookerji 1995).

Attempts to reconcile differences and to appreciate the importance of other religions in order to prevent conflicts were made throughout Indian history right from the days of King Ashoka. Akbar the Great (1543-1605 A.D), an important Mughal ruler of India, being a firm proponent of universal tolerance and religious freedom for all, welcomed to his court, representatives of all religions known to him, Muslims, Parsees, Hindus, Jews, Jains and even Jesuit priests from the Portuguese settlements in Goa (Dirk Collier 2011). He tried to reconcile religious differences by creating a new faith called the *Din-i-Ilahi* ("Faith of the Divine"), which took elements from both "pantheistic" versions of Islamic Sufism (most notably, Ibn Arabi's doctrine of "Wahdat al Wajood" or Unity of existence) and "bhakti" or devotional cults of Hinduism. Even some elements of Christianity like crosses and the fire worship of Zoroastrianism were amalgamated besides Jainism,

in the new religion. Akbar's all-inclusive views are best summarised in the following verses which he himself wrote towards the end of his life:

O god, in every temple I see people that are seeking You,  
and in every language I hear, people are praising You!  
Polytheism and Islam feel after You.  
each religion says, 'You are One, without equal!'

If it be a mosque,  
people murmur the holy prayer,  
and if it be a Christian Church,  
people ring the bell  
out of love to You.

Sometimes I frequent the Christian cloister, and sometimes the  
mosque,  
but it is You whom I search, from temple to temple (Dirk Collier 2011).

Akbar's philosophy is to be revisited and thoroughly researched as he has correctly interpreted the Quran and Islam which is badly needed today to tackle the problem caused by ISIS and such other militant organisations, which as pointed out earlier, claim the support of the Quran and Islam. Many Islamic scholars prove that there is no support from the Quran for the infamous activities of ISIS (Harun Yahya 2003). Some of the interpretations of the Quran which do not go well with the activities of ISIS are given below:

The word "Islam" is derived from the word meaning "peace" in Arabic and hence Islam is a religion revealed to mankind with the intention of showcasing a peaceful life where the infinite compassion and mercy of God manifests on earth. Peace is the cornerstone (Holy Quran: 2, 208).

There is no compulsion where religion is concerned (Holy Quran: 2/256). No one can be compelled to live by Islamic morals and principles. Conveying the existence of God and the morals of the Quran to other people is a duty for believers without compelling them to follow any of these morals and principles or values. No one should be forced to believe in Islam (Holy Quran/28: 56).

The Quran provides an environment where people can fully enjoy freedom of thought and religion and allows people to live by the faith and values they believe in. According to the Quran, everyone has the right to live freely by his/her beliefs, whatever they may be. Anyone who wants to support a temple, a church, a synagogue, a monastery or a mosque must be free to do so. In this sense, freedom of religion, or freedom of belief, is one of the basic tenets of the Quran and Islam. Freedom of thought and religion are paramount.

"God explicitly states that the existence of people from different faiths and opinions is something that one has to acknowledge and welcome heartily. God has appointed a law and a practice for everyone. Had God willed, He would have made everyone a single community" (Surat al-Ma'ida, 48).

The values of the Quran hold a Muslim responsible for treating all people, whether Muslim or non-Muslim, kindly and justly, protecting the needy and the

innocent. Thus, on the basis of what we have seen in Akbar's action related to Islam and other religions, it may be said he was a futuristic leader and intuitively grasped the significance of respecting all religions and philosophical systems.

The principle and policy adopted by the Vijayanagara kings of Karnataka state in India is worth mentioning here as it created an atmosphere of religious pluralism and catholicity. The king Bukka Raya, one of the founders of this kingdom, brought about the reconciliation in 1388 A.D between the Jainas and Vaishnavas, two different religious communities that existed in his kingdom. The Shravanabelagola inscription, which records this account, is one of the most beautiful pieces among the inscriptional records of Karnataka that highlight religious tolerance. The original inscription is in Kannada and English translation of some relevant portion is given below:

Dispute having arisen between the Jainas and Bhaktas (Sri-Vaishnavas), the Bhavyajanas (the Jainas) of all the Nadus... having made petition to Virabukkaraya(A.D 1368), about the injustice done by the Bhaktas, the king taking the hand of the Jainas and placing it in the hand of the Sri-Vaishnavas of the eighteen Nadus, including all the Acharyas (religious teachers) of the places... and declaring (at the same time) that there was no difference between the Vaishnava Darshana (Vaishnavism) and the Jaina-Darshana (Jainism).

If loss or advancement should be caused to the Jaina-Darshana through the Sri-Vaishnavas, the Sri-Vaishnavas will kindly deem it as loss or advancement caused to their own (Darshana). The Sri-Vaishnavas will to this effect kindly set up a Shasana (inscription) in all the Bastis (Jain worshipping places) of the kingdom.

For as long as the sun and the moon endure, the Sri-Vaishnava creed will continue to protect the Jaina-Darshana. The Sri-Vaishnavas and the Jainas are one (body); they must not be viewed as different (Bhatta 1997).

This wonderful inscription needs to be showcased as a monument to the large hearted religious tolerance preached and practiced in Karnataka. The successor of Bukka Raya was his son, Harihara II, who too maintained the traditions of his father. It is not beneficial for people to be proud of any particular religion and to exclude the rest from cognizance. Worship of all manifestations, therefore, must be tolerated. It is also not good and not necessary to replace one deity by another, because ultimately it does not matter whether the absolute and infinite God is called Shiva, Vishnu, Arhat or Buddha (Bhatta 2002). Promoting this attitude is one of the inscriptions found at Belur in Karnataka State which is produced below in English translation:

May Hari, the ruler of the Universe,  
worshipped by the Saivas as Shiva,  
by the Vedantins as Brahma,  
by the Buddhists as Buddha,  
by the Mimamsakas as Karma,  
by the Naiyayikas as Karta,  
by the Jainas as the Arhat,  
grant our prayers (Bhatta 1993)

An accommodative spirit towards other faiths is also evident in modern religious movements in India. Credit goes to Sri Ramakrishna Paramahansa for declaring that all religions, pursuing different ways, would finally reach the same God. His



ardent disciple Swami Vivekananda said that all the religions that exist are true. In his famous Chicago address delivered in September 1893 he said:

Oh, the Sacred one called Brahman by the Hindus,  
 AhuraMazdah by the Zoroastrians, Buddha by the Buddhists,  
 Jehovah by the Hebrews, and God in heaven by the Christians!  
 May he bestow inspiration upon us  
 Everyone, however, must grow up in accordance with his own religious principle,  
 holding its individual character firmly  
 while assimilating others' spiritual merits.

I firmly believe that we will read the following passages  
 on the flags or banners of all religions in the future;  
 help each other. Do not struggle against each other.  
 Be reconciled with others.  
 Do not destroy others.  
 Keep harmony and peace (Complete Works of Swami Vivekananda 2006).

Hinduism's view that there is one divine, which may be reached by many paths, has proven throughout the centuries to be a powerful influence upon Hinduism's interaction with other religions. This point of view is also expressed clearly in the famous speech delivered by Swami Vivekananda in Chicago. An extract of his speech is given here:

We believe not only in universal toleration, but we accept all religions as true. I am proud to belong to a nation which has sheltered the persecuted and the refugees of all religions and all nations of the earth....  
 Sectarianism, bigotry, and its horrible descendant, fanaticism, have long possessed this beautiful earth. They have filled the earth with violence, drenched it often and often with human blood, destroyed civilization and sent whole nations to despair. Had it not been for these horrible demons, human society would be far more advanced than it is now(Complete Works of Swami Vivekananda 2006).

In the political history of India and of the world in the last century, Mahatma Gandhi made the inimitable attempt to establish inter-communal, inter-religious, and international relations through non-violence (*ahimsa*). A respectful attitude towards others' faith is one of the foundations of his concept of non-violence (Saiyidain 1994).

His famous observation, which reveals the concept of welcoming all faiths as understood and encouraged by him is cited here:

I do not want my house to be walled in on all sides  
 and my windows to be stuffed.  
 I want the culture of all the lands  
 to be blown about my house as freely as possible.  
 But I refuse to be blown off my feet by any (Khoshoo 1995).

In his own ashram or wherever he attended a prayer, Mahatma Gandhi made it a point to have extracts read out from the sacred scriptures of all major religions- Hinduism, Buddhism, Islam, Christianity, Sikkism, etc. During the pre-partition and post-partition days, when some members of the audience objected to the recitation of the Quran, he refused to have extracts read out from any of the other

scriptures. He stuck to his point till every objector eventually withdrew his objection. He honoured all religions and asked his followers to do so, because they all voiced truths which were part of mankind's total precious heritage. He said,

Cleanse your hearts of all narrowness and make them as broad as the Ocean. That is the teaching of the Quran and the Gita (Saiyidain 1994).

In another context, Gandhi observed:

I came to the conclusion with as many people as I could meet that all religions were true and also all had some error in them and, whilst I hold my own dear, I should hold others as dear as Hinduism (Saiyidain 1994).

The greatest Mahayana Buddhist of contemporary times, the Dalai Lama, is known for religious pluralism. In his opinion, religions may differ from each other significantly in the concept of God, metaphysics, ways to salvation or liberation, mythology, rites and rituals, rules and customs, etc., which are all external aspects of religions. But, more or less all religions agree without exception on basic ethical principles like commitment to truth, compassion for the weak and self-control. In his opinion, any exclusive stress on the external side of religion often leads to conflicts and undesirable consequences (Dalai Lama 1981).

In order to showcase the inclusive approach existing even in present day India, we refer to the Ayodhya verdict of the Indian judiciary which in an extraordinary manner tried to establish religious harmony. The much-awaited verdict on the 60-year-old Ayodhya title suit was pronounced on 30 September 2010. In this landmark judgment that seeks to find a compromise solution, the Lucknow bench of the Allahabad High Court ruled that the disputed land at Ayodhya in Uttar Pradesh will be divided among three parties to the suit, viz., Hindus, Muslims and the Nirmohi Akhara. The site housed the Babri Masjid which was demolished in 1992 by Hindu protesters who believe that the plot once had a temple marking the birthplace of Lord Rama, the hero of the epic poem, *Ramayana*. The court ruled that the two communities, viz. Hindus and Muslims will be free to build a religious structure on their respective portions of land for worship (see Footnote 23 in chapter 4.). Justice S. U. Khan who delivered the verdict quoted Darwin, "Only those species survived which collaborated and improvised". He wrote in his epilogue:

Muslims must also ponder that at present the entire world wants to know the exact teachings of Islam in respect of relationship of Muslims with others. [...] Indian Muslims have also inherited a legacy of religious learning and knowledge. They are therefore in the best position to tell the world the correct position (Engineer and Ram 2011).

Up to now, we have deliberated on the past and present by showcasing teachers, rulers and others who championed the cause of religious pluralism and through this how they prevented deadly conflicts with respect to religion. Next, we give a few examples of replicable proactive actions initiated in the present day context to help the cause of religious pluralism.

The different religions are making worthwhile efforts to understand and appreciate each other in many parts of the world. The parliaments of religions and conferences and congresses of liberal thinkers of all creeds are held regularly to

promote mutual understanding, peace and harmony. Closer contact with other religions is certainly helping people in understanding that all religions have produced extraordinary people of humility, courage and patience, honest and self-sacrificing nature. People in different forums of the world are trying innovative solutions to prevent and resolve conflicts. As an example, we may cite the declaration signed by 143 respected leaders at the 1993 Parliament of the World's Religions, held in Chicago, on 04 September 1993. The participants of this declaration represented the world's major faiths (Developing Business 2010). In January 2002, in New York, a gathering of representatives of the world's faiths stood at the site of the destruction of the World Trade Centre. This gathering included a Christian Bishop, a Muslim Imam and a Hindu Guru. It was a wonderful moment of togetherness of religious and spiritual leaders in the face of the worst type of destruction. Anyone would have observed and appreciated the contrast between the religiosity of the hijackers and the intense longing for peace among the religious leaders who gathered there. The juxtaposition of harmony and conflict, global peace and jihad (holy war) seemed to be an appropriate metaphor for the twenty-first century that has just commenced (Jonathan Socks 2002).

The United Nations had designated 2001 as the International Year of Dialogue between Civilizations. It also organised the Millennium World Peace Summit the aim of which was to get the support of leaders of every major religion to the cause of global peace. At the end of the Summit, they signed a joint declaration of commitment to peace in its many dimensions (Jonathan Socks 2002).

Afghanistan, which achieved global notoriety for cultural barbarism when the Taliban blew up the ancient Bamiyan Buddhas, opened an exhibition highlighting the country's rich Buddhist heritage.

In sharp contrast to the religious intolerance behind the destruction of the Buddhas eleven years ago, the immaculate exhibition is on display in the National Museum, itself rebuilt with international aid after being destroyed by civil war. The Taliban, Islamic hardliners, came to power in 1996. Towards the end of their rule, they destroyed more than 2,000 artefacts and blew up the Bamiyan Buddha "idols" in March 2001. Now, more than 300 statues are repaired and some are on display (The Hindu 2012). Another interesting and worth emulating example comes from Newmont of Indonesia. Newmont operates the Batu Hijau copper/gold mine in Sumbawa, Indonesia. Its multi-ethnic employee population has faced many challenges. Newmont's management embarked on various initiatives to address these challenges including:

- Encouraging cross-cultural understanding through interaction and cultural events, including a "Cross-Cultural Quiz Nite" and "Indonesian Cultural Nite".
- Providing mosques for Muslims and a community hall for Christians (Developing Business 2010).

Such examples are to be regularly researched, showcased and strengthened in order to inspire the younger generation for similar action.

### 3.4 Environmental Sustainability Through Religious and Philosophical Approaches

Ancient Indian literature mainly composed in Sanskrit, Pali and Prakrit languages provides valuable insights with regard to environmental sustainability through philosophical and religious approaches. This literature seeks the welfare of all creation, not only of human beings but also of the lower creatures. The Vedas or the oldest documented sacred scriptures of Ancient Indian Literatures (as early as 1500 B.C); the Upanishads, or the theoretical bases of Ancient Indian Philosophies; the Puranas or treatises on various Ancient Indian Deities, and Classical Sanskrit Literatures clearly depict a nature-friendly world view that prompted the ancient Indian civilization not merely to treat the environment with reverence, but also to create an awareness amongst themselves that the great forces of nature—earth, water, fire, air and space,—as well as various orders of life including plants, trees, forests and animals are all bound to each other within the great rhythms of nature (Bhatta 2010). What makes the ancient scriptures like Vedas and Classical Sanskrit Literature unique is their assertion of nature and interconnectivity. According to the Ishavasya Upanishad, the entire universe and everything in it, animate and inanimate, belongs to God (First mantra of Ishavasyopanishad). One should treat everything around one reverently, as a custodian. Upanishadic sages firmly believed that one’s duty is to follow the eternal law of nature without any violation, and if one does so, nature will be bountiful:

For one that lives according to Eternal law,  
The winds are full of sweetness.  
The rivers pour sweets.  
So many plants be full of sweetness for us.  
Sweet be the night and sweet the dawns.  
Sweet be our Father Heaven to us.  
May the forest trees be full of sweets for us.  
And full of sweetness the Sun,  
May the kine be full of sweetness (Atharvaveda, Bhumisukta, XII. I. 1–63).

The Atharva Veda has a whole prayer named Prithivi Sukta or Hymn on Earth in praise of the earth. The earth is seen here as the abode of a family of all beings—human as well as others.

She nourishes one and all, but “when angered by misdeeds of her children punishes them with disaster”. One such prayer is given below in English translation:

O Mother Earth! Sacred are thy hills, snowy mountains, and deep forests. Be kind to us and bestow upon us happiness. May you be fertile, arable, and nourisher of all. May you continue supporting people of all races and nations. May you protect us from your anger (natural disasters)(Atharvaveda, Bhumisukta, XII.I. 1–63).

The concerns for nature as an intrinsic part of the divinity spilled onto human rituals and daily practices of prayers, services and reverence. Amongst many traditions, the five pious obligations called *rinās* are exemplary. Among these obligations, *deva-rina* and *bhuta-rina* are directly related to environment. The first obligation is called the *deva-rina* which human beings owe to the Gods (*devas*), who control nature and its various phenomena. Offerings to the Gods (*deva-yajna*) are made through sacrifices (*yajnas*) and prayers (*prarthanas*) to express one's gratitude for the great gifts of nature such as earth, water, fire, space and air. Human beings *also* have a duty towards all those who contribute directly or even indirectly, even an atom, to their sustenance; they owe a debt to all sub human species (*bhuta-rina*) which contribute to the quality of life. Human beings have to discharge this debt by observing *bhuta-yajna*, a sacrifice mainly to the animals and birds (Bhatta 2000b). It is to be noted here that the scriptures broadly classify dharma as *ista* and *purta*. *Ista* comprises those duties that spiritually elevate an individual. The *purta* partakes of the character of social duties, to dig wells and tanks, to plant trees, and, to lay pathways and roads (Bhatta 1998a). Reverence for animals is also evident in ancient Indian mythologies. The bull, the eagle, the lion, the elephant, the swan, the cow, the mouse and many more are the vehicles of various Gods and Goddesses. The point conveyed here is that animals are not to be looked upon as creatures to be cruelly exploited but to be seen as partners with human beings in the journey of life. Even if one does not have any overflowing love for the frog, at least one's self-love should dictate that one's survival is tied up with the survival of the frog (Naganathan 2004).

The Ancient Indians also believed in the Supreme Being as existing in all forms in the world. The Bhagavad Gita looks upon humankind just as part and parcel of the universe, as if it is one of the many forms in which the Supreme Being is manifested in this universe. In the divine form (*vishvarupa*) of Lord Krishna, Arjuna witnesses the whole universe with its many divisions drawn together into one (Bhagavad Gita, X.20–41). Cosmic life is manifesting itself as human beings, as animals, as birds, as the vegetable kingdom and other species. A few are listed below (Bhatta 1991):

- The Himalayas, the range of mountains are divine.
- Ashvattha is the Peepal tree that yields no edible fruit; yet, it has ever been associated with the worship of the divine.
- The cows, the horses and the elephants are equal manifestations of the divine glory.
- The serpent is a venomous creature but divinity speaks of the poisonous snake Vasuki as His own glory.
- The Nagas are non-poisonous snakes, and the Lord rests on Ananta, and hence, it has divine presence.
- The lion is the lord of beasts, and he is majestic and magnanimous in his own way. He has become the vehicle of the cosmic mother.
- Vainateya is another name for Garuda, and Lord's glory is found in this bird also.

Finally, Lord Krishna says that there is no being, whether moving or unmoving, in which the Supreme is not present (Bhagavad Gita, Vishvarupadarshana, X.20–41). In a similar fashion, the Vishnu Purana says that the whole world, constituted of all beings, is an expansion of Lord Vishnu, another name for the Supreme Being. It says that humans, animals, birds, trees and crawling creatures are forms of Lord Vishnu. The true worship of Vishnu is the perception of the sameness. It also adds that equal consideration of all is nothing but the worship of Lord Vishnu (Vishnu Purana, I. 17. 82–85). The practice of planting saplings of shady, fruit-bearing trees along public roads, and laying out gardens for public use dates back to remote antiquity. This practice had a religious sanction, and public gardens were solemnly consecrated. The planting of trees has been proclaimed as conducive to great merit (Bhatta 1998a).

A very significant concept in Mahayana Buddhism related to environmental ethics and values is the concept of Bodhisattva. Bodhisattvas are inspired by pure compassion and love. Their purpose is to achieve Buddha nature. They become a Buddha in order to help another sentient being, whether a tiny insect or a huge mammal. Lord Buddha said: “I will become a saviour to all those beings; I will release them from all their sufferings”. Bodhisattvas show active concern for the well-being and emancipation of living beings in general and men and women of the world in particular. A Bodhisattva’s prayer which is very significant is given in English translation below:

For as long as space endures  
and for as long as living beings remain,  
until then may I too abide  
to dispel the misery of the world (Wallace and Wallace 1997)

Contemporary ecologists start with the assumption that one has to take care of the environment as it affects one’s living. On the other hand, ancient Indians’ concern started with the assumption that they were a part of a larger existence. Norwegian philosopher Arne Naess first coined the phrase “deep ecology” to describe deep ecological awareness. Deep ecology is rooted in a perception of reality that extends beyond the scientific framework to an intuitive awareness of the oneness of all life, the interdependence of its multiple manifestations. Arne Naess says:

Care flows naturally if the ‘self’ is widened and deepened so that protection of free Nature is felt and conceived as protection of ourselves.[...] Just as we need no morals to make us breathe.[...] [so] if our ‘self’ in the wide sense embraces another being, we need no moral exhortation to show care.[...] (Deep Ecology 2013).

The contemporary inevitability of consideration of nature through evils of deforestation is a way different from the natural inclusion of nature in human habitat in the ancient times. Their scriptures hence would make paramount sense today, far more than they did when they were composed.

### 3.5 Conclusion

Our journey so far made through ancient Indian religious and philosophical literature confirms India's unparalleled tradition of religious tolerance and freedom. That tradition was born out of the consciousness that truth can never be the monopoly of any one religion or sect. The great Sanskrit works such as Vedas, Upanishads and Classical poetry promote an attitude and spirit that can make it possible for the human race to grow together into a single family "vasudhaivaikutumbakam". The bright side of religion has been a source of great inspiration in many spheres of life—music and dance, philosophy and the fine arts, literature and architecture while the dark side of religion has been a source of unresolvable conflicts and confrontations. It has been noticed that the great religions of the world do provide positive insights which need to be rearticulated to suit present day requirements. Concepts like peace, human brotherhood and compassion leading to benevolent actions found in the world's religious literature need to be reactivated for developing peaceful societies.

The Indian concept of sarva-dharma-samabhava, i.e. equal respect for all religions has become the talking point at various forums. It is felt by enlightened people of various religions that all the different religions of the world are very much needed to enrich human experience and civilization. Hence, it is important to identify and strengthen the efforts made in any part of the world for a better understanding among religions, rather than eradicate religious identity. Interconnected and inclusive humanitarianism is the common factor of every religion, and hence all religious identities have to be accepted and appreciated. The need to appreciate all religions is also essential to maintain harmony and peace. On the basis of our discussion, it may be said that a world evolved through narrow, exclusive and intolerant thought, both in social terms and in religious terms, will be full of conflicts, full of violence, full of inner tensions and war. But, a world evolved through harmony, tolerance, peace and human concern will be of great help in achieving human sustenance.

The tradition of reverence for nature and all forms of life, vegetable or animal found in ancient Indian literature is another view point that represents powerful thinking lines that needs to be re-nurtured and reapplied in our contemporary context for sustaining environmental wealth. What is needed today is to remind ourselves that nature cannot be destroyed without humankind ultimately destroying itself. There is a need to incorporate these traditional and literary environmental values in the formal and non-formal educational systems.

Most contemporary schools in the primary sections have a special class and examination on environmental studies. There is also a need for a coordinated programme of public awareness through every available medium to build up public opinion to renew these ancient concepts of living together religiously, socially and environmentally. The heritage of the past thousands of years codified in sacred scriptures and literary works is becoming more and more relevant today. As environmental crises loom ominously, the limitations of our dominant self-centred

lifestyle and a throwaway culture must give way to a more sustainable civilization that recognises the fundamental interconnectedness of all peoples and nature—a state of existence that ancient traditions have been trying to awaken within humankind for the past several thousand years.

Arnold Toynbee's statement about Indian religions may be quoted as a concluding remark.

Indian religions are not exclusive minded. They are ready to allow that there may be alternative approaches to the mystery of life. I feel sure that in this they are right, and that this catholic Indian religious spirit is the way of salvation for all religions in an age in which we have to learn to live as a single family if we are not to destroy ourselves"

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**Part II**  
**Sustainability Concept at the Global Level**

# Chapter 4

## Sustainable Development Concept in the WTO Jurisprudence: Contradictions and Connivance

R. Rajesh Babu

**Abstract** The Marrakesh Agreement establishing the WTO (henceforth the WTO Agreement) is primarily a trade agreement, negotiated with the objective of promotion and progressive liberalisation of international trade. The WTO preamble recognises that the relations between member states in the field of trade and economic development should be conducted with a view to “raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services.” In this endeavour, it is acknowledged that states should allow for the “optimal use of the world’s resources *in accordance with the objective of sustainable development*, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development.” Beyond such an acknowledgement in the Preamble, the WTO and its covered agreements have largely ignored sustainable development as a binding obligation on the member states. It was perceived that such binding commitments were unnecessary as the WTO’s focus is trade governance. Besides, the developing countries were genuinely concerned that any substantive obligation on sustainable development, specifically in the context of environment and labour standards, shall have an adverse impact on their competitiveness vis-à-vis developed countries goods and services. More importantly, the prospective sustainable development measures may have a strong likelihood of being misused as a protectionist tool for trade gains by advanced economies that have already attained higher standard production and process methods and livelihood standards. These concerns and oppositions have left the “sustainability” objective in the WTO much to be desired. This chapter is an attempt to understand the interlinkages and conflicts in the context of the legal foundation of “sustainable development” in the WTO architecture, an organisation created to administer trade rules. The chapter shall look specifically at the approach

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taken by the WTO panel and the Appellate Body in interpreting and developing the concept. Special attention shall be given to the concerns of developing countries that have all along opposed inclusion of the sustainability concept without elaborate negotiation and consensus.

## 4.1 Introduction

The Marrakesh Agreement establishing the WTO 1994 (henceforth the “WTO Agreement”) is a trade agreement primarily aimed at promoting and progressive liberalisation of international trade. The WTO Agreement today regulates about 95 % of the world trade flow and monitors the implementation of not just the rules governing goods (GATT), but also trade in services (GATS) and trade-related intellectual property rights (TRIPS). The WTO in its preamble emphasises that the trade and economic relations between member states should be conducted with a view to raise “standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services.” In such an endeavour, states should allow for the “optimal use of the world’s resources *in accordance with the objective of sustainable development*, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective *needs and concerns at different levels of economic development*.” The sustainable development concept, in that sense, is considered as a central principle of the WTO Agreement, and “it is an objective running through all subjects in current Doha negotiations”.<sup>1</sup>

Beyond such an acknowledgement in the WTO preamble, there are very few specific provisions in the WTO covered agreements that imbibe and promote the sustainability concept in the WTO architecture. Such an approach was justified in the belief that the focus of the WTO was trade governance and not promoting sustainable development. Besides, the concept of sustainable development itself suffers from definitional ambiguity, and the member state views differed widely regarding what the concept encompasses. Specifically, the concept suffered from the north-south divide. In addition, the developing countries in particular were genuinely concerned that any substantive obligations on sustainable development and the bringing in of abstract non-trade concerns such as environmental measures, labour standards and human rights within the WTO, shall apart from having an adverse impact on their competitiveness, has the potential of being misused as a protectionist tool for trade gains by advanced economies. These concerns and oppositions have relegated the “sustainability” objectives in the WTO to the fringes.

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<sup>1</sup>WTO website [http://www.wto.org/english/tratop\\_e/envir\\_e/sust\\_dev\\_e](http://www.wto.org/english/tratop_e/envir_e/sust_dev_e). Accessed 15 Jan 2016.

Indeed, trade seldom operates in isolation, and conflicts/tensions are bound to surface specifically when national sustainable development goals fall in direct conflict with their WTO obligations. The WTO does anticipate such tension and provides policy space to support national developmental goals. For instance, the GATT Article XX on general exceptions that lays out a number of specific instances where members may be exempted from WTO rules provides flexibility for countries to legitimise certain laws which could otherwise be WTO inconsistent. Similarly, the concept of special and differential (S&D) treatment articulated across the WTO covered agreements aims at mainstreaming the lesser developed economies in recognition of their different levels of economic development.

These two flexibilities, however, have become the most contested arenas for trade and sustainable development confrontations. Members, specifically the developed countries in the WTO, have been using GATT Article XX as a tool to legitimise domestic trade protection masquerading as legitimate environment/health measures within the WTO framework. The WTO adjudicating bodies, the panels and Appellate Body (AB), have shown over enthusiasm in accepting a “sustainable” friendly and innovative interpretation selectively, overriding the trade impact and developmental concerns of a large group of less developed countries. On the other hand, the WTO adjudicating bodies have, over the years, systematically undermined the implementation of the S&D treatment principles in favour of higher trade ‘morals’ by practicing restrictive interpretation and ignoring the mandatory language of the WTO agreements. In short, it has been argued that the panel/AB has been practicing and pushing for one “brand” of sustainable development that largely suits the domestic interest of the developed countries at the detriment of the developing countries’ economic priorities. Such selective interpretation of the concept of sustainable development and select inclusion of sustainable development goals, specifically in the area of environment protection at the cost of development have wider ramification on the WTO legal system. The Doha “Development” Round of negotiations launched in 2001 was expected to bring development back to the WTO architecture, but seems to have lost its way.

This chapter is an attempt to highlight the contradictions and connivance of the WTO adjudicating bodies, and the use of the WTO dispute settlement system (DSS) by the developed countries to push through a particular understanding of the sustainable development concept in the WTO jurisprudence, overlooking the consensus process that informs the WTO rule-making. This trend, evident in several cases, has invoked scepticism and resentment among a large group of developing countries and created a legitimacy deficit for the WTO DSS as an institution and in the broader context of the “sustainability” discourse in the WTO. More specifically, the chapter shall dwell upon the panel/AB’s approach towards then on-trade issues under GATT Article XX general exceptions and the S&D treatment provisions, which are considered to be the two key articulations of the “sustainable development” concept in the WTO architecture. The author stresses on the urgent need to articulate the developing countries position on the sustainable development issue and engage directly with WTO to bring clarity to the understanding of linkages through negotiations rather than judicial interpretations.

## 4.2 Sustainable Development in the WTO Agreement: The Legal Framework

Sustainable development as a concept provides a framework for understanding the linkages between the economy, environment and social concerns (UNESCO 2012, p. 5). Styled as the three pillars of sustainable development, their interlinkages are often undermined or compromised in the process of international norm making, specifically in the economic areas. The fragmented nature of the international legal order exacerbates the divide. The 1947 GATT and the 1994 Marrakesh Agreement establishing the WTO are no exceptions to this trend, as their primary focus is the promotion and progressive liberalisation of trade in goods, services and intellectual property rights, paying only lip service to other “non-trade” concerns. However, the WTO member states do recognise that trade and other economic activities cannot function in isolation ignoring the other two pillars—environment and social concerns. The WTO Agreement thus articulates the attainment of “sustainable development” as an end goal of the multilateral trading regime. The preamble in recognition of this endeavour for such an inclusive and sustainable growth states that:

relations in the field of trade and economic endeavour should be conducted with a view to *raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand*, and expanding the production of and trade in goods and services, *while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development*, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective *needs and concerns at different levels of economic development*” (Emphasis added).<sup>2</sup>

This statement underlines the broad understanding of the sustainable development concept in the WTO. In other words, in their endeavour to promote trade and maximise profit, nation states and corporate citizens must conduct themselves with a view to increase the economic welfare of all, protecting and preserving the environment and natural resources, and the necessary policy space to balance state actions given the different levels of economic development. The “fairness” in trade is further grounded on the need for “positive efforts” designed to ensure that less developed countries secure a share in the growth of international trade commensurate with the needs of their economic development. This part broadly recognises the uneven landscape of economic development across WTO member states, and therefore, justifying the need for S&D treatment for developing countries and least developed countries (LDCs) among them. Thus, one finds a clear articulation in the WTO preamble, of the endorsement of the two other pillars of sustainable development, albeit in the non-binding part of the Agreement. The preamble apart from

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<sup>2</sup>The Ministerial Decision on Trade and Environment adopted during the Uruguay Round in 1994 also established a Committee on Trade and Environment (CTE) with the aim of making “international trade and environmental policies mutually supportive”.

being a reflection of the genuine and growing concern among the community of states also recognises the potential negative consequences of the globalisation of international trade on environment and sustainable development.

Beyond the preamble, the reference to sustainable development objectives involving the three pillars in the multilateral trading agreement is at best fragmented. Given the primacy of promoting international trade, often, the other concerns associated with attaining the sustainable developmental goals are undermined or overlooked, when in conflict with this prime goal. Such a cautious approach towards considering the “non-trading” concerns as part of the WTO legal framework was essentially because of the apprehension of the potential misuse which could ultimately undermine the primary WTO objective of trade promotion. Further, conflicts between trade, on the one hand, and environment and development on the other, were largely left to the Committee on Trade and Environment (CTE) and the Committee on Trade and Development (CTD). The CTE and the CTD act as a forum to identify and debate developmental and environmental aspects within the WTO text and Doha negotiations in order to help achieve the objective of sustainable development.

The WTO adjudicating bodies, the panels/AB, play a critical role of interpreting and integrating the fragmented “sustainable development” objectives in the WTO architecture, keeping in view the preamble and the competing interests at play. Their primary job is to preserve the rights and obligations of Members and clarify the existing provisions in accordance with customary rules of interpretation (Article 3.2, DSU). As the final arbiter, often, the WTO Panel/AB arbitrates between the conflicts that may arise in the process of implementing the environmental or developmental dimension and the trade objectives. They are, in other words, the final interpreter of the scope and legitimacy of the S&D provisions, environmental protection and other measures taken by the states while pursuing sustainable development policies. The only caveat imposed on them by the DSU is that their rulings “cannot add to or diminish the rights and obligations provided in the covered agreements” (Article 19, DSU).

Owing to the innovative “reverse consensus” procedure, the interpretations developed by the panels/AB enjoy minimal procedural checks, as their rulings would be adopted by the DSB unconditionally and automatically, unless there is a consensus against such adoption.<sup>3</sup> In addition, the WTO covered agreements present the panel/AB considerable discretion particularly because the texts of the S&D treatment provisions or the general exceptions under Article XX of the GATT are crafted in highly ambiguous language. The abstract nature of the language used is susceptible to several possible interpretations allowing the adjudicating bodies to reach a conclusion of their choice. Most importantly, such interpretation developed by the AB act as *de facto* precedent in later disputes. Finally, unlike most other

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<sup>3</sup>“An Appellate Body report shall be adopted by the DSB and unconditionally accepted by the parties to the dispute unless the DSB decides by consensus not to adopt the Appellate Body report within 30 days following its circulation to the Members”. Article 17.14, DSU.

international organisations, the WTO has a strong mechanism for enforcing its rulings, and in case of non-compliance, the DSB can authorise imposition of trade sanctions.

Indeed, as noted earlier, the two key sets of provisions where the WTO members have incorporated “developmental” concerns are reflected in the S&D treatment provisions to provide a level playing field for the developing countries, as well as, through the general exceptions under GATT Article XX, which provides the member states, flexibility and domestic policy space to structure their regime while complying with the WTO obligations. In addition, the environmental and health concerns can also be addressed by the member states through the Agreement on Technical Barriers to Trade (TBT Agreement) and Agreement on Sanitary or Phytosanitary Measures (SPS Agreement). For instance, the SPS Agreement permits imposition of sanitary or phytosanitary measures based on the self-determined appropriate level of protection (ALOP) or the acceptable level of risk, provided such measures are scientifically justified. Further, the SPS Agreement even permits adoption of a “precautionary approach” in cases where relevant scientific justification is not adequate. (Article 5.7, SPS Agreement).<sup>4</sup> Similarly, the TBT Agreement provides the scope for states of taking technical regulations and standards for the protection of environment, per se, consumer interests (not health) and animal welfare.

For the purpose of this chapter, however, the focus shall be restricted to the jurisprudential developments in the two key and most contested areas, i.e. the S&D treatment provisions that mirror the “developmental” concerns of the less developed countries, and the GATT Article XX which concerns, among others, measures that address environment and health protection. Further, the analysis would be from the perspective of the emerging jurisprudence as developed by the panel and the AB through the power of interpretation and clarification of the WTO agreements.

### 4.3 S&D Treatment Provisions: The Developmental Dimension

The S&D concept aims to correct the “perceived inequalities of the post-war international trading system by introducing preferential treatment in their favour” (Gibbs 1998). It seeks to address a country’s trade, financial and developmental needs; assist it in developing the necessary infrastructure and “know-how”; reinforce the adoption of sound economic and governance policies; and reinforce developmental efforts, including growth, poverty reduction and sustainable

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<sup>4</sup>The AB held that “Article 5.7 is concerned with situations where deficiencies in the body of scientific evidence do not allow a WTO Member to arrive at a sufficiently objective conclusion in relation to risk.” see *US/Canada—Continued Suspension*, Appellate Body Reports, Para. 677.



development.<sup>5</sup> Though the GATT 1947 initially provided little emphasis on the S&D concept, in the course of the next few decades, the concept did find a place in the GATT framework through piecemeal intervention by the GATT Contracting Parties.<sup>6</sup>

Guided by this philosophy, the S&D treatment provisions in the WTO aims at fostering the ability of developing countries to become full participants in the multilateral trading system and reap the benefit of WTO membership in meeting their developmental goals.<sup>7</sup> Specifically, they aim at increasing trade opportunities and safeguards the interests of the developing countries and provide flexibility of commitments and use of policy instruments, including, longer transition or implementation periods and technical assistance. However, it has been argued that at the Uruguay Round, the S&D treatment provisions have become more of an adjustment tool than a development tool, as was initially envisaged. Tortora (2003) notes that: “The overarching idea of the Uruguay Round S&D provisions applied to ‘within- the-borders’ trade agenda is to provide adjustment tools to the developing countries, in order to modify their laws and economic policies to comply with the new trade rules—taking for granted that these rules will automatically be beneficial for their development.”

The S&D provisions are found across the WTO covered agreements in 145 agreement-specific provisions with varying degrees of binding. While the legal effect of these provisions varies with their wording and the context in which they appear, it is widely accepted that economic inequality can and should be taken into account while interpreting all the WTO covered agreements (Condon and Sinha 2005, p. 13). In the AB’s own words:

The Preamble to the WTO Agreement, which informs all the covered agreements including the GATT 1994... explicitly recognizes the “need for *positive* efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development...<sup>8</sup>

Despite such explicit articulation of the place of S&D provisions in the WTO architecture, the general state of implementation of the S&D provisions has remained a deep source concern for developing countries (Whalley 1999). In addition to the inherent problem of imprecise language in which most S&D provisions are articulated, the treatment and interpretation of these provisions by the WTO adjudicating bodies and by the developed countries have left them much to be

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<sup>5</sup>*Proposal of Canada*, CTD Special Session TN/CTD/W/21.

<sup>6</sup>During 1954–55, the GATT Article XVIII was revised as “Governmental Assistance to Economic Development”; in 1965, Part IV titled “Trade and Development” was introduced; and in 1979 at the Tokyo Round, the Decision of 29 November 1979 on “Differential and more Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries Clause” (“Enabling Clause”) was adopted, which formalised the S&D concept in the GATT legal system.

<sup>7</sup>*Canada*, supra note 5.

<sup>8</sup>(*Emphasis added*). *EC—Granting of Tariff Preferences*, AB Report, WT/DS246/AB/R, 2004, para. 161. See also Charnovitz et al. (2004).

desired (Kessie 2000, p. 15). In other words, the approach of the panel and the AB which is endowed with the responsibility of interpreting and clarifying and giving positive effect to the S&D provisions has been to systematically undermine these provisions leading to a situation where S&D obligations have become ineffective and infructuous, undermining the legitimate expectations of the developing countries.

As treaty interpreters, the panels/AB had set their own standards in *Korea–Dairy Products* (2000), which imposes an obligation to “read all applicable provisions of a treaty in a way that gives meaning to all of them, harmoniously”.<sup>9</sup> In *US—Gasoline*, it was further clarified that one of the:

corollaries of the “general rule of interpretation” in the Vienna Convention [on Law of Treaties 1969] is that interpretation must give *meaning and effect* to all the terms of the treaty. An interpreter is not free to adopt a reading that would result in reducing whole clauses or paragraphs of a treaty to *redundancy or inutility*<sup>10</sup> (Emphasis added).

The panels/AB have the onus to make every S&D provision have “meaning and effect”, and in the process address the concerns of the developing countries by responding positively to their needs and make a conscious effort to reduce the inherent imbalance.

Quite contrary to this mandate, the negative and restrictive view taken by the panels and the AB has rendered the S&D provisions to “redundancy or inutility”. The power of interpretation exercised by the adjudicating bodies has been proactively used to erode the rights of the developing countries, increased their obligations, and tilted the institutional and normative balance against them (Babu 2010). Rather than giving meaning and legal effect to the S&D provisions, the trend is towards stricter and improper interpretation by the panel/AB disregarding the customary rules of interpretation (Qureshi).<sup>11</sup> Even in cases where the intent of the framers was clear and unambiguous, the adjudicating bodies have been reluctant in giving the importance that the S&D provisions demand.

This approach has effectively rendered the S&D provisions and the concept meaningless, ineffective and unenforceable within the WTO framework, and in the process, the adjudicating bodies have deviated from their own standard of effective treaty interpretation. The bias in the approach of the adjudicating bodies and growing disregard for such provisions is manifest in their decisions in *EC—Regime for the Importation, Sale and Distribution of Bananas*, (WT/DS27); *US—Import Prohibition of Certain Shrimp and Shrimp Products* (WT/DS58/AB); *India—Quantitative Restrictions on Imports of Agricultural, Textile and Industrial Products* (WT/DS90); *US—Sects. 301–310 of the Trade Act of 1974* (WT/DS152); *India—Patent Protection for Pharmaceutical and Agricultural Chemical Products*, (WT/DS50); *Brazil- Export Financing Programme for Aircraft* (WT/DS46); *EC—*

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<sup>9</sup>See *Korea—Measure on Imports of Certain Dairy Products*, Appellate Body Report, WT/DS98/AB/R (2000), Para. 81.

<sup>10</sup>*US—Gasoline*, Appellate Body Report, at p. 23.

<sup>11</sup>Asif H. *Interpreting WTO Agreements: Problems and Perspectives* (CUP).

*Conditions for the Granting of Tariff Preferences to Developing Countries* (WT/DS246); *EC—Measures affecting the Approval and Marketing of Biotech Products* (WT/DS291), etc.<sup>12</sup> These cases are only representative of the attitude of the panel/AB towards the developing countries concerns in general and the S&D provisions in particular. A few of these instances are considered in detail below.

In the *Brazil -Aircraft Export Subsidy* case,<sup>13</sup> the consistency of export subsidies (PROEX) granted by Brazil was questioned. Brazil's subsidy programme provided a foreign purchaser "interest rate equalisation subsidies" amounting to 3.8 % which was necessary for providing a "level playing field" for developing countries because when capital goods (aircraft) are sold, exporters are expected to provide financing, even if such an exporter was from a developing country and the buyer from a developed country. As a result of the differences in interest rates between developed and developing countries, exporters in developing countries could be at a disadvantage, in particular when government financial institutions were involved. PROEX was an attempt by Brazil to reduce this disadvantage.<sup>14</sup> Brazil argues that, pursuant to the SCM Agreement (Item (k) of Annex 1), such payments are prohibited only "in so far as they are used to secure a material advantage in the field of export credit terms, and that *a contrario* such payments are *permitted* in so far as they are *not* used to secure a material advantage in the field of export credit terms".<sup>15</sup> Moreover, Article 27 of the SCM Agreement recognises subsidies as having an important role to play in the economic development programmes of developing countries (Art 27.1) and provides substantial S&D treatment for developing countries, including in respect of all export subsidies<sup>16</sup> whatever form they take.<sup>17</sup>

The Panel however rejected Brazil's arguments and found that "interest rate equalisation subsidies" conferred a material advantage and so violated the WTO law.<sup>18</sup> The Panel did agree that Article 27.4 of the SCM Agreement was a mandatory S&D treatment provision to enable developing countries to subsidise exports to meet their "development needs".<sup>19</sup> It further noted that "it is the developing country Member itself which is best positioned to identify its development needs and to assess whether its export subsidies are consistent with those needs" and in applying this provision the panels should give substantial deference to the views of the developing country in question. However, the panel took the view that the question of "developmental need" was a "political and economic

<sup>12</sup>The detailed discussion, see Babu (2010), Chimni (2000); Raghavan (2000); Khor (2000).

<sup>13</sup>*Brazil—Export Financing Programme for Aircraft*, Panel Report WT/DS46/R 14 April 1999, para. 4.

<sup>14</sup>*Brazil—Aircraft Export Subsidy*, Para. 4.

<sup>15</sup>*Brazil—Aircraft Export Subsidy*, Para. 17.5.

<sup>16</sup>*Brazil—Aircraft*, Article 21.5 (Canada), Panel Report, Para. 6.47, fn. 49, in *WTO Analytical Index 2 Volume Set: Guide to WTO Law and Practice* (CUP 2007) p. 23.

<sup>17</sup>*Canada—Aircraft Credits and Guarantee*, Panel Report, Para. 7.179.

<sup>18</sup>*Brazil—Aircraft Export Subsidy*, AB Report, WT/DS46/AB/R, 2 August 1999 Para. 7. See also Showalter (2004).

<sup>19</sup>*Ibid*, Para. 7.89.

question” which should be considered by the WTO Subsidies Committee and the panel was ill-suited to review it as its function is fundamentally legal.<sup>20</sup>

In the *India—Quantitative Restrictions* case, in a clear case of judicial overreach, the WTO adjudicating bodies relied on the International Monetary Fund (IMF) (an external agency) report that India does not have a balance-of-payment (BOP) problem to warrant continued maintenance of BOP import restrictions (Robert 2005, p. 19).<sup>21</sup> In the process, the panel disregarded the decision of the WTO’s BOP Committee and overlooked India’s developmental goals.<sup>22</sup> The WTO’s BOP Committee, a political body, had agreed to India’s request to ‘phase-out’ its BOP restrictions over a period of 5–7 years (Raghavan 2000). However, the AB overstepped its authority to look into the justifiability of the BOP claims, effectively nullifying the effect of S&D BOP provision in the process (Khor 2000). Critiquing the ruling, Hudec noted that “had the Appellate Body considered development policy informed by a conception of equity that includes the notion that development policy is a matter in the first instance for participation of those who are affected, it would have analysed the legal issue quite differently”. He adds that:

first of all, the Appellate Body would not have accepted that one institution, and particularly, the technocrats in that institution have “ownership” of the meaning of a “development” policy. Secondly, the Appellate Body would not have embraced the stark contrast between “development policy” and macroeconomic policy. This implies that development policy is restricted to a series of techniques that “experts” view as formulae for “development”, rather than including all those policies that people - in this case, at a minimum, India and Indians - see as affecting the fulfilment of their approach to development.<sup>23</sup>

In short, the AB made redundant an S&D provision relying on the opinion of the IMF, an organisation whose opinion/report has no bearing on the WTO covered agreements or the adjudicating process and whose independence is under question (Ukpabi 2005, p. 26).

Similarly, in *EC—Tariff Preferences*,<sup>24</sup> the AB ruled that the developed countries’ Generalised System of Preference (GSP) schemes could be selective in their application and could discriminate between developing countries beyond the express direction of the MFN principle. The GATT GSP *Decision* of 1971<sup>25</sup> and the *Enabling Clause* of 1979 specifies that such trade preferences need to be generalised, non-reciprocal and *non-discriminatory* (Bartels 2003, p. 523). However, the AB chose to interpret the provision in a manner that suits the interest of the developed countries i.e. when developing countries are “responding to the ‘needs of

<sup>20</sup>Ibid. See also Brazil’s Statement at the DSB Meeting, *Minutes of the DSB Meeting held on 20 August 1999*, WT/DSB/M/67 of 30 September 1999, at 2.

<sup>21</sup>*India—Quantitative Restrictions*, Panel Report, Para. 5.236.

<sup>22</sup>*India—Quantitative Restrictions*, Appellate Body and the Panel Report, WT/DS90/AB/R, 23 August 1999 and WT/DS90/R 6 April 1999.

<sup>23</sup>Ibid.

<sup>24</sup>*EC—Granting of Tariff Preferences to Developing Countries*, Appellate Body Report, WT/DS246/AB/R of 2004, Paras. 162–163.

<sup>25</sup>*Generalized System of Preferences*, Decision of 25 June 1971, BISD 18S/24.

developing countries', this may entail treating different developing-country beneficiaries differently,"<sup>26</sup> thereby rendering the GSP Schemes both discriminatory and reciprocal (India 1998).

Further, in *EC—Biotech Products*, while interpreting Article 10 of the SPS Agreement, a S&D provision which lays down that the "special needs" of developing countries and LDCs shall be "taken into account" in the formulation and application of SPS measures,<sup>27</sup> the Panel took the view that:

[T]he obligation laid down in Article 10.1 is for the importing Member to "take account" of developing country Members' needs. The dictionary defines the expression "take account of" as "consider along with other factors before reaching a decision". Consistent with this, Article 10.1 does not prescribe a specific result to be achieved. Notably, Article 10.1 *does not provide that the importing Member must invariably accord special and differential treatment* in a case where a measure has led, or may lead, to a decrease, or a slower increase, in developing country exports.<sup>28</sup>

The Panel interpretation has ensured that even this mandatory S&D provision becomes obsolete and of no practical use for the developing countries.

These cases are representative of instances of the panel and AB abdicating their well-defined responsibility to protect the developmental concerns of developing countries, by refusing to give effect to the S&D treatment provisions. The panels/AB, in the adjudication process, have shown a general apathy towards incorporating other procedural and substantive S&D provisions across the WTO covered agreements leading to a similar fate. The apathy among the panels/AB has rendered most developing countries parties to a dispute from taking recourse to S&D treatment provisions.

#### 4.4 Environment/Health Protection as Sustainable Development

The WTO adjudicating bodies, in contrast to their restrictive approach towards the S&D provisions, have shown considerable leeway towards measures aimed at protection of environment/health which has been defended by the developed countries through the GATT Article XX general exception. The panels/AB have actively endorsed the use of environment/health measures despite being criticised as "extrajurisdictional, ecoimperialist, protectionist and unilateralist" (Charnovitz 1998, p. 193). The general exceptions in GATT Article XX provides several exceptional circumstances where the countries could deviate from the GATT fundamental rules to take measures necessary to protect, *inter alia*, environmental and

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<sup>26</sup>Ibid, Para. 162.

<sup>27</sup>Art. 10.1 of the SPS Agreement is a mandatory provision as per the WTO Secretariat, Note from the Secretariat, 4 February 2002, WT/COMTD/W/77/Rev.1/Add.1/Corr.1.

<sup>28</sup>*EC—Approval and Marketing of Biotech Products*, Panel Report, paras. 7.1620. *Emphasis added.*

social concerns. Article XX is a limited and conditional exception from GATT obligations and unlike the S&D provisions, not a positive rule establishing obligations in itself. Article XX must, therefore, be narrowly interpreted to place the burden on the party invoking the exception to justify its invocation,<sup>29</sup> and not to examine Article XX exceptions unless invoked.<sup>30</sup> By retaining Article XX as an exception, the WTO Agreement carries forward the GATT philosophy of emphasizing trade over other issues and concerns in the interpretation of the text.

The legitimacy of the GATT Article XX environment/health protection measures having adverse trade impacts has been a subject of contestation since the pre-WTO period. These disputes have occupied considerable adjudicating space, both in GATT and the WTO with the panel/AB acting as the adjudicators for determining economic protectionism from legitimate environmentalism. Pre-WTO, the GATT panels had often adjudged the dispute in favour of liberal trade, restrictively interpreting the scope of other “non-trade” concerns within the trading regime. In all the six GATT panels that examined the validity of trade-restrictive environmental or health-related measures under GATT Article XX, the measures of the host states were found unjustifiable.<sup>31</sup> The most prominent/controversial case was the *US—Tuna/Dolphin* case because of the anti-environment stand taken by the panel which ruled against the US measures stating that the trade embargo was not justified under Article XX (*US—Tuna I*). The panel in *US Tuna II* further held that the measures taken so as to force other countries to change their policies could not be considered “necessary”. The US blocked all the GATT panel reports from being adopted.<sup>32</sup> These rulings also came under strong criticism from the developed country environment groups, declaring the GATT as anti-environment (Esty 1994, Charnovitz 1992).

The debate continued in the WTO framework, and there have been several major disputes that led to the adoption of panel and AB reports. The most important among them was the *US—Gasoline* 1996 (WT/DS2)<sup>33</sup> and *US—Shrimp/Turtle* 1998 (WT/DS58).<sup>34</sup> Interestingly, most of these disputes were about the legitimacy of the US unilateral environment measures leading to trade restrictions. Some of the interpretations handed down by the panels and the AB in these cases have far

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<sup>29</sup>*Canada—Administration of the Foreign Investment Review Act*, Panel Reports, 7 February 1984, 30S/140, 164, Para. 5.20 and *US—Sect. 337 of the Tariff Act of 1930*, 7 November 1989, 36S/345, 393 Para. 5.27.

<sup>30</sup>*US—Restrictions on Imports of Tuna*, Panel Report D1991 S21/R (unadopted), 3 September 1991, 39S/155, 197, Para. 5.22.

<sup>31</sup>GATT cases were: *US—Tuna (Mexico)*, *US—Tuna (EEC)* and *US—Automobiles*.

<sup>32</sup>In *Tuna Case* (Canada), 1982, the US attempted to justify import prohibition of Canadian tuna and tuna products under GATT XX(g). The panel ruled that US recourse to Article XX(g) was *ex post facto* justification of trade-restrictive measure driven by commercial/political interests.

<sup>33</sup>*United States—Standards for Reformulated and Conventional Gasoline* (hereinafter *US—Gasoline*), AB Report and Panel Report, WT/DS2/R and WT/DS2/AB/R adopted on 20 May 1996.

<sup>34</sup>*United States—Import Prohibition of Certain Shrimp and Shrimp Products* (hereinafter *US—Shrimp*), AB Report and Panel Report adopted on 6 November 1998, WT/DS58.

reaching implications for the developing countries and the WTO jurisprudence. Of specific importance is the *US—Shrimp/Turtle* case which changed the course of environmental jurisprudence in the WTO legal system.<sup>35</sup> The decision also paved the way for broadening the understanding and evolution of GATT Article XX general exception in the context of environment considerations in trade matters. Together with this case, a brief outline of some of the pertinent decisions in other cases are also analysed below.

As noted earlier, Article XX relates to all of the obligations under the GATT and provides for exceptional circumstances which allow WTO members to take measures that would otherwise be in conflict with their WTO obligations. Members could, inter alia, undertake measures that are “necessary” for the protection of public morale, protect human, animal or plant life or health, or “related to” conservation of exhaustible natural resources. In other words, the members are “free to adopt national environmental protection policies provided that they do not discriminate between imported and domestically produced like products (national treatment principle), or between like products imported from different trading partners (most-favoured-nation clause)” (*US—Gasoline*, ABR, p. 24). Such measures must meet the test of the *chapeau* of the Article which provides that such measures shall not be applied in a manner which is “arbitrary or unjustifiable or a disguised restriction on international trade.” Being an exception, these provisions are expected to be interpreted narrowly and the burden of proof lies with the member state resorting to such measures.

In recent times, the developed countries, and in most cases, the US have increasingly resorted to Article XX general exception to justify their unilateral extraterritorial environment measures having serious consequences on the rights and obligations assumed under the WTO Agreement, specifically on the market access expectations of the developing countries. The DSB panels and the AB on their part have been significantly contributing to this scenario by recognising the discretion of the states to take unilateral environment protection measures, an approach that stands in stark contrast to the 1947 GATT, the predecessor of WTO. The AB in *US—Gasoline*, noted that:

WTO Members have a large measure of autonomy to determine their own policies on the environment (including its relationship with trade), their environmental objectives and the environmental legislation they enact and implement. So far as concerns the WTO, that autonomy is circumscribed only by the need to respect the requirements of the *General Agreement* and the other covered agreements (ABR, pp. 30–31).

The autonomy of taking environment protection measures has often been used by the developed countries to adopt “covert non-tariff measures in an overtly legitimate way to achieve their protectionist ends”. These highly sophisticated forms of protectionism place developing countries in a difficult situation, “in part

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<sup>35</sup>*US—Import Prohibition of Certain Shrimp and Shrimp Products*, Panel and AB Report, WT/DS58 and *US—Shrimp (Turtle)*, Article 21.5 (Malaysia), AB Report, WT/DS58/AB/RW, October 22, 2001.

because they are the Members most affected and will find it more difficult to adjust, and also because it is hard to challenge the overt intent of these measures, such as protecting the consumer health and safety pursuing environmental or human rights goals” (South Centre). The adjudicating bodies once accused of anti-environment positions now stand to play a key role in legitimising such unilateral environment protection measures in the WTO era. Environmental standards which were consciously kept outside the WTO framework have now been interpreted as a major part of WTO jurisprudence.

The *US—Shrimp (Turtle) I and II*<sup>36</sup> case presents an excellent illustration to demonstrate the AB’s ingenious interpretation expanding the scope of Article XX general exceptions (Babu 2010). The case concerned a US ban on import of shrimp from all countries that do not use Turtle Excluder Devices (TED) that permit turtles to escape from shrimp nets. The AB made three major interpretative expansions of the WTO law: (i) the use of “evolutionary methodology” to interpret the term “exhaustible natural resources”; (ii) adopted a new interpretation to Production Process Method (PPM); and (iii) the legitimacy of unilateral environment measures within GATT/WTO. In all these issues, the AB went beyond their calling to justify their findings that the unilateral environment measure of the US was justifiable under the Article XX exception. To reach such a finding, the AB relied heavily on the WTO preambles’ reference to the sustainable development goals, however, conveniently ignoring the remaining portion of the Preamble, specifically, the mandate to take into account “the needs and concerns of developing countries which are at different levels of economic development.”

Firstly, the AB defended their interpretation of dolphins as “exhaustible natural resources” by drawing support from the preambular language of the WTO Agreement that the generic term “natural resources” is not “static” rather “by definition, evolutionary”.<sup>37</sup> In support the AB also referred to “contemporary concerns” of the international community about conservation, multilateral treaties discussing natural resources, and the “sustainable development” objective of the organisation.<sup>38</sup> Mavroidis’s (2006, p. 355) critique of the AB is that its interpretation is based on the highly dubious “principle of contemporaneity”. Kelly notes that the AB’s use of an “evolutionary” method of interpretation ignores the original intent of the parties, past GATT decisions, and the declared positions of the vast majority of nations (2008, p. 596). According to him, the “evolutionary methodology” the AB utilised is inconsistent with the structure of governance in the WTO agreements and the interpretive methodology of the VCLT required by the DSU is essentially a contractual regime where nations negotiate rather specific norms and

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<sup>36</sup>*US—Import Prohibition of Certain Shrimp and Shrimp Products*, Panel and AB Report, WT/DS58 and *US—Shrimp (Turtle)*, Article 21.5 (Malaysia), AB Report, WT/DS58/AB/RW, October 22, 2001.

<sup>37</sup>*US—Shrimp (Turtle)*, AB Report, WT/DS58/AB, 12 October 1998, Para. 130.

<sup>38</sup>*Ibid*, AB Report, Para 127–34.



standards (Kelly 2002). Such law-making authority as per the WTO Agreement is entrusted with the Ministerial Council, not with the AB (Kelly 2008, p. 597).

Secondly, the AB reversed a longstanding understanding on PPM (Bhagwati 2001, p. 60–61) and ruled that measures addressed at a foreign PPM (i.e. how shrimps are produced) could be justified under GATT Article XX. The ruling diluted the idea that non-product related (foreign) PPMs, such as environment and labour standards, could not be used to distinguish among products. This interpretation has permitted backdoor entry to non-trade issues such as the environment, which the developing countries had deliberately kept out during the Uruguay trade negotiations (Chimni 2000, p. 1752, 2002a, b, p. 133).

Thirdly, the AB held that the US import ban in the current form could have been justifiable had the US law allowed all nations to adopt similar (not identical) conservation measures and “engaged in meaningful negotiations to *conclude* an international agreement” (Babu 2010). Engaging with this issue at the compliance review stage of the *Shrimp (Turtle)* case, the AB endorsed the Panel finding that the Article XX does not impose an obligation to “conclude” a bilateral or multilateral agreement on the protection and conservation of sea turtles, but only to make a “good faith” effort to negotiate an agreement incorporating its “unilaterally defined standards” before claiming that its measure is justified under the pertinent exceptions of Article XX of the GATT 1994.<sup>39</sup> The AB came to this conclusion despite pointing out the existence of a viable, non-discriminatory alternative of an Indian Ocean initiative (to protect sea turtles) to the unilateral import restriction. This interpretation has opened the door for WTO members to justify unilaterally imposed trade restrictions simply on the basis of simultaneous entry into international negotiations (para. 48).

The favourable trend towards environmental protection was set in an earlier case of *US—Gasoline*,<sup>40</sup> where the AB found the US clean-air law that permits trade barriers legitimate under Article XX as it was related to “the conservation of exhaustible natural resources”—clean air. Similarly, in a significant ruling in *Brazil—Retreaded Tyres* case,<sup>41</sup> AB confirmed the import prohibition on retreaded tyres was provisionally justified as “necessary to protect human, animal or plant life or health” under Article XX (b). The AB noted that “it is within the authority of a WTO Member to set the public health or environmental objectives it seeks to achieve, as well as the level of protection that it wants to obtain, through the measure or the policy it chooses to adopt”<sup>42</sup>. The AB emphasised that

“[t]his does not mean that an import ban, or another trade-restrictive measure, the contribution of which is not immediately observable, cannot be justified under Article XX (b). We recognize that certain complex health or environmental problems may be tackled only with a comprehensive policy comprising a multiplicity of interacting measures. (...)

<sup>39</sup>*Ibid*, Article 21.5 (Malaysia), AB Report, WT/DS58/AB/RW, October 22, 2001, para. 19.

<sup>40</sup>*US—Gasoline*, WT/DS2/AB/R, 29 April 1996.

<sup>41</sup>*Brazil—Measures Affecting Imports of Retreaded Tyres*, WT/DS/332AB/R, 7 December 2007.

<sup>42</sup>*Ibid*, AB report, para. 140.

Moreover, the results obtained from certain actions – for instance, measures adopted in order to attenuate global warming and climate change, or certain preventive actions to reduce the incidence of diseases that may manifest themselves only after a certain period of time – can only be evaluated with the benefit of time.”<sup>43</sup>

The AB in this case showed a deferential approach with regard to Members’ regulatory autonomy for protection of the environment. It recognised for the first time the right of WTO Members to set up ambitious environmental policy goals, “even if the attainment of these goals can have trade-restrictive effects and if their achievement is not directly measurable or quantifiable in the short run” (Thomas 2009, p. 45). It is interesting to note that such a deferential approach was never shown in the *India—QR*, *Brazil—Aircraft* or *India—Pharmaceutical patents*<sup>44</sup> cases.

#### 4.5 Selective Approach to “Sustainable Development” in WTO Adjudication Process

Sustainable development is a broad concept that supports strong economic and social development, without undermining “the importance of protecting the natural resource base and the environment” (UNECE 2004). Though the WTO Agreement does not define the concept, the underlying philosophy of sustainable development in the WTO is no different. Member states of the WTO have undertaken on themselves the mandates and the institutional mechanisms thereof, including the adjudicating bodies, the responsibility to take “positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development”. This is particularly important because many developing countries in the WTO lack even the basic prerequisites for exploiting the potential gains from trade liberalisation. Until there are efforts to address those lacunae, “the WTO system will fail the countries involved in achieving its objective: improving social welfare” (Cosbey 2009, p. 25). Further, the “adjustment burden” of new WTO rules “will mostly fall on developing countries, as the rules that are likely to emerge will reflect the status quo in industrialised countries (‘best practice’)” (Hoekman 2005). In short, all the pillars of sustainable development—social welfare, economic development and environment protection—must go hand-in-hand to realise the objectives in letter and spirit. Undermining one pillar or overprotecting another could upset the carefully negotiated rights and obligations in the WTO.

In reality, however, the WTO’s dispute-resolution bodies seem to undermine the concept by pushing for a particular understanding of sustainable development. The panels/AB have ensured this through a series of rulings which have made the WTO

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<sup>43</sup>Id., AB report, para. 151.

<sup>44</sup>*India—Patent Protection for Pharmaceutical and Agricultural Chemical Products*, WT/DS50, 1996.

jurisprudence increasingly environment friendly, often at the cost of legitimate developmental concerns of a large majority of the member states. The panel/AB read into the agreements, obligations never assumed by the Members during the Uruguay Round, thereby substantially increasing the obligations of the developing countries and undermining their developmental policies. This approach led to the gradual “greening” of the WTO changing the international rules agreed to when the organisation was created in 1994 (Weinstein and Charnovitz 2001). On environment protection under Article XX, a provision which must otherwise attract a narrow interpretation, the panel/AB went to the other extreme of liberal interpretation using the defence of sustainable development objectives mentioned in the WTO preamble. Indeed, one must accept that there are genuine environmental concerns which the world faces and no country should shy away from their responsibilities towards the environment. There could also be sufficient reasons to support such an interpretation in some cases. At the same time, it is not the mandate of the panel/AB to indulge in judicial overreach and impose on the international community their sense of values or understanding of sustainable development which incidentally seems to coincide with the developed economies understanding of sustainable development and supports their domestic policies.

More critically, the trend of environment protection is selective in its expansion owing to the case-by-case basis interpretation, thereby abusing the WTO dispute settlement process to achieve something that was not achieved through negotiation. Brack and Branczik (2004) note the “continued failure to make any substantial progress in rewriting WTO rules—but significant changes in the way in which existing rules have been interpreted to deal with environmental concerns”. The institutional priority towards developing countries concerns is also evident from the Doha Declaration of 2001 which has been largely sidelined. The Doha Declaration only mandated the Committee on Trade and Development (CTE) to pay particular attention in its work programme to the “effect of environmental measures on market access, especially in relation to developing countries, and those situations in which the elimination or reduction of trade restrictions and distortions would benefit trade, the environment and development” (Para. 32(i)). Further, an issue of immense importance to the developing countries was the TRIPS Agreement and its impact on Convention on Biological Diversity (CBD), the protection of traditional knowledge and folklore, and the agreement’s implications for the transfer of technology (Para. 32(ii)). All these issues, which have serious implications on environment protection were kept outside the negotiating agenda.

In contrast, the panel/AB has systematically eroded the legitimate expectations of the developing countries in operationalising the flexibility (the S&D treatment provisions) in-built in the WTO Agreement for achieving their developmental goals. Sustainable development is a proper objective of the WTO, and the S&D treatment provisions are a clear articulation of the development dimension, but require “a more precise and action oriented interpretation” (UNCTAD 2000 p. 128) to make them operational (Qurashi 2003, p. 98). However, the general tendency on the part of WTO adjudicating bodies has been to limit the scope of the S&D provisions, a position which favours the developed countries and enhances the

obligations assumed by the developing countries. This was despite the developing countries' argument that these provisions must be subject to liberal interpretation in the context of the preamble and the "object and purposes of relevant agreements, including invoking presumptions in favour of developing members" (Qureshi 2015, p. 105). In other words, the approach has been towards a stricter interpretation of S&D provisions (Footer 2001, p. 84) to the extent of making them meaningless and redundant despite a clear understanding that these provisions are an "integral part of the WTO agreements" (WTO 2001). The Doha Declaration that called on a review of S&D provisions with the objective of "strengthening them and making them more precise, effective and operational" (Para. 44) has failed to deliver on the promise even after one and a half decades.

Such a selective approach with liberal interpretations of environment measures of interest to developed countries and on the other hand, diluting substantive S&D treatment provisions designed to cater to the development dimensions of developing countries, has the effect of undermining the concept of "sustainable development" and the rule-based member-driven character of the WTO system. Exception has been mainstreamed, whereas, rules integral to the WTO architecture have been made an exception. There is no dearth of S&D provisions in the WTO covered agreements that seek to improve the capacity of developing countries to integrate into the WTO framework. However, the responsiveness of the panels and the AB towards the concerns of the developing countries raises a great deal of questions on their intentions and calls for much introspection. In other words, the attitude of the adjudicating bodies has been to increase the environmental responsibility of the member states at the cost of developmental goals, and at the same time, rendering the S&D provisions and the concept infructuous within the WTO framework. The lopsided articulation of the sustainable development concept in the WTO has serious consequences on the developing countries and can only be addressed at the political and negotiating level.

Thus, there is an urgency to articulate the developing countries position on sustainable development and engage directly with WTO. The way forward is to bring clarity to the understanding of linkages through negotiations rather than judicial interpretations, build on a holistic understanding of the concept of sustainable development. Most future disputes in the WTO would be on addressing these interlinks and on balancing the competing interests. For instance, another fertile ground for conflict at the WTO where the panel/AB is called on to arbitrate is in the context of trade remedies cases on environmental goods, such as renewable energy products. There are already several disputes filed with the WTO on various aspects of renewable energy technologies.<sup>45</sup> For instance, trade remedies such as

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<sup>45</sup>*Canada—Certain Measures Affecting the Renewable Energy Generation Sector and Canada—Measures Relating to the Feed-In Tariff Program*, WT/DS412/R, WT/DS426/R (Dec. 19, 2012); *EU and Certain Member States—Certain Measures Affecting the Renewable Energy Generation Sector*, DS452 (China), Nov. 5, 2012; *India—Certain Measures Relating to Solar Cells and Solar Modules*, DS456 (US), Feb. 6, 2013; *US—Countervailing Duty Measures on Certain Products from China*, DS437 (China), May 25, 2012; *China—Measures concerning wind power equipment*,

the antidumping (AD) and countervailing duties (CVDs) have been used to offset dumping and subsidies. The US and the EU have imposed antidumping tariffs on Chinese solar panel companies, whereas, China and India have initiated similar AD/CVD actions against the US, EU and other countries (Lester and Watson 2013). These “next generation” trade and environment conflicts are focused on green industrial policy tactics adopted by companies that benefit the environment but upset trade rules (Wu and Salzman 2014). These cases are also a reality check on the “environment concerns” of the developed countries, which the panel/AB endorsed in the earlier cases and shall certainly test the “environmental consciousness” of the WTO adjudicating bodies.

## 4.6 Conclusion

To conclude, the dispute settlement mechanism of the WTO has become the dominant arena for debates on sustainable development, environment protection and conflicts with trade rules. The panels and AB that are called on to adjudicate and balance the competing interests have trended clearly in favour of environment protection measures legitimised in the larger canvas of sustainable development objectives. Such selective, out of the context interpretation and promotion of environmental goals as integral to the WTO rules has favoured the narrow domestic political/economic objectives of developed countries. Such selective endorsements of the panels/AB have come at the cost of adverse impacts on a larger majority of the WTO membership and on its own institutional legitimacy. The time is ripe for the developing world to engage with the political realities and establish clear interlinkages through substantive rules on environmental and developmental dimensions, concurrently with the Doha Round of trade negotiations and other multilateral environment negotiations. Such interlinkages must be reflected in all aspects of WTO rule-making. The CTD and CTE cannot work in silos and must be merged at an institutional level to form a WTO Committee on Sustainable Development, which could balance all the pillars of sustainable development. Until then the sustainable principle as an objective of the WTO shall continue to remain elusive and selective.

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(Footnote 45 continued)

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**Part III**  
**Sustainability Practices in Indian**  
**Organisations and Consumer Behaviour**



# Chapter 5

## Sustainable Supply Chain Management: An Empirical Study of a Global Automaker's Indian Operations

Partha Priya Datta and Subrata Mitra

**Abstract** The primary purpose of the paper was to identify the key capabilities that can be adopted or adapted for successful implementation of sustainable supply chain management (SSCM) practices in a different business environment. This paper reports an in-depth exploratory case study of a global automaker in India. An assessment is carried out for SSCM to generate valuable interorganisational resources that become sources of competitive advantage. This paper after an initial literature review identifies key sustainability practices across a wide range of industries for effective SSCM implementation. The key findings of this research are the capabilities to adopt a set of operating principles such as lean manufacturing, quality management or strategic management practices directly across markets/ environments without any change. The research also identifies capabilities to innovate, collaborate and partner that require development of critical resources or changing key resources for successful implementation of SSCM in a different business environment. This paper provides an insight into the dynamic capabilities for SSCM implementation in a different market. Our study findings will help managers configure their supply chains for sustainable benefits in economic, social and environmental spheres in a different market. This work also contributes to research on how organisational routines influence firm adaptation to a major environmental change.

### 5.1 Introduction

A supply chain is defined as “a network of connected and interdependent organisations mutually and co-operatively working together to control, manage and improve the flow of material and information from suppliers to end users”

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(Christopher 1998, p. 19). In the 2000s, it became clear for a company to not only engage the suppliers and customers into the supply chain, but also to include the interests of the community, society, government and other public interest groups. The idea that a supply chain has to behave in a socially and environmentally responsive way along with satisfying its economic objectives gave birth to the concept of sustainable supply chain management (SSCM) (Seuring and Muller 2008; Svensson 2007). In recent years, SSCM has attained increased attention from different researchers (Mitra and Datta 2014; Walker and Jones 2012; Gold et al. 2013). Different authors have stressed on three different aspects of supply chain sustainability: economic, social and environmental (Walker and Jones 2012). This research focuses on different capabilities for successful implementation of sustainable supply chains in the Indian context.

Literature identifies SSCM capabilities in different industries (Pagell and Wu 2009; Seuring and Muller 2008). A few researchers (Corbett and Klassen 2006; Upadhye et al. 2010) argue that SSCM is related to the earlier philosophies of just-in-time (JIT), total quality management (TQM) and lean manufacturing as any system that minimises inefficiencies is also environmentally sustainable. At the same time, supplier relationship management (Cheung and Rowlinson 2011) and knowledge sharing (Seuring and Muller 2008) are perceived as new capabilities for SSCM. In the context of the supply chains, sustainability has been referred to more in terms of conforming to environmental norms and standards (Shukla et al. 2009; González et al. 2008; Mitra and Datta 2014). The area of social responsibility in supply chains is also getting increasing attention in recent research (Piplani et al. 2008).

SSCM initiatives are very highly valued by industries worldwide. Shrivastava (1995) highlighted how 3M's Pollution Prevention Pays (3P) and Dow Chemical's Waste Reduction Always Pays (WRAP) programmes have saved money and prevented pollution over a number of years. International clients now demand implementation of international standards from Indian supplier companies (Mitra 2004). Supply chains are also responsible for the development of society (Kang et al. 2012). In much of the SSCM research, there has been little recognition of the interrelationships among environment, society, employee well-being and human rights (Carter and Jennings 2002). Much of the extant literature in the area of "logistics social responsibility" has operationalised the environmental and/or social dimensions without explicitly considering economic performance (Walley and Whitehead 1994).

Many researchers have focused on external elements rather than considering the firm's internal elements such as resources and capabilities (Gold et al. 2010). Although extensive research has been conducted on unearthing the key success factors, drivers, best practices and capabilities of SSCM, there is no empirical research that looks into the dynamic capabilities of SSCM (Beske 2012). Beske et al. (2014) carried out an assessment of dynamic capabilities in SSCM in the context of the food industry, but their study remained mostly based on critical literature review. Also, the extant literature does not reveal whether a firm's SSCM practices are a direct replication/betterment of its MNC major's SSCM practices or are new practices being developed for adapting to market conditions. Hence, the research question addressed here is: "What are the dynamic capabilities practiced in

SSCM? How does a company competing in a particular market and being part of an MNC implement SSCM practices?”

In order to address the above research question, we carried out an in-depth case study based on a global automaker’s Indian operations to identify the set of capabilities that can be adopted and adapted, thus identifying the dynamic capabilities. This paper first carries out an extensive literature review to identify the key success factors of SSCM in different industries. This section also defines the dynamic capabilities and identifies the key dynamic capabilities in SSCM. The choice of the Indian car industry as a context for studying the dynamic capabilities in SSCM is explained in the next section. In the “findings” section, insights into actual SSCM practices and dynamic capabilities are presented with a discussion on how the case company adopts and adapts some of its MNC’s SSCM practices. Finally, conclusions are drawn with implications for practitioners and future research.

## 5.2 Literature Review

It has become imperative for any organisation to behave in a socially and environmentally responsible manner while trying to achieve its economic goals. Extensive research has been conducted to identify different enablers (Walker and Jones 2012), drivers (Mann et al. 2010) and practices (Jayaraman et al. 2012) of SSCM. This review is conducted to understand which of the SSCM practices reported in literature can be replicated across markets and which need to be adapted to changing market dynamics. A thematic approach is adopted in clustering different practices and then reviewing them based on their characteristics of adoption or adaptation. This will help us generate insights on the dynamic capabilities of SSCM, which require continuous renewal to achieve congruence with changes in business environment (Teece et al. 1997). Dynamic capabilities were first put forward by Teece et al. (1997) to explain competitive advantage in dynamically changing markets. Pagell and Wu (2009) distinguish between static and dynamic capabilities in supply chains. Dynamic capabilities are used to modify the existing supply chain practices for adapting to changing market conditions, while static ones are used to adopt and better use the existing practices. In order to investigate the dynamic capabilities in SSCM, we focus on practices reported in literature as key success factors for SSCM.

**Lean Manufacturing Practices (LMP) and TQM** Hong et al. (2012) established empirically that broad implementation of LMP across the supply chain leads firms to reorient and restructure supply chains and establish competitive advantage. They also proved empirically that a firm’s economic and environmental performance improves with the implementation of LMP. Bergenwall et al. (2012) study different Toyota Production System (TPS) process designs by American automakers and find TPS-based processes improve 3BL of companies to achieve sustainability. Jayaraman et al. (2012) based on the literature review stated that any operational

system that has minimised inefficiencies is also more environmentally sustainable. Upadhye et al. (2010) in support of LMP mention that “the elimination of Muda” helps the organisation, as well as the society and the world to face the increasing scarcity of natural resources. Rusinko (2005) considers that quality management is particularly well suited to aid managers in implementing environmentally sustainable practices. There have been some opposing views as well. Beamon (2003) considers that JIT requiring small transportation batch sizes leads to more frequent deliveries, which lead to increased traffic congestion, noise and air pollution.

Pagell and Wu (2009) mentioned that though TQM, JIT and LMP are associated with improved operational performance, they may not be sufficient to build sustainable competitive benefits. They even went further to state that such practices in the long run can become a hindrance in improving environmental performance. Thus, the competitive advantage of adopting TQM and LMP unlike dynamic capabilities (Beske 2012) is not more than financial performance.

### **Green Manufacturing Practices (GMP) and Green Supply Chain Management (GSCM)**

Jayaraman et al. (2012) conducted field research of GMP in two paint manufacturing firms to ascertain the cost benefits due to green manufacturing practices and recycling. GMP in SSCM is widely discussed in the context of ecologically effective product and process design, supplier collaboration for environment-friendly purchasing, adoption of cleaner technologies, environmentally safe logistics and transport including disposal of end-of-life products, leading to the evolution of phrases such as “reverse logistics” (Carter and Ellram 1998), “closed-loop supply chains” (Linton et al. 2007) and “green supply chains” (Rao and Holt 2005). Azevedo et al. (2011) establish a positive relationship between GSCM and environmental performance based on automotive industry data. Strategically involving sustainability in the culture of the firm and its supply chain enables managers to create new opportunities for businesses (Gupta and Kumar 2012). However, only adopting green manufacturing based on the directives of MNC corporate parents does not lead to competitive advantage. Unique organisational capabilities emerge only when firms integrate social and environmental issues into their corporate behaviour. Effective SSCM requires configuring rather than controlling the resources to adopt GSCM in a holistic manner.

### **Sustainability Standards and Management Systems**

Environmental and social responsibility management systems ensure that SSCM practices adhere to acceptable standards. The International Organization for Standardization (ISO) has started the formulation of the ISO 26000 international standard on social responsibility, after establishing ISO 9000 and ISO 14000 standards on quality and environmental management systems, respectively (Piplani et al. 2008). Reinecke et al. (2010) pointed out that sustainability initiatives have led to co-evolution of multiple standards. Attainment of such standards helps to build a credible SSCM image in the eyes of customers and influences sales and stock prices positively (Jayaraman et al. 2012). However, Wittstruck and Teuteberg (2012) based on an empirical survey of the electrical and electronics industry found that the above certifications and published sustainability documents demonstrate a company’s social and

environmental responsibility and enable similar companies to collaborate with it as a potential partner. They also found that application of SSCM standards does not contribute to the remodelling of internal supply chain processes to facilitate creation of truly sustainable supply chains. González et al. (2008) on the basis of an empirical study of the automotive sector found that MNCs with environment management systems (EMS) or certification tend to impose increased environmental demand upstream. ISO 14000 certification is more commonly used among multinationals, and these firms also encourage their suppliers to apply for certification (Mollenkopf et al. 2010). In global supply chains, each company might be held responsible for the environmental and social performance of their suppliers (Seuring and Muller 2008). Therefore, individual companies should align all processes and partners with sustainability standards (Richey et al. 2005; Beckmann et al. 2009) by disseminating knowledge on SSCM (Failing et al. 2007; Essig and Arnold 2001). Such knowledge sharing of desired standards creates unique competitive advantage. Policies from corporate headquarters often drive companies to adopt SSCM globally. Indian companies, especially the exporters or arms of large MNCs, are also dedicated to implement environmental standards established by their international clients or parents, respectively (Sandhu et al. 2012).

**Cooperation, Trust and Collaboration** SSCM requires a supply chain in which the cooperation of all members is based on trust, efficiency and long-term commitment (Failing et al. 2007; van Bommel 2011). Integration of the entire supply chain across all the tiers is essential for SSCM to be successful. SSCM requires long-term partnerships between companies (Hult et al. 2007). In order to solve the environment problem, strategic sourcing builds tools such as environmental planning and cooperative problem-solving (Gold et al. 2010). A firm that is pursuing the effective construction of supply chain practices needs to pay attention to supply chain integration (Kim 2009). Kuik et al. (2011) concluded that a key focus of SSCM is relationship management with all supply chain members for sharing all responsibilities to improve the economic and environmental performances of the entire supply chain. Seuring and Muller (2008) stressed on the importance of supplier development for successful SSCM. This not only enhances trust in the interorganisational relationship but also induces the socialisation of SSCM practices throughout the entire supply chain (Cousins et al. 2006). The authors mentioned activities such as supplier conferences, conducting on-site visits, helping solve supplier problems, supplier development and the development of joint buyer/supplier teams as socialisation examples for SSCM.

**Innovation** Sustainability inspires companies to do things differently, leading to innovation (Nieto 2009). Many innovations require the development of capabilities before they can be successfully adopted in practice. These require new organisational approaches which need to be adapted to practices to fit existing production processes. Successful implementation of those innovations, however, requires close coordination between the supplier and the customer (Geffen and Rothenberg 2000). Van Bommel (2011) in describing SSCM as an innovation process described the factors that define the ability of the focal organisation in a supply network to drive

SSCM initiatives successfully. These are the capacity of an organisation to learn about the business-natural environment and to manage this knowledge and the capability and experience to develop interdisciplinary and cross-functional cooperation. Pagell and Wu (2009) corroborated our findings on the basis of ten exemplar cases in multiple industries and proposed that SSCM requires an innovation capability. In this aspect, they also highlighted the importance of reconceptualising the entire supply chain by partnering with NGOs, local governments and even competitors. Kannabiran (2009) reported the case of India's Titan Industries to highlight an innovative supply chain strategy integrating the needs of communities and organisational commitment to ensure success in SSCM. In analysing MNC's SSCM practices at the base of the pyramid, Gold et al. (2013) talked about innovative ideas for integrating various non-traditional supply chain members and effort by all supply chain actors involved in building up trusting and committed long-term partnerships.

**Strategic Orientation** Pagell and Wu (2009) in developing a theory of SSCM based on case study evidence developed the proposition that supply chain strategies such as traceability (Christopher and Lee 2004), sourcing (Lee and Wolfe 2003), investment in human capital, risk management (Van Hoek 2003) and flexibility (Giunipero et al. 2005) are the foundation of successful SSCM. Rogers (2011) described four practices essential for SSCM: organisational culture, supply chain risk management, transparency and supply chain strategy. The organisational culture and management-labour relations giving rise to a well-trained, motivated and empowered workforce reduces the risk of labour exploitation and improves the social dimension of SSCM (Mefford 2011). A further possible mechanism of risk reduction results from improvements in quality and the production process and improved safety in the workplace. In their analysis of corporate social responsibility (CSR) in MNCs, De Chiara and Russo Spena (2011) found that firms believe in a process of continual improvement of CSR practices, developed in cooperation with suppliers. The MNC requires more than compliance; it requires continuous monitoring of the supply chain to assure respect for the company's standards allowing continuous improvement of the supplier at the same time. Carter and Rogers (2008) identify four supporting facets, or facilitators of SSCM: (1) strategy (alignment of SSCM initiatives with the organisation's overall sustainability strategy); (2) risk management (contingency planning for the entire supply chain); (3) an organisational culture embedded in organisational values, ethical standards and expectations along with a respect for society and the natural environment; and (4) transparency in terms of ensuring seamless communication with key stakeholders, confirming visibility into upstream and downstream supply chain operations.

**Resilience** Resilience is an essential capability of SSCM by which supply chains proactively address economic, environmental and social issues to avoid or mitigate damages. McDonald (2006) recommends routine procedures in supply chain operations as a way of enhancing resilience. Resilience results through the removal of variance through standardised selection and training for achieving standardised skills (Mallak 1998). This requires adoption of various risk management and

contingency planning measures to mitigate risks (Beske et al. 2014). Resilience also requires flexibility to adapt to circumstances (William and Winfrey 1995). Eisenhardt and Martin (2000, p. 1107) term this as the ability to co-evolve involving “routines by which managers reconnect webs of collaborations among various parts of the firm to generate new and synergistic resource combinations among businesses”. Sourcing flexibility is the capability of firms’ supply chain to cope with change (Stevenson and Spring 2007). Porter (1995) pointed out the influence of “flexible sourcing” on social sustainability.

**Dynamic Capabilities of SSCM** Gold et al. (2010) after extensive literature review found that SSCM generates valuable interorganisational resources which become sources of sustainable competitive advantage. As an example, an organisation-wide positive stance on holistic partner-focused sustainability thinking instead of sticking to rigid directive management and planning generates a collaborative relationship with supply chain partners. This in turn enhances competitive edge. Dynamic capabilities require reconfiguration of resources and processes (Teece et al. 1997). Beske (2012) presents a dynamic supply chain capability framework as the capacity of the organisation to purposefully create, extend or modify its supply chain to reach a higher economic value than its competitors. The economic value is not limited to economic performance, but in the case of SSCM, but also to the other two dimensions of sustainability (Beske et al. 2014).

Table 5.1 enumerates different SSCM capabilities as dynamic or static based on their ability to adapt to changing circumstances. As the literature suggests, successful SSCM depends on the effective implementation of traditional lean practices, quality management programmes, routinisation of procedures, adoption of GSCM and adherence to SSCM standards. Those capabilities which have helped supply chains adapt these practices to changing market/policy/institutional requirements are collaborative partnership, culture, empowered workforce, continuous improvement of supply chain processes, innovative supply chain strategy, balancing routinisation and flexibility, and integration of all stakeholders. Mere adoption of environmental, ethical or quality standards or lean and green practices is not sustainable unless MNCs share the SSCM objectives clearly, work closely with partners to implement the practices and continuously improve or adapt them to changing scenarios. Although the literature has identified several SSCM practices, very little attention has been paid to the capabilities of SSCM which are dynamic, which can be adapted for sustainable competitive advantage. This research addresses this gap in the literature by carrying out an empirical study of SSCM practices in an Indian subsidiary of a large MNC automaker and identifying SSCM practices which are directly adopted or adapted to the market condition.

**Table 5.1** Categorising SSCM success factors—literature review findings

Success factors	Dynamic capabilities	Static capabilities
LMP and TQM	Competitive advantage is not long term and not more than financial (Beske 2012). Comment: This can be a dynamic capability if the practices are adapted to generate social and environmental benefits. A new set of capabilities are required to implement these practices to address changing market requirements (Bergenwall et al. 2012; Jayaraman et al. 2012)	Mostly remain as static capability in the context of SSCM as different papers highlight adoption of lean processes (Bergenwall et al. 2012)/ quality management (Rusinko 2005) principles without much adaptation to local market needs
GMP and GSCM	Adoption in holistic manner needed for GMP and GSCM to build unique capability (Gupta and Kumar 2012). Comment: This can be a dynamic capability once firms integrate environmental issues into their corporate culture. Adoption should be spontaneous and not controlled (Carter and Ellram 1998; Linton et al. 2007)	Mere adoption of GSCM initiatives following MNC guidelines will make this a static capability
Sustainability standards and management system	Application or attainment of SSCM standards does not require remodelling of internal supply chain processes or resources (Wittstruck and Teuteberg 2012). Comment: This can be a dynamic capability if each stakeholder in a supply chain aligns their internal processes with standards (Beckmann et al. 2009), takes up responsibility to share the SSCM knowledge with suppliers and customers and evaluates the standards with changing market conditions, trade relationships and institutional conditions (Failing et al. 2007)	Mere certification or attainment of standards or conforming to global best practices is a static capability
Cooperation, trust and collaboration	Cooperative problem-solving, trust and commitment to different stakeholders ensuring culturally grown long-term partnerships, sharing of responsibilities in improving SSCM, supplier development and socialisation of SSCM make this a dynamic capability which acts as a source of sustainable competitive advantage	

(continued)



**Table 5.1** (continued)

	in the long term (Failing et al. 2007; Hult et al. 2007; Kuik et al. 2011)	
Innovation	This is a dynamic capability as SSCM requires new ways of learning for adapting processes to new environment, new business model and performance metrics and new knowledge (van Bommel 2011). The capability to develop new relationships with non-traditional partners, agencies make innovation a dynamic capability in the context of SSCM (Gold et al. 2013; Kannabiran 2009; Pagell and Wu 2009)	
Strategic orientation	Highlighted as dynamic capability—alignment with overall business strategy, risk management, continual improvement in CSR/safety, well-trained and motivated employee base, transparency and culture (Pagell and Wu 2009)	Mere adoption of global strategy or risk management procedures/routines without any motivation for improvement or responsiveness to change will make this static (De Chiara and Russo Spena 2011)

### 5.3 Methodology

In the reported research, the primary research question is a “how” question about a phenomenon, over which the investigator has little or no control. In such circumstances involving exploratory investigation, the case study research strategy is the most appropriate (Yin 2009, pp. 14–15, Ferrer et al. 2010). The case study for this research programme is an organisation which is a global leader in implementing LMP, GSCM and GMP. It has Indian operations with successful SSCM practices. The company, a global automaker, is a prime example of a firm that has successfully integrated a green and lean supply chain strategy in a global setting. It has invested in ISO certifications and quality and environmental research and development. Choice of the company is critical to this research as we needed to explore a company with experience of SSCM founded on principles of sustainable lean manufacturing practices such as continuous improvement, respect for people and supplier partnership. We selected this company as the case for our research as we want to understand the capabilities which are influenced by the MNC parent and those which are dynamic and adapted to Indian operations successfully. Thus, the units of analysis were the different capabilities adopted or adapted by the company for implementing SSCM in the Indian business environment. The analysis and review of the capabilities were based on company sustainability reports, primary information based on semi-structured interviews with plant managers in different

shops and the procurement manager. Interviews were also conducted with training staff at their in-house Indian training institute. In all, 5 semi-structured interviews<sup>1</sup> were conducted. The interview questions primarily focused on implementing SSCM practices and are based on observation of plant operations. A selection of key questions included the following:

- (a) What SSCM practices are adopted from the global automaker and how well are SSCM initiatives adapted in the Indian context?
- (b) How do they deal with the Indian suppliers?
- (c) How does the company's lean manufacturing excellence and organisation culture support the SSCM initiatives?

Each of the interviews lasted for an hour and was recorded and subsequently transcribed. We coded the interview data on a number of dimensions underpinning the insights generated from the literature review to gain detailed understanding of key SSCM practices.

**Case Description** The twin phenomena of low car penetration and rising incomes, combined with increasing affordability of cars, are expected to contribute to an increase in India's automobile demand. More and more global players are entering India, and as a result, the industry is exposed to advanced features, quality levels and performance levels (KPMG 2010). Automakers who cannot meet quality and cost expectations will find it hard to enter and thrive in the Indian automotive market, 70 % of which is dominated by Tata, Maruti Suzuki and Hyundai. Low car per thousand ratio, approximately 13.0, indicates a huge scope for passenger vehicle market growth in India. In addition to this, sourcing bases are spreading across the globe. Global players in addition to localising production to achieve cost parity and product differentiation are expanding their distribution network to tiers II, III and IV cities (Ernst and Young 2011). Subsidies given by the Government of India in the budget towards components utilised in green and fuel-efficient vehicles are an indication of its encouragement to fuel-efficient vehicles in the near future. In addition to the dynamic Indian car industry, there are multiple idiosyncrasies of the Indian passenger vehicles market. In a comprehensive research report on Indian mobility trends, Frost and Sullivan (2013) found that increased congestion, dwindling public transportation and explosive growth of private vehicles are envisaged for major Indian cities (even smaller towns are expected to follow in 5 years). Mobility challenges in India provide unique opportunities for passenger vehicle manufacturers to invest in a sustainable future.

Compared to the global average of 75 %, India's road traffic contributes 87 % of CO<sub>2</sub> emissions. Poorly developed public transportation systems in major Indian cities put pressure on road infrastructure and commuters. Environment legislations,

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<sup>1</sup>The 5 semi-structured interviews were carried out in the third week of March 2012. The designations of the staff interviewed are as follows: General Manager, Plant overall in-charge having strategic and operational roles; Plant Manager, Press; Procurement Manager; Plant Manager, Assembly; Head, Indian Training Institute of AutoCo.

social and infrastructural challenges, and resource depletion call for SSCM practices in India. The company studied in this research, henceforth referred to as “AutoCo”, entered India through joint venture with an Indian company in October 1997 and established a manufacturing plant. The plant is designed to produce diverse models fully in India. Only engines are imported from the MNC parent located overseas.

AutoCo’s global sustainability report states the objective of SSCM as, “Seeking Harmony with People, Society, and the Global Environment, and Sustainable Development of Society through Manufacturing”. AutoCo sees opportunity in challenging emerging country requirements and the social environment and aims to achieve cost reduction through manufacturing process innovations originating in the parent location and gradually being rolled out to the entire globe. This requires rebuilding the manufacturing system by increasing workplace strength rooted in manufacturing knowledge and consummate technical skills. AutoCo’s global vision for sustainability involves nurturing human resource globally, adhering to core AutoCo philosophy, devising innovative and reliable product line, respect for planet through afforestation and green manufacturing, contributing to social and economic prosperity in every region, and leading the way to the safest, most responsible, amenable low carbon mobility.

## 5.4 Findings

The different capabilities as found from the interviews, plant observations and sustainability reports are noted as follows.

**AutoCo Sustainability Standards and Management System** AutoCo’s environment management system (EMS) concept is applied to drive a continuous performance improvement cycle in line with corporate policies and strategies and site-specific objectives. In a pioneering effort, AutoCo has been strongly promoting ISO 14001 certification among its suppliers and dealers in India. We found that though the global parent took an active role in shaping the standards of ISO 26000 and mapped its actions according to the seven core subjects stated in the standards, there is no such adoption or mention in the Indian operations of AutoCo. Although the CSR initiatives are very well organised and reported by the MNC parent, AutoCo in India has been adapting them to suit the Indian society and community well-being. It is promoting mutually beneficial safe working practices among its supplier groups as part of its CSR activities. AutoCo engages the wider community and ensures effective SSCM practices ensuring inclusive growth. As part of CSR activities, AutoCo India has set up a skills training institute with a vision to support intelligent students from economically poor backgrounds, coming from various parts of the state, and made them employable. This institute trains nearby village people in technical skills to make them financially independent. The most important part of the training is “attitude training” and sustaining the attitude. The speciality

of its Technical Training Institute is that the trainees need to pass in skills/knowledge (safety, quality, general, IT and economics) and attitude (sense of responsibility, teamwork). Different trades are taught here: assembly, welding, mechatronics and painting. The good technicians are employed by AutoCo for its Indian operations, and the rest find employment in AutoCo dealerships or related organisations. AutoCo also takes part in several community development activities in association with local government. Some of these activities are distribution of education materials to underprivileged children, building water tanks, sanitation and helping in natural calamity.

**Supplier Relationship** Supplier association is a key aspect of AutoCo's sustainability initiative. AutoCo views its vendors as partners for life and supports them free of cost in case of any problems. This helps in achieving suppliers' priority over other domestic competitors (Tata or Maruti). The long-term relationship with suppliers generates sustainable competitive advantage. The mechanisms by which this works are summarised below and came out from the interviews held with different managers of the company.

- **Mutual trust** Transparent communication about demand changes is ensured between AutoCo and suppliers. AutoCo respects and does not direct its suppliers. If there are any defects or delays from the supplier end, AutoCo tries to jointly solve the problem by forming a joint team. This is true for solving manufacturing, parts supply or SSCM-related issues.
- **Discipline** AutoCo provides support to its suppliers by solving their finance, industrial relation situation and human resource-related issues. Also, AutoCo trains their key staff on quality and lean manufacturing principles.
- **Information integration** Full traceability of supply chain is ensured to facilitate total supply chain integration. Suppliers are given the schedule and forecast of the volumes by AutoCo. AutoCo has a dedicated SPTT (Supplier Part Tracking Team) to evaluate suppliers' facility and capacity. Suppliers first visit and demonstrate to AutoCo their capability to achieve volume. SPTT then sets milestones and manages them by continuous monitoring.
- **Innovation and resilience** Before a new product launch, a lot of development is done in terms of efficiency, outputs and quality. If the suppliers have genuine problems in any of these areas, AutoCo tries to resolve them or look for other sources. AutoCo prefers open two way communication with its suppliers. In case of any change in AutoCo's plan (like tsunami, or other unwarranted happenings or sudden surge in diesel cars), it immediately communicates it to the suppliers. Both short- and long-term plans are shared with the suppliers. In this way, suppliers start believing in AutoCo. Thus, ensuring supplier trust through information technology investment, seamless information flow reduces the lead time of development and increases manufacturing flexibility to build supply chain resilience.

- ***Depth of vendor support*** In the words of one respondent,

Other Indian automakers just make demand from the suppliers. They do not think of taking them into confidence. They believe in placing rush orders, which suppliers have to deliver immediately. Poor suppliers have no choice other than building up stocks in anticipation of penalties imposed by OEMs.

This results in huge supplier inventories requiring additional space for the suppliers. Thus, AutoCo adapts the lean manufacturing concept in India to help suppliers reduce their inventory. It changes the mindset of suppliers by allowing them to produce as per actual requirements. AutoCo's principle of "no rush orders" is summed up in one response as,

in September/October 2011, price of petrol went up and demand for diesel cars went up as a consequence. Previously, the forecast for the month was 100 (Petrol: Diesel=50:50). The changed circumstances demanded petrol: diesel to be 20:80. AutoCo did not simply put one way order on the suppliers. They called a supplier meeting, confirmed capacities with them and gave orders to willing suppliers. We also allowed sufficient lead time to the suppliers and supported them in case of any difficulties.

In one case quoted by the procurement manager, tiers 2 and 3 suppliers had genuine difficulties with capacity. AutoCo representatives visited them, found out about the difficulty and consulted on how to improve (working night shifts, using Kaizen and improving productivity, enhancing efficiency). Though most of the examples quoted are for economic efficiency improvement, the culture of trust building is an unique competitive advantage for SSCM. Even AutoCo does not hesitate to ask for its global parent's help in solving the problems. In another case,

the diesel alternator microchip is made in France. The supplier supplies to all automakers. The problem was supplier can't give AutoCo more alternators because of non-availability of the microchips made by a French company. AutoCo India asked for help from global AutoCo purchase team, who talked to French supplier to supply more. AutoCo global purchase analysed part by part and found that 15 components for that chip are supplied by a Taiwanese supplier (who makes millions of them and despatches all round the world), who has fixed capacity. AutoCo then understands the depth of the problem and looks for alternate sources.

So on the surface, it might be a simple non-supply problem from Tier 1 supplier, but once the true reason is unearthed, AutoCo understood how far-flung the problem can be and probably no easy-fixes are available. AutoCo's philosophy unlike other competitors in India is to "support and not penalize". If there is any problem with the suppliers, AutoCo analyses why it has happened, makes the vendor responsible for his action and also inquires what action the vendor is taking continuously to ensure it is not repeated.

Very high profile meetings (MD to MD) take place behind closed doors and the fact is impressed upon the supplier that they have to improve next time.

In summary, if the supplier falters, AutoCo gives them one more chance to improve before taking the final call.

**Lean Manufacturing Practices** AutoCo's production schedule is fixed two months prior to actual production. This does not directly imply that it is inflexible. AutoCo still allows marketing to make 20 % variance in colour/mix one month in advance. If there is any more variance required, AutoCo checks with suppliers about the earliest they can deliver the new orders. The same principle applies in changing the mix of production. AutoCo checks inventory and suppliers for parts before changing the takt time of the line or mix of the assembly line. Regarding productivity, the standard lean tools are adopted in Indian operations as well. The central control room for production monitors production and work-in-process inventory, and visual displays show the number of line stops due to Andon pulls. Cost is minimised by reduction of wastage through daily data gathering and comparing against standards, gap analysis and continuous improvement, setting new standards through lean tools. Cost review meetings are conducted at regular intervals to find solutions to abnormality, and periodic training is provided to team members on cost. Design and manufacturing quality is ensured through jidoka. Thus, lean manufacturing principles are routinely adopted internally through rigorous training and strict adherence to procedures.

**Nurturing Human Resources** AutoCo has an extensive training facility for plant members. The most important part is that AutoCo trains its workforce on key values of TPS such as continuous improvement, respect for people, right skill, knowledge and attitude. This is done through giving opportunity to maximise individual performance and realise self-fulfilment. In order to ensure standardisation of work in a 380 member assembly line, workers from ITI go through 7 days of fundamental training before proceeding to a three-month on-the-job training (OJT). In fundamental skills, the operators are trained to work independently on basic activities such as safety, bolt tightening in assembly, picking, feeding, setting and tightening. In the words of the in-charge, through this training,

operators can decipher by hearing the sound whether the bolt tightening torque is right or not

After 3 months, workers again come back to the facility for training on elementary skills (2 or more fundamental skills within certain takt time of say 118 s). Then, they gain OJT again for 3 months before performing work in a similar manner. This helps all members make work a part of their life. Each team member can progress to line manager level (rising through team leader, group leader and team manager levels). The length of training (7 days) gets increased depending on the members' learning speed (slow, fast and medium learner). Skill Olympics are held across AutoCo plants around the world. This is for continuous improvement in individual skills. Different teams from different areas of the plant participate in internal competition over certain performance parameters. The winner then competes at the Asia Pacific Skill Olympiad. The winner then goes on to AutoCo headquarters in a foreign location to compete with other plants around the world.

Winning is not the sole goal anyway, continuous improvement (CI) is!

If CI is not achieved, teams make time for reflection. In order to achieve CI, members need to learn, practise and self-evaluate each step and improve.

**Co-evolving Sustainability** In order to ensure continuous flow, AutoCo India has 7 suppliers co-located within the same premises. The on-site supplier park reduces time to assembly, helps reduce wastage and most importantly induces the feeling that suppliers are no longer separate entities but part of a big AutoCo family. On-site suppliers enhance capability to work in the “AutoCo way” in terms of safety, environment, quality and productivity. The environment and social performance of the dealers and suppliers are continuously tracked. For this, each supplier or dealer has to adopt AutoCo’s environmental risk management systems. One key thing observed during assembly line visits is the adaptation of flexibility and resilience in TPS through mixed model logistics. In order to ensure minimal inventories, an innovative truck loading and unloading process is designed. In order to ensure low inventory, every 4 h one truck will deliver a stock of multiple parts from different suppliers for next 4 h to AutoCo’s factory. This is made possible by huge technology investment to track the movement of every parts carrying truck throughout India. In case of any untoward incident, actions can be taken immediately. Activities considered to reduce emissions due to increased frequency of truck movement are as follows: distance reduction (by setting up cross dock locations in strategic places such as Delhi, Pune and Chennai), increasing fuel efficiency, loading efficiency optimisation, driving skill enhancement, periodic maintenance of vehicles to avoid breakdowns and use of alternate fuels. AutoCo adopts the MNC parent’s practices for logistics to supply parts directly from supplier to assembly according to the sequence of product mix. This works on the JIT principle and is suitable for parts such as seats, door, trims and carpets. The supplier may not be co-located but can have a plant located within a 1-mile radius of the AutoCo assembly plant.

**Green Practices** AutoCo India has improved yield in metal forming to 70 % by recycling. The unused metal is recycled to make other useful parts. Welding makes 8 models in 1 line and has introduced slim flexible logistics (using minimal inventory and mixed model logistics). This ensures zero double handling of parts. Among all AutoCo plants, the Indian operation’s steel yield ratio improvement is the highest. AutoCo manages the reverse logistics as per traditional norms set by the values and ethical standards of the MNC parent. If there are defects due to suppliers, it is sent back to them. If the defect is due to AutoCo’s faults, they are segregated and sold to a scrap contractor who disposes them as per operating procedures. AutoCo not only implements green practices such as water-borne paints, efficient waste management and hazard reduction internally but also urges its suppliers and ensures that its dealers also implement the same practices. This has resulted in the best performance among all AutoCo plants worldwide in terms of VOC reduction. As is evident from the AutoCo sustainability report and plant observations, all these activities are results of CI. Apart from this, AutoCo global’s afforestation activity is directly adopted in Indian operations in order to “operate without loading the nature”.

## 5.5 Discussion and Conclusions

From the findings, it is clear that MNCs globally influence the SSCM practices adopted by their subsidiaries. The case study also identifies practices that can be easily adopted in the Indian context and practices that need to be adapted/reconfigured to provide competitive advantage. A few capabilities of global SSCM like afforestation, certification of EMS across the supply chain, green practices such as recycling, information integration and sustainability objective communication are adopted from AutoCo global. The differentiating factor which has affected all the SSCM practices is the lean manufacturing philosophy of continuous improvement and respect for humans. Lean practices have been adapted to generate economic (increasing manufacturing excellence, improving yields, developing/motivating employees and vendors), environmental (reducing wastage, emissions, developing manpower and vendors) and social benefits (engaging a reconfigured supply chain, making the community more prosperous through improving the employability of people and taking part in community development projects). Literature review (Table 5.1) has suggested many difficulties of implementing SSCM practices across countries. In particular, we found earlier that mere adoption of sustainability standards or lean manufacturing practices will not develop a dynamic capability. However, integrating the two and building a long-lasting supply network relationship in a dynamic market like India (where preferences change very quickly with new competition coming in every day, where regulations and policies are going to change to accommodate different development standards such as infrastructure, urbanisation, economic prosperity, environmental awareness) will definitely give AutoCo a unique competitive advantage which will help it to be innovative and resilient. Normally, it can be seen that SSCM activities are limited to the company alone and suppliers feel as if their independent status is endangered due to the sanction of stringent environmental and social standards. In the case study discussed above, AutoCo in India has been very successful in building SSCM practices throughout the entire supply network and involved the entire stakeholder community because of their unique capability to build trust, to not squeeze suppliers, to go out of the way to help suppliers improve and to help them continuously improve practices through monitoring, workshops and incentives. So for AutoCo in India, lean practices and human resource development act as dynamic capabilities of SSCM which are adapted and used as an integration mechanism to gain competitive advantage in the Indian automotive market delivering affordable good quality environment-friendly cars faster.

The research findings although centred on the automotive sector have widespread implications for practice and theory. First, MNCs before implementing SSCM practices should make an assessment of their capabilities, and the supplier's capabilities and motivation. Just by imposing SSCM on suppliers or subsidiaries may result in disaster. Most important is to align the objectives of the entire network with the SSCM. SSCM should generate benefits for the suppliers, and this needs to be communicated properly to all stakeholders. Secondly, MNCs before setting up a



company in a different country should invest a large amount of time and money in training its workforce in SSCM practices and human relations. Finally, the identification of dynamic capabilities is very important before implementing SSCM in a different context. This will help direct the right resources to the right improvement opportunity.

The contribution of this research is twofold. First, this paper provides an investigation into the dynamic capabilities for SSCM. This will help managers configure their supply chains for sustainable benefits in economic, social and environmental spheres. Second, this paper examines how a firm adopts or adapts its MNC major's SSCM practices.

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# Chapter 6

## Green Marketing in India: A Perspective

Suren Sista

**Abstract** Green Marketing has explored various themes that include both firm-level activities and consumer acceptance of the green concept and their resultant behaviour. The streams of research within the domain of Green Marketing have included green procurement and production, green marketing communications, green attitude, green behaviour, and green consumer typology. This essay explores the various themes that have been explored in prior research within Green Marketing, along with a commentary on scholarly work in the Indian context. The discussion revolves around the concept of green marketing in India and various aspects that would be of interest, and provides directions for research that will help advance the understanding of this subject in the Indian context.

### 6.1 Introduction

An ever-increasing concern for how we are consuming our planet's resources, and how some of these resources may not be replaceable at the rate at which we consume them, if at all, has led to human activity coming under scrutiny since the late 1960s. In time, these issues have come to be studied under the term 'sustainability'. The importance of sustainability is evident from the involvement of international organisations like the UN that study, monitor, and provide guidelines on human activity vis-à-vis environmental issues, and of organisations like the ISO that have extended their certifications to include the impact of businesses on the environment.

The impact of human endeavour on the environment has been varied from being at the global level, at the level of regions involving multiple countries in the region, at the level of countries stemming from their policies, at an industry level as a result of industry-wide practices, at a firm level resulting from firm specific actions, and at the level of individuals due to our actions as citizens and as consumers.

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Subsequently, the issue has been studied by academics from various disciplines and has taken the form of discourse on the environment and sustainability.

Researchers with a focus on commerce and its impact on the environment have looked at the issue with various lenses. One such lens is that with an emphasis on the role of marketing. The broad terms used through the years by researchers from the marketing fraternity to describe the subject are *Ecological Marketing*, *Environmental Marketing*, *Enviropreneurial Marketing* (EM), and the latest term *Green Marketing* (Polonsky 1994). The literature on the subject of Green Marketing is substantial and covers aspects that study actions of firms as well as those of individuals in our roles as consumers and as citizens. This has included the study of issues such as adoption of environment-friendly practices by firms in procurement, production etc., whether these practices are mandated by regulation or done voluntarily, consumer awareness, consumer reactions and buy-in into environmentally friendly products and services, and consumer segmentation and typology.

The relevance of the sustainability issue is very high for countries like India that are growing economies. India with its focus on enhancing means of production as envisioned in campaigns like ‘Make in India’, with its rapid urbanisation resulting in cities struggling to keep pace with the demands made of them to provide clean water, proper sanitation, waste and pollution management, and whose citizens’ patterns of consumption have seen a visible shift over the years, is a prime candidate for the study of issues of sustainability.

This essay is an attempt to understand the current discourse on Green Marketing and to evaluate opportunities for scholarly work in the Indian context. Section 6.2 of this paper provides a broad understanding of Green Marketing, including a historical perspective on Green Marketing, and thereafter delves into the streams of research within green marketing, with specific subsections dealing with firms and sustainability, green communication, green attitude and behaviour, and the green consumer. This is followed by a discussion on the issue of green marketing in the Indian context in Sect. 6.3. Lastly, Sect. 6.4 sums the discussion and provides a way forward for research on Green Marketing in the Indian context.

## 6.2 Green Marketing: An Overview

The traditional view of marketing, with its focus on increasing consumption among its target audience, was at cross-purposes with the view of environmentalists who encourage frugality in consumption. Peattie (1990) notes that the concept of sustainability provided the common ground, with a substantial number of environmentalists conceding that growth that is sustainable, i.e. it does not destroy species, environments, or communities, is acceptable. This allowed space for marketers to explore sustainable ways within their respective domains, and the dialogue on Green Marketing was born.

Marketing scholars have provided various definitions of the term Green Marketing. Iyer and Banerjee (1993) define green marketing as:

Green (marketing) is an underlying concern for preservation of the environment and a noninvasive lifestyle. (Page 494, 1993)

Peattie and Charter (2003) define green marketing as:

The holistic management process responsible for identifying, anticipating and satisfying the needs of customers and society, in a profitable and sustainable way. (Page 727, 2003)

Chamorro et al. (2009) define green marketing as:

The analysis of how marketing activities impact on the environment and how the environmental variable can be incorporated into the various decisions of corporate marketing. (Page 223, 2009)

Consistent across these and other definitions of green marketing is the holistic strategic perspective that balances sustainability and profits.

Green marketing as a field of study has evolved over the years along with the evolution of the conceptualisation of what constitutes being environmentally friendly or 'green'. With a better understanding of the interaction of firms with the environment, both the definition of green marketing and the scope of what issues need to be addressed have changed. Whereas the concerns in the earlier years were around pollution, today the concerns are more specific and relate to carbon footprint, ethical labour, fair-trade practices, no animal testing, and water consumption (Hoek et al. 2012). Peattie (2001) provides a historical evolution of the field of Green Marketing and divides it into three stages: 'Ecological' Green Marketing, 'Environmental' Green Marketing, and 'Sustainable' Green Marketing.

The first stage of 'Ecological' Green Marketing was a product of the notion in the 1960s and 1970s of finite natural resources (Kilbourne and Beckmann 1998; Leonidou et al. 2010; Peattie 2001). The focus therefore was on addressing issues of depletion of resources and impact of pollution, including the impact of chemicals used in various spheres of production. The result was legal and environmental regulations that aimed at curbing activities and use of products that caused harm to the environment. Peattie (2001) notes that being environmentally focused was not high on the priority of firms, and their actions were limited to ensuring compliance with the new regulations, which usually manifested itself in the form of 'end-of-pipe' solutions.

The second stage, i.e. 'Environmental' Green Marketing, evolved out of the realisation of the fragility of life and the Earth's environment brought about by the incidences of industrial disasters like those at Bhopal in 1984, Chernobyl in 1987, and the discovery of the hole in the ozone layer in the late 1980s (Kilbourne and Beckmann 1998; Leonidou et al. 2010; Peattie and Crane 2005; Peattie 2001). An issue that had hitherto been relegated to the back room involving conformation with legal and regulatory requirements for firms was now in sharp focus among the public thanks to media coverage. Peattie (2001) notes that the concern for the environment found so much currency that it led to the boycott of CFC-based

aerosols by the public, ushered in 'green' political parties, and both firms and mainstream political parties worked towards environmental policies. Peattie (2001) lists six key ideas for Green Marketing that either emerged or were strengthened during this second stage that linked business activity and the environment, viz. sustainability, clean technology, the 'green consumer', competitive advantage through socio-environmental performance, eco-performance, and environmental quality. With a newfound environmental consciousness among the consumers, segments of 'green consumers' emerged, firms started to market products that made a claim to be environment friendly, eco-friendly or 'green'.

Academic research that studied the phenomena surrounding environmental friendliness found new impetus starting with this second stage in the evolution of Green Marketing. Subsequent research has focused on varied issues (Chabowski et al. 2011) including firms' claims about green products, especially in advertising, and consumer reactions to the same. Others focused on identifying the green consumer and creating a typology to better identify and understand them. Another concern for marketers has been the difference between the stated attitude of consumers towards being green versus their actual behaviour, and academic research has delved into this aspect of the subject too. A discussion of the various streams within Green Marketing and the applicability in the Indian context follows.

### **6.2.1 Firms and Sustainability Initiatives**

In the wake of the changes that brought about the first and the second eras of sustainability in marketing, Elkington in 1994 coined the term *Triple Bottom Line* (TBL) (Elkington 2006), which suggested that the focus of firms should not just be on profits (economic prosperity) but should also take into consideration the impact on the planet (environmental quality) and people (social justice). The inclination of firms towards such behaviour till before the 1980s was low, and any mitigation of environmental issues was limited to adherence to government policies and programmes (Shrivastava 1995b). The ideas of environmentally responsible buying (Drumwright 1994) and corporate ecological sustainability (Shrivastava 1995b) along with the TBL (Elkington 1994 as mentioned in Elkington 2006) were the response of marketing scholars to calls for a more environmentally friendly behaviour on part of firms. The concern of the firms was manifold primarily centred on the lowering of profitability that would be a result of adopting greener practices. In this context, Porter and Linde (1995a, b) as well as Shrivastava (1995a) provide a strategic perspective on why firms should adopt environmentally friendly practices. They proposed that the gains (both economic and goodwill) would outstrip the costs of moving to greener options across business activities, and those environmentally friendlier options were a path to competitive advantage. Menon and Menon (1997) coined the term *enviropreneurial marketing* (EM) as a confluence of environmentally friendly performance, corporate entrepreneurship orientation, and marketing strategy and proposed that this would play a key role in business



performance and corporate reputation. Subsequently, over the years, businesses across the world have adopted green practices in various activities including procurement, production, design, new products, and packaging.

Cronin et al. (2011) note that the literature on green strategies is better represented in other disciplines of business research than in marketing with a few notable exemptions. Cronin et al. (2011) provide a synthesis of literature on sustainability in business and use the TBL lens to propose that researchers could explore relevant questions for sustainability under the three broad themes of green innovation, green organisation, and green alliances, all of which have been studied to a limited extent by scholars in marketing.

The study of inter-organisational partnerships towards creating green solutions and outcomes for the partners has been the focus of research on green alliances (Crane 1998). A green alliance can be categorised on the basis of who has partnered to form the alliance, i.e. buyer–supplier, two or more competitors, firm–NGO, and firm–Government, and also according to the nature and reason for the alliance, viz. procurement, co-development of green solutions, endorsement, creation, and implementation of policy (Crane 1998). Polonsky and Ottman (1998) studied the contribution of stakeholders in the specific context of green new product development process and find that firms failed to actively include stakeholders that they had identified as having environmental expertise, and that such omission could lead to missing of green opportunities.

Peattie (1990) states that firms could be anywhere on a continuum of Negative/Reactive to Positive/Proactive in their strategic approach to greenness. This continuum is informative in the attempt to understand the reasons why firms choose to engage in green practices. Research by marketing scholars suggests that adopting green practices has helped firms gain in the traditional outcomes of profitability (Ottman 1992 as mentioned in Loe 1996; Nair and Menon 2008) and market share (Baker and Sinkula 2005). Yet others find that with such practices, firms differentiate their offering from that of competition (Porter and Linde 1995a, b). Within the context of green alliances, with a specific focus on business-to-business markets, Sharma et al. (2010) provide a framework that proposes better demand forecasting to ensure lesser incidences of surplus supply of goods, and lowering of reverse supply of goods to help achieve better financial results and competitive advantage. Baker and Sinkula (2005) who operationalised the environmental marketing (EM) construct introduced by Menon and Menon (1997) state that EM has its basis in shared organisational values and that it reflects the belief in firms that there are opportunities in environmental efforts. They find a positive relationship between EM and new product success, which effects a positive change in market share. Fraj et al. (2011) also report that environmentally oriented firms (therefore high on EM) are more likely to obtain superior marketing performance by using green marketing strategies. Fraj et al. (2011) also suggest that when studying environmental behaviour by firms, in the light of the complexity of the construct of environmental behaviour, it is best to adopt a multidimensional view of said construct.

Among firm activities centered on green marketing, the most visible are those that have to do with the marketing lever of promotion that focuses on communicating value to customers and prospects. This is the focus of the next section.

## 6.2.2 *Communicating Green Value*

Marketing communication was the first lever of the marketing mix to be used to demonstrate ecological friendliness of a firm and its offerings. *Green advertising* is marketing communication that claims products to be green or production processes to be resource conserving (Chang 2011).

Owing to the interest in the subject of impact of advertising in the sustainability debate, the Journal of Advertising dedicated two special volumes on the subject of Green Marketing first in 1995 and again in 2013. Themes in green advertising have ranged from recyclable packaging, biodegradable raw material, energy conserving processes and products, etc. Iyer and Banerjee (1993) were probably the first to provide a taxonomy to classify green advertisements using four criteria, namely target for the advertisement, objective of the advertisement, type of appeal employed and part of the economic chain that is featured in the advertisement. Further work in classifying advertisements was done by Banerjee et al. (1995) who proposed that advertisements may be classified using three dimensions of the sponsor being for-profit versus non-profit, the advertisement being advertiser focused versus consumer focused, and the information on the environment being shallow versus deep.

Easterling et al. (1996) in their analysis of two and a half decades of environmental advertising state that of the four primary approaches of product, image, process, and fact, product and image seem to be the prevalent ways of messaging and suggest that process and fact should be used for more effective advertisements as these have lesser likelihood of being misinterpreted. This is consistent with Carlson et al. (1993) who provide a classification scheme of the four primary approaches of environmental advertising types against categories of deceptive claims and provide a way to identify environmental claims and their likelihood of being labelled as deceptive. Thorson et al. (1995) studied consumer response to green commercials on television which they classified into product, packaging, instructions (what we can do to make things better), and look (what the firm is doing). They find that consumer response is positive towards advertising that talks about good things done by the firm and also those that showcase what can be collectively done to make things better.

Obermiller (1995) studied the kind of appeals used in environmental advertising and concluded that the effectiveness of the appeal is dependent on the salience of the issue. In a separate study on the type of appeals used to promote a green product, Schuhwerk and Lefkoff-Hagius (1995) found that while the type of appeal did not matter to those involved in environmental issues, a green appeal was effective on consumers who were otherwise not involved in environmental issues. Green and Peloza (2014) studied the two major green advertising appeals, i.e.

consumer benefit appeal (e.g. cost savings) and societal benefit appeal (e.g. cleaner environment), and examine the efficacy of these appeals in various decision-making and consumption contexts. They find that when there are social status responsibility contexts, they are favourable to societal benefit appeals and they favour consumer benefit appeals otherwise. In their study, Thorson et al. (1995) find that except for instructional advertising, there is no difference between green and non-green consumers in response towards the advertisement. In studying the effect of types of appeals, Ku et al. (2012) consider the effect of product and non-product appeals on prevention-focused (loss minimising) consumers as compared to promotion-focused (gain maximising) consumers and find that green messaging works positively on prevention-focused consumers in all cases, whereas it works on promotion-focused consumers in non-product appeals.

Thorson et al. (1995) find that *attitude towards the (green) ad* is affected significantly by green credibility of the sponsor, as also by seriousness of the consumer towards green commercials. Chang (2011) who studied *believability of the ad* and of green claims among ambivalent consumers finds that a stronger green claim made by the sponsoring firm increases discomfort and impacts both *believability of the ad* and the firm's green claim negatively. Kronrod et al.'s (2012) findings regarding the assertiveness of language in messaging are a bit more nuanced. They find that consumers are receptive to assertive messages in cases when the context was important to them, whereas they would like softer appeals in other cases.

One of the key themes that emerge in the context of green advertising is *greenwashing* or the propensity of firms to state green claims that are exaggerated, misleading, or deceptive (Carlson et al. 1993). On a related note, Lane (2013) reports a newer form of deception, which is as yet not as prevalent, i.e. *reverse greenwashing* wherein firms falsely claim negative environmental impacts of competitors products and actions. The seriousness of the issue of deception through greenwashing is evident from the number of such incidences that were under the legal and regulatory scanner in the US alone (Scammon and Mayer 1995). Peattie and Crane (2005) note that the concern with greenwashing was so high that firms became cautious about including green themes in their communication for the fear of the communication being construed as greenwashing. Ambiguity in terms used was found to be the most prominent way that greenwashing manifests itself (Carlson et al. 1993; Iyer and Banerjee 1993; Morris et al. 1995). Other issues include omission and outright lies in staking an environmentally friendly claim (Carlson et al. 1993). Delmas and Burbano (2011) provide a framework to understand the drivers of greenwashing and state there could be four major drivers, viz. non-market external drivers (unclear regulatory framework, monitoring by activist organisations), market external drivers (competition, customers, investors), organisational drivers, and individual (manager) drivers, and also provide suggestions to ensure that the incidence of greenwashing is lower. One of the primary reasons for greenwashing continues to be the need for firms to remain in the competitive set (Kärnä et al. 2001).

To ensure integrity in green claims by organisations, Laufer (2003) suggests tripartism, i.e. corporate disclosure, verification by regulatory authorities, and

involvement of stakeholders and civil society entities like NGOs to ensure integrity in such claims and to act as a check against regulatory capture.

Lyon and Montgomery (2013) suggest that the use of social media may be a good platform for activists, NGOs, and citizens to highlight greenwashing and therefore deter firms from engaging in such activities. In a related study on stakeholder discussions on greenwashing issues on online platforms, Fernando et al. (2014) observe two significant themes, viz. marketing communication credibility and impact on the environment, and find that the effects of consumer discussions affect other stakeholders (i.e. media and NGOs) but only locally.

Parguel et al. (2011) suggest independent sustainability ratings to deter greenwashing. A manifestation of ratings are ecolabels, about which Gallastegui (2002) states,

Eco-labeling seeks to inform consumers about the effects on the environment of the production, consumption and waste phases of the products/services consumed. Consequently, it seeks to fulfill two objectives: (i) to provide consumers with more information about the environmental effects of their consumption, generating a change towards more environmentally friendly consumption patterns, and (ii) to encourage producers, governments and other agents to increase the environmental standards of products/services. (Page 316–17, 2002)

However, since using ecolabels is not compulsory in most countries (Gallastegui 2002; Hoek et al. 2012), it means that they have potential to become a way of greenwashing. In this context, the distinction of different types of ecolabels is important. Horne (2009) studied the impact of ecolabels and provides a review of the various types of ecolabels ranging from mandatory labels to voluntary labels. Mandatory labels take the form of danger symbols, conformity of standards (e.g. India's BIS classification), declaration of contents, national rating schemes (e.g. energy efficiency labels), and labels that are provided by research and testing institutions, while voluntary labels are of three types defined by Horne (2009) as,

Type I labels are third-party certified product environmental labels schemes that provide use of a logo associated with certified products. This type of label is most commonly referred to in the literature as an 'eco-label'... Type II labels are based on the self-declarations of manufacturers, importers, distributors or retailers, while Type III provide quantitative life cycle environmental data in a more extensive report format.... (Page 176, 2009)

Horne (2009) finds that there is a higher acceptance for regulated or government sponsored labelling schemes. He adds that the contribution of ecolabels to sustainable consumption is unclear and that any behavioural change will require more than providing ecolabels as a treatment of a symptom. Ecolabels may not work in cases where product performance may be lower for a product that is greener because sustainable behaviour is at cross-purposes with consumer requirements.

An understanding of green communication and the related problem of greenwashing is critical to the understanding of green marketing. This section provides an overview of the firm's green efforts and reasons for such efforts. In the next

subsection, the focus moves to the consumer and the discussion revolves around consumer green attitude and green behaviour.

### **6.2.3 Green Attitude and Behaviour**

The objective of a firm's marketing efforts is ultimately to influence consumer attitude and subsequently behaviour. Research on green marketing has given a fair amount of attention to consumer behaviour issues related to sustainable consumption. Scholarly work has extended current understanding of consumer behaviour and provided a rich understanding of consumers with regard to green attitude, green loyalty, green behaviour, etc. An additional concern has been the incidence of stated positive attitude towards green issues that is not followed up with related positive green behaviour. These are the themes elaborated upon in this subsection.

Griskevicius et al. (2012) consider an evolutionary lens to understand consumption behaviour and propose five adaptive tendencies that have led to environmental problems at a societal level, viz. propensity of genetic self-interest, motivation for relative rather than absolute status, proclivity to unconsciously copy others, predisposition for shortsightedness, and proneness to disregard impalpable concerns. They also list strategies and policy measures that are currently employed to address environmental well-being that are in conflict with these adaptive tendencies and suggest that it may be better to work with the adaptive tendencies rather than against them to help mitigate environmental issues.

do Paço et al. (2009) find that whereas consumers are aware and conscious of environmental issues, these do not necessarily translate to commensurate actions, i.e. green buying behaviour, unless these actions were connected to economic factors. This is consistent with Maineri et al. (1997) who state that past studies have shown inconsistency in the attitude-behaviour relationships. Bridging this attitude-behaviour gap, i.e. the gap between green attitudes and actual behaviour, is an issue that marketers have wanted addressed for a while (Sheehan and Atkinson 2012).

Researchers have considered two major routes to understand and explain the green attitude-behaviour gap. One set of researchers have structured their arguments around motivations and values behind green attitude to provide an explanation to this attitude-behaviour gap. Others have focused on the effect of the different elements of the marketing mix for products and services positioned as being green on translating green attitude into green behaviour. For a latter focus, the assumption seems that consumers are predisposed to some level of 'greenness', from not green at all to very green.

Among those that focused on the role of motivations and values in driving green attitude and behaviour, Banerjee and McKeage (1994) studied the interaction between two constructs, materialism and environmentalism, and suggest that these are competing orientations. They suggest that while consumers are willing to engage in ideological actions like signing petitions or donating to a cause, environmental

behaviours are far more difficult as they create constraints on consumption of goods. Stanley and Lasonde (1996) report similar findings when they studied environmental issue involvement and its relationship with environmentally conscious behaviour. They find that in the absence of an initial investment, both involvement and behaviour are correlated, whereas in the event of an initial investment, the behaviour is performed more infrequently, in general, and performed somewhat more frequently by those who are highly involved. Alwitt and Berger (1993) provide one explanation for the gap in attitude and behaviour and find that in the case of environmentally friendly products, attitude getting converted to purchase intentions is moderated by the strength of that attitude. On similar lines, Maineri et al. (1997) find that a key predictor of environmental behaviour is strong non-purchase pro-environment behaviour. This is similar to the finding in the cross-cultural study across four western European countries by do Paço et al. (2013) wherein they test the relationship between the constructs of man–nature orientation, generativity, environmental concern, conserving behaviour, and environmentally friendly behaviour to create a green consumer behaviour model and find that conserving behaviour positively effects environmentally friendly buying behaviour. Maineri et al. (1997) also find that demographics, participation in other pro-environment behaviours, and general (not specific) environmental concern are not good predictors of environmental behaviour. They also find that pro-ecology behaviour is not transferable or interchangeable. For example, taking part in carpooling would not automatically translate to taking part in a recycling programme. Cherrier et al. (2012) consider social barriers to adoption of green options that may be considered non-mainstream alternative consumption options due to their nature. They find that individual choice towards such alternative options is constrained by sociocultural construction of how people should live and that the need to conform to this social imagery would be a barrier to adoption of non-mainstream options that are greener than mainstream options, thus creating a ‘glass floor’ for such actions. This is supported in Zabkar and Hosta’s (2013) study where the authors find that a prosocial status perception has a positive effect on the relationship between willingness to engage in environmentally conscious actions and the actual environmentally conscious behaviour. In this context, Rettie et al. (2012) state that by positioning environmentally friendly actions as being normal rather than as an exception or not-normal behaviour, there would be lesser societal pressure for acceptance, and also that it may help mitigate certain environmentally detrimental behaviours otherwise considered societally acceptable. Gabler et al. (2013) provide a different perspective when they report that lack of social pressure creates a barrier in converting green attitude to green behaviour and that since the problem is vast, consumers do not believe that individual actions will be enough in resolution of the problem. Bartels and Hoogendam (2011) studied the effect of consumers’ social identification with the green concept and environmentally friendly groups and the effect of such identification on green brand knowledge, green attitude, and green buying behaviour, considering organic foods as the green products in the study. They find that consumers who are aware of their green social identity are more attached than others who buy organic foods. They also find that green attitude mediates the relationship between green brand knowledge and green

buying behaviour. Leonidou et al. (2010) in their study of antecedents and outcomes of environmentally friendly attitudes state that the antecedents to environmental attitude are collectivism, long-term orientation, political action, liberalism, deontology, and law obedience. They delineate environmental attitude into two types, inward and outward, wherein outward environmental attitude translates to general environmental behaviour, which includes signing petitions, writing posts, and making donations, whereas inward environmental behaviour translated to green buying behaviour. This separation into internal and external attitudes provides a plausible and actionable explanation for the attitude–behaviour gap.

Other researchers have considered the effect of marketing mix elements to understand green buying behaviour. Luchs et al. (2010) find that sustainability factors in products enhance buying preference in cases when gentleness-related product attributes (e.g. baby products) are valued by customers and reduced in cases where strength-related product attributes (e.g. automobile related products) are valued highly. Rokka and Uusitalo (2008) studied the effect of green packaging on consumer choices using choice-based conjoint analysis (as compared to attitudinal scales used in most studies on green buying behaviour) and find that green packaging was as important as price, but find no effect of demographic variables on consumer choice. While price is an important construct, one which is usually higher for a greener product, Henion et al. (1981) in their study find that environmentally conscious consumers among the upper-middle socio-economic class are willing to pay a higher price for a greener product. On the other hand, Connell (2010) found that price was one of the barriers to green behaviour apart from knowledge and attitudes (or values), retail environments, and societal norms and expectations. Michaud and Llerena (2011) in their study on remanufactured (and hence green) products find that in the absence of information of the environmental impact of the remanufactured product, these are considered to be of lesser value since they are remanufactured. However, this view changes when consumers are provided relevant information on the greenness of the products. Interestingly, they find that such information leads to a decrease in the willingness to pay for conventional (less green) products. Olson (2013) explains the observed difference between green attitude and green behaviour using a compensatory consuming decision-making model and finds that consumers exhibit strong preferences for green products when trade-offs (price, lower quality/performance) are not apparent, whereas lesser green products are preferred when such trade-offs are under consideration, with the exception of the greenest consumers likely to behave otherwise. Papista and Krystallis (2013) consider the centrality of customer perceived value in decision-making and propose a framework of customer perceived value of a green brand and its effects on relationship quality with the brand and loyalty towards the brand. They posit that the relationship between the antecedents of benefits and costs and customer perceived green value is moderated by environmental concern, knowledge, perceived effectiveness of consumer actions (on the larger problem), and involvement with environmental issues.

Having considered the issue of the green attitude–behaviour gap, we now turn our attention to brand-related issues, viz. brand image, brand equity, and branding efforts. Chen (2010) finds that the relationship between green brand image and green brand trust is partially mediated by green trust and green satisfaction. Kang and Hur (2012) explored the relationship between green satisfaction, green affect, green trust, green brand loyalty and green brand equity and find that green brand satisfaction has a positive effect on green trust, affect, and green brand loyalty. Green brand loyalty which impacts green brand equity is also affected by green trust and green affect. Chen (2013) additionally finds that green perceived value is an antecedent to green loyalty. Montoro-Rios et al. (2008) find that environmental associations positively effect brand equity conditioned by product category and the brand itself. Olsen et al. (2014) study the effect of green new product launch on brand attitude and find a positive relationship between the two. They test the effect of green message framing, product type, and firm's existing environmental legitimacy on the relationship between green new product launch and brand attitude and find that both message framing and product type have a positive effect on the relationship, whereas in cases of existing positive environmental legitimacy of a firm, such new product launches do not have a big effect on brand attitude.

With most firms treating environmental issues as a way to differentiate their offerings, and therefore create what is considered by business strategy scholars as providing competitive advantage (Porter and Linde 1995a, b), there have been multiple cases of firms greenwashing their offerings. Whereas greenwashing has already been discussed earlier in this paper, an attempt is made in this section to understand the effect of greenwashing on green attitude and behaviour.

Matejek and Gossling (2014) in their study on BP's green rebranding and the subsequent oil spill in the Gulf of Mexico find that legitimacy of green claims are measured against its consistency with the green narrative till empirical evidence against the claim emerges. This partly explains the willingness of consumers to accept such claims from established brands, and the resulting disappointment when there is evidence that counters this narrative. The resultant scepticism among consumers (Carlson et al. 1993), in addition to the already present mistrust towards claims in advertising (Boddewyn 1982), has meant that acceptance of green claims has not been easy. Chen and Chang (2013) in their study on Taiwanese customers find that greenwashing is positively associated with consumer green confusion and green perceived risk, which act negatively on green trust. Zinkhan and Carlson (1995) note that marketers face a confounding problem that green consumers, who are the primary target of green advertising, are most likely to be anti-corporate in their disposition and likely to be sceptical about advertising. Shrum et al. (1995) find that skepticism towards advertising is higher for women who are green consumers, whereas skepticism towards advertising claims is irrespective of whether they are green consumers or otherwise. do Paço and Reis (2012) find support for environmentally concerned consumers being sceptical about green claims. Matthes and Wonneberger (2014) temper this view when they find that informational cues in green advertisements work positively to suppress skepticism by providing useful information, while emotional cues do not play a role in reducing scepticism.



The discussion in this subsection highlighted the multiple lens used to understand and explain the relationships between the constructs of green attitude, green brand image, green brand equity, and green buying behaviour. A few authors have made attempts to provide an overarching view on this issue. Peattie (2001) suggests that two variables define customer willingness to purchase green products—the confidence in the ‘green’ claim made by the firm and the compromise that the consumer has to undergo when choosing a greener product over one that is lesser on the green scale. Therefore, for firms to ensure that positive environmental or green attitude is converted to green buying behaviour, they would require to focus on customer needs (Fowler and Close 2012; Peattie 2001). Whereas Peattie’s (2001) viewpoint is primarily from the perspective of addressing the needs of the majority of humankind that defines what has come to be described as the bottom of the pyramid (BoP), he also adds that consumers must find a reason to consume green products. A focus on this aspect by firms will help the green consumer achieve her goal of socially responsible consumption in her own sphere of influence, i.e. fulfil her micro-green agenda (Fowler and Close 2012). This may be key to bridging the gap between a disposition to be green and translation of the same into actual green consumption.

The focus of this subsection was on green efforts of firms, believability of firm claims, resultant consumer attitudes, and behaviour. While understanding consumer green attitudes and behaviour is important to marketing scholars and practitioners, an understanding of the green consumer has been equally important and an integral part of scholarly work in the domain. This is the focus of the next subsection.

#### **6.2.4 The Green Consumer**

‘Who is the green consumer? What defines their behaviour?’ An interest in this question for both practitioners and scholars can be seen from the descriptions of such volumes as the *UK Green Consumer Guide* and the incidence of the term in the popular press (Prothero 1990).

In order to resolve this question, a prior understanding of what constitutes green behaviour is necessary, as it would provide the basis for identifying a green consumer. Various studies (Newholm and Shaw 2007; Peattie 1990) have attempted to list the characteristics of a green consumer and seem to agree that such a consumer will tend to avoid products that (a) endanger health; (b) damage the environment through production, use, or disposal; (c) consume large amounts of energy; (d) cause unnecessary waste; (e) threaten particular species or environments; (f) involve cruelty to animals; (g) adversely effect other countries; (h) involve oppression and human rights issues; and (i) are not fair trade. Peattie (1990) notes that the concern of the green consumer is socially responsible consumption and not simply an interest in environmentalism. This is an important distinction that needs to be kept in mind as it allows for growth while ensuring greener products, production processes, and other firm activities as has already been noted in the previous section on firms’ initiatives towards sustainability. Shrum et al. (1995) find

that green consumers are interested in new (green) products, seek information for the same, are opinion leaders, and converse with others about products. They are also careful shoppers, not prone to impulse purchase, and pay attention to price. Smith and Brower (2012) also find that environmentally conscious consumers are information hungry and that they base their decision on a company's reputation, green communication, product labels, and packaging.

Using the characteristics listed above, numerous scholars have attempted to identify and understand the green consumer, and others have attempted to create a typology of the green consumer using socio-demographic (Newholm and Shaw 2007; do Paço et al. 2009; do Paço and Raposo 2010), behavioural, and psychographic variables (do Paço et al. 2009).

In the light of opinion polls and 'non-scientific' segmentation of the environmentally concerned/conscious consumers, two sets of researchers provided a scientific view that would help both scholars and marketers understand the phenomenon of environmental consciousness among consumers better. Bohlen et al. (1993) posited 'environmental concern' as a multidimensional construct and provide a scale to measure it. The authors suggest that data collected using this scale along with data on demographics would help segment the population into various shades of green. Dembkowski and Hanmer-Lloyd (1994) also look at environmental consciousness as a multidimensional construct; and consider it to have cognitive, affective, and conative components; extend the value-attitude-system model to environmental consciousness; and propose an environmental value-attitude model. The model underlines the need for environmentally conscious values to be deeper and applicable to domain-specific contexts that will ensure translation into environmentally conscious behaviour, unlike in the case of opinion polls where the values expressed may only be at the surface level.

Barcelona (2011) argues that the multiple ways to understand and segment the green consumer have been superficial and have largely left the practicing marketing professional confused especially in the wake of failed green offerings. He proposes a classification of customers using two dimensions of orientation (altruism, economic) and locus of control (internal, external) to define four different decision-making choices that guide consumer behaviour.

Having considered a brief historical overview of green marketing, and key aspects of research streams within green marketing, one would be in a position to appreciate the issues that are of interest to marketing practitioners and scholars. With this background, attention is now turned to the issue of green marketing in the Indian context.

### **6.3 Green Marketing and India**

To understand green marketing in the Indian context, it is important to have clarity about this phenomenon from both the firm and the consumer perspective as there are different pulls and pressures acting on the two stakeholders.

In a review of green marketing in India, Jain and Kaur (2004) listed the legislations and regulations that govern environmental issues in India. They report a failure of India's ecolabelling effort ECOMARK, poor implementation of legislations, and greenwashing by firms in the Indian context as being the barriers to the adoption of the concept in the Indian context.

A discussion on institutions and policy in the context of sustainability in India is outside the scope of this essay. This essay focuses on firm- and consumer-level issues, and the current section includes a discussion on green marketing in the Indian context, with the aim of drawing attention to questions that are useful to understand green behaviour among Indian firms and the Indian consumer.

### ***6.3.1 Sustainable Practices and Firms in India***

While the subject of awareness, adaptation, and certification of green norms and practices by firms in the Indian context is an interesting topic, prior scholarly work has been very limited and Nair and Menon (2008) is probably the only scholarly work of note.

One measure of the use of sustainable practices by firms is the ISO 14000 certifications (ISO 2014a). The number of firms in India with ISO 14000 series certifications has been on the rise. The number was 6446 firms as of 2014 (ISO 2014b). The comparable figures in 1998 was one firm, and in 2005, it was 1698 firms (Nair and Menon 2008). The Indian numbers are comparable to that of the USA (6586), France (8306), Germany (7708), and Australia (5697), and are higher than most other countries. Countries that had higher numbers of ISO certified firms than India as of 2014 were Spain (13,869), UK (16,685), Italy (27,178), Japan (23,753), and China (117,758).

Nair and Menon (2008) studied the effectiveness of environmentally friendly activities of Indian firms and proposed a model for guiding practice. They surveyed 67 Indian firms with ISO 14000 series certifications and found that the reasons for use of sustainable practices were consistent with that of other studies, viz. conforming to government regulations, pressure from NGOs, higher profits, and customer empowerment apart from free publicity. They also found that the number of firms that actively engaged with other stakeholders was low, which is similar to the observation by Polonsky and Ottman (1998). That the two studies are ten years apart may be an indication of where Indian firms stood vis-à-vis their Western counterparts in the evolution of green strategic thought process. Nair and Menon (2008) also note that the companies are unsure whether their activities would get classified as compliance with regulations or if they were voluntary green practices.

Following from the first stage of Green Marketing (Peattie 2001), these issues may largely depend on regulatory frameworks and requirements thereof, which may explain the high numbers in European countries. The explanation for this phenomena resulting from the second stage of Green marketing (Peattie 2001) would be that of differentiation for competitive advantage (Porter and Linde 1995a, b).

Additionally, firms that outsource to other countries or want to partner to set up a plant or a subsidiary in a foreign country are pressured in their home markets by growing concerns about conditions of workers, environmental norms, fair-trade practices, etc., especially when the products are from developing or underdeveloped markets. The propensity for such firms to insist on certifications from potential partners may explain the extraordinarily high number of organisations that had ISO 14000 certifications in China, which today accounts for a majority of the production in the world. Another explanation for this phenomenon may be the insistence of firms to procure from supplier firms that follow sustainable practices.

There are 1,022,011 registered active Indian companies as on 31 December 2015 (Ministry of Corporate Affairs 2015). Therefore, the number of Indian firms with the ISO 14000 certification is less than 1 %. Whereas firms may be adhering to Indian regulatory environmental norms, the lack of internationally acceptable certifications may be a bottleneck to the success of campaigns such as ‘Make in India’, which are being banked upon as a key element of the engine for future growth.

Whereas Nair and Menon (2008) provide an understanding of the greening of Indian firms, the limited sample size means that theirs is an exploratory first in the endeavour to understand green behaviour of Indian firms. There is a need to get a broad understanding of why the  $\sim 1$  % of Indian firms that have ISO 14000 series certification choose to act green, and what the characteristics of these firms are, including what percentage of these firms are Indian arms of foreign multinationals whose policies may be influenced by the pulls and pressures in their home markets. It would also be interesting to know if there are firms that practice green initiatives but have not taken the ISO certification, and if so, then what may be their reason to do so. Another issue that needs better understanding in the light of the push for ‘Make in India’ is what stops other firms from taking up the ISO certification. Taking a broader perspective, Cronin et al. (2011) suggest that the marketing implications of the ISO 14000 certifications have not been studied in depth. A cross-national study with a representative number of firms from India could provide a fertile ground for a study of this nature.

### ***6.3.2 Green and the Indian Consumer***

An understanding of how green the Indian consumer is, is a key question in the context of adoption of green practices and products. National Geographic’s Greendex (National Geographic 2012) has consistently ranked Indian consumers as being among the greenest, with the 2012 rankings showing Indians as the greenest in the world followed by the Chinese. The Environmental Performance Index (EPI) (Yale University 2016) provides a contradictory view of the ‘greenness’ of India and ranks India at the 141st position among 180 countries. This seems to corroborate the view that the imperative of countries such as India, China, and Brazil seems to be economic expansion and not clean air and greenhouse emissions (Montgomery and Stone 2009). The motivation for relative rather than absolute

status and the proclivity to copy others (Griskevicius et al. 2012) could explain the imperative of these nations towards economic growth. The differences in the two studies vis-à-vis the sources of data and variables for which data were collected are key to explain this stark difference. Whereas the Greendex is about consumption practices, the EPI considers factors that go beyond consumers and addresses the larger issue of sustainability. However, since consumers are a subset of the larger system, the contradiction in the results needs to be considered carefully. The data for the Greendex study have been collected using an online survey in English. The subset of the Indian population that has access to an online survey and has the ability to respond in English constitutes a very small percentage. Whereas consumption happens at all levels across incomes and the urban–rural divide, the views and behaviour of only the top few percentiles can be recorded when pursuing such a methodology. This could explain the differences in the results of the two studies. Several researchers have attempted to study the greenness of the Indian consumer and what could explain their green behaviour. Jain and Kaur (2006) use socio-demographic variables to understand differences in the environmental consciousness of consumers in India and find that education, age, and gender are all useful in explaining the differences in environmental consciousness.

It is proposed here that in order to understand the greenness of the Indian consumer, it is necessary to have a large-scale study specifically for India. The Greendex study could provide an exemplar for creating such a study. First, one will need to consider the variables that will be used to measure the characteristics of a green consumer mentioned earlier. The fields of data chosen for the Greendex study seem representative to study consumer impact on the environment. However, since there is a need for comparison across countries, the Greendex measures need to be standardised across the countries. Otherwise, some of the variables rooted in the Western worldview that comprise the index, e.g. ‘consumption of meat’ and ‘buying second-hand vehicles’ to name a couple, would provide results that will be difficult to interpret in the Indian context due to the nuance related to these answers that are specific to India. For example, the fact that a substantial percentage of the Indian population is vegetarian due to religious and cultural reasons will help the score for the variable on consumption of meat to point to a greener consumer as per global norms. Additionally, if the study were conducted across a more representative sample that cut across income strata, the urban–rural landscape, etc., the non-affordability of meat on a regular basis for a large part of the population that actually consumes meat would skew the score and would point to a greener consumer on this count, whereas this may not reflect consumption in the absence of scarcity of financial resources. Affordability would also need to be considered when considering the data on purchase of second-hand vehicles, which is a big market due to the aspirational status of vehicle ownership for otherwise financially constrained Indians.

Indian society has seen a shift in consumption patterns due to lower savings rates and an availability of credit to purchase high-value goods that has allowed the salaried class to acquire more amenities of comfort. The readiness and the inclination of the average Indian consumer to be green seems to be a mixed bag. The

increase in ownership of vehicles and air-conditioners provides two points of reference. The use of public transport and carpooling is generally seen as greener options to using one's own vehicle. However, India has seen an increase in the number of private-owned vehicles, and the resultant increase in road traffic and traffic congestion in Indian cities<sup>1</sup> (Ministry of Road Transport 2012). Ownership of a vehicle allows flexibility and comfort that are superior to the use of public transport, and a substantial number of families in urban India today have more than one vehicle. The situation is acute enough to cause parking woes in many urban residential areas. There is also an increase in the availability of the number of models of bigger four wheelers in the market, which is also reflected on the increase in their numbers on Indian roads. In general, there is a preference for more powerful vehicles, which results in a preference for diesel- and petrol-powered vehicles. Electric cars in India are still a very niche product, and whereas top manufacturers are looking to target this market, the acceptance will be dependent on multiple factors (PTI 2015; Mukherjee 2016). Another example is that of the incidence of increase in the numbers of air-conditioners (The Hindu Business Line 2015; Thomas and Ananda 2016)<sup>2</sup> in India. Whereas the energy efficiency of many of today's models is better than in earlier years, and the fastest growing segments are the higher energy saving 5-star and inverter models (ISHRAE 2015), this still constitutes a small percentage of the total market as the higher price tag is a deterrent for the Indian consumer. These two examples are indicative of an inclination of the top few percentiles of the Indian consumers towards consumption practices that yield higher personal comfort that mimic the kind of consumption that has attracted the label of being materialistic in the developed world. Therefore, while the consumption practices of the top few percentiles of the population that can afford high-end white goods may be green, the options available and the trade-offs involved to adopt the greener options will define the adoption of greener practices. Additionally, there is a need to study whether the greener option is being adopted due to a genuine green concern or whether economic benefit from a green product is the driver of the decision. At present, there is little clarity on the levels of awareness among Indians about sustainability and green behaviour. In markets where awareness is known to be higher, issues such as excessive packaging and the amount of energy and resources spent to bring the product to market are considered

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<sup>1</sup>Data from the Ministry of Road Transport and Highways, Govt. of India, show that the number of registered two-wheelers increased from 12,611,000 in 1990 to 115,419,000 in 2012, while the number of registered cars/taxis increased from 2,694,000 in 1990 to 21,568,000 in 2012. A large contributor to this is the increase in private ownership of vehicles. In the same period, the number of registered buses, which constitute a majority of public transport in the country, increased from 298,000 to 1,677,000.

<sup>2</sup>The number of air-conditioners in India has increased manifold. In 2013–2014 alone 3.3 Million units were added to the existing 25 Million units (an increase of ~12.5 %). Furthermore, reports from Southern region of India alone show that the numbers sold increased ~15.5 % in 2015 over that sold in 2014 and the estimated numbers for 2016 were ~20 % more than in 2015.

critical for a consumer to make a green choice. A question to consider is whether the Indian consumer is cognizant about such issues.

Studies on green behaviour have advocated organic products as a greener alternative. In this context, the deep cultural bond that Indians have with traditional practices of Ayurveda, the use of natural and herbal products, and the concept of *shudhdh* (pure) that is associated with such practices could confound the concept of green. For instance, firms making FMCG products claim the presence of natural and herbal ingredients in their products to ensure a positive rub-off. Some have even positioned themselves as herbal or natural, which immediately gives them a green hue. However, it would be interesting to see how many of these products pass the actual green test. To the consumer, these may appear to be greener than they actually are. In the absence of an understanding of awareness of the green phenomenon among the target audience, it would be difficult to comment on green behaviour.

In sum, it is unclear as to what extent the Indian population may be considered (some shade of) green due to their own volition. There is definitely a need of a large-scale study specifically for India to provide a better measure of an *educated and voluntary* green behaviour of the Indian consumer. A study that tries to capture the characteristics of green behaviour in the Indian context using relevant variables that capture the nuances of the Indian context would be a first step in this direction. This would then be the starting point for any attempt at creating a typology of the Green Indian consumer.

A related aspect about green behaviour that could be studied is diffusion of green behaviour in the population. Studies on green consumers (e.g. Montgomery and Stone 2009; Murphy et al. 1978) seem to suggest that the phenomenon starts as niche among those who are able to make the necessary trade-offs or among those who are young, urban, and literate and demonstrate an openness to green behaviour. Morris et al. (1995) found that a very small percentage of respondents in the USA understood terms such as recycled and recyclable in 1995. They also found that awareness was lower among lower income and lower education groups. It could be argued that awareness of these issues in the developed world is far better two decades hence. Awareness and subsequent adoption of green concerns among the larger masses could be a result of events that act as catalysts to cause that change as in the case of Europe during the 1980s in the wake of news of the depletion of the ozone layer, or are as a result of government policy that restricts the use and production of less green options, thereby making green options accessible and acceptable to the public. It would be interesting to study how the green phenomenon has diffused in different countries or regions. The questions that arise in this regard are whether there is a pattern to this diffusion. At what level of economic prosperity does environmental consciousness kick-in? Can one, with reasonable assumptions for the context of a specific country, consider modelling the diffusion of greenness in the contexts of emerging economies like India? These are other issues that may be of interest to future researchers.

Dobscha (1993) uses the *ecofeminism* lens and states that since women are the primary caretakers in the society, most household purchases and subsequent

activities towards recycling of waste are additional burden on women. Following up on this argument in the Indian context, it would be key to understand awareness of green issues, and attitudes and behaviour towards adoption of green practices among women.

The endeavour in this paper was to understand the current discourse on green marketing and to evaluate opportunities for scholarly work in the Indian context. The literature on green marketing is vast and addresses multiple issues. For the ease of understanding, the research themes in green marketing the extant literature was viewed as either focusing on actions by firms, or on consumer behaviour. There are many streams of research that are as yet unexplored in the Indian context and the endeavour in the closing section that follows is to identify some of these pertinent issues for future scholarly work.

## 6.4 Conclusion

Garcia-Rosell and Moisander (2008) provide a policy perspective on the issue of sustainable marketing. They propose that sustainability can be achieved only when key stakeholders, i.e. policy makers, firms, and consumers understand their individual roles in moving the global economy towards sustainability. This overarching perspective is important and identifies the various actors that are key to ensure a sustainable future. This essay with its theme of Green Marketing has focused on two of these actors, viz. firms and consumers. An attempt is made herein to identify issues for scholarly pursuit within green marketing that may be addressed by researchers in the Indian context. This is in line with Kotler (2011) who suggests a list of issues cutting across various stakeholder contexts that need to be addressed by marketing scholars. These include understanding consumer motivations and firm motivations towards green marketing, the growth prospects for firms from sustainability initiatives, and the competitiveness of being a green firm as against a non-green firm.

The first theme of interest is centred around the phenomenon of certifications (e.g. ISO 14000) for firms that engage in environmentally friendly activities. A large-scale study to follow up Nair and Menon's (2008) exploratory study on environmental marketing practices of Indian firms with ISO certifications would help provide a broader understanding of the current scenario and add to what Nair and Menon (2008) found about a decade ago. A second question within this theme would be to understand the orientation of Indian firms that have not taken any certifications. Are such firms keen on green practices? If not, then why not? If yes, then why do they not have certifications for the same. A third question is provided by Cronin et al. (2011) who call for a better understanding of the marketing implications of the ISO 14000 certifications—a cross-national study with a representative number of firms from India could be a way forward for a study of this nature.

As already noted, there is need for clarity about awareness among Indians on sustainability and green behaviour. Whereas there are consumers in urban pockets who are green in their outlook and behaviour, the question of importance is whether



the average Indian consumer is cognizant about sustainability issues? If Indian consumers are engaging in activities that are considered green, then to what extent is this due to their own volition, and not by default because of lack of alternatives? The current understanding on this issue needs to be enhanced through a large-scale study to provide a better measure of *educated and voluntary* green behaviour of the Indian consumer. A related question stems from Dobscha's (1993) assertion about *ecofeminism* and the centrality of women in the household as the primary care-takers, which holds true for the Indian society. Therefore, it would be interesting to specifically understand sustainable behaviour at the household level by looking at it from perspective of the lady of the household.

A question of interest is centred around India's deep cultural bond with traditional practices of Ayurveda, the use of natural and herbal products, and the concept of *shudhdh* (pure) that is associated with such practices. How does one locate this phenomenon in the current discourse on sustainability? Additionally, the multiple instances of FMCG firms having piggybacked on these traditional beliefs and practices to create products with claims of presence of natural and herbal ingredients provide a context to study the effect of such claims on brands, attitude, and behaviour.

A review of literature suggests that even in countries where the average greenness among consumers is high today, it was a niche phenomenon not very long ago. Therefore, a related question on green behaviour concerns the diffusion of green behaviour in the population. Can India be the setting for modelling the diffusion of the concept of greenness among citizens in the context of emerging economies?

Lastly, a majority of research in green marketing has been done only in the Western context and the incidence of cross-cultural studies is rare. This provides a possible future research direction for research to be conducted across various cultural contexts. Differences and commonalities across various cultures is indeed an interesting issue and one worth exploring to shed more light on the various phenomena at work around green behaviour. Including the two countries with the largest consumer bases, i.e. India and China, seems logical.

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## Chapter 7

# Have Green, Pay More: An Empirical Investigation of Consumer's Attitude Towards Green Packaging in an Emerging Economy

Prashant Mishra, Tinu Jain and Manoj Motiani

**Abstract** Green packaging has emerged as a solution for several environment-related issues. There is a growing concern about environmental issues among consumers which is forcing manufacturers to produce more environment friendly products. Using the Theory of Reasoned Action (TRA) as a theoretical framework, the current research investigates the relationship of the three variables (concern for the environment, knowledge about green packaging and beliefs about positive consequences of using green packaging) with consumer attitude towards paying a premium for green packaging. A survey was conducted among prospective customers in major cities of eastern and western India in June 2012. As predicted by the TRA, positive relationships exist between beliefs, consequences and attitudes toward paying more for green packaging. Overall concern levels, knowledge levels and beliefs were quite high for consumers in the sample. It is suggested that knowledge plays an important role in developing positive beliefs about green packaging. Results of the study also indicate that consumers are ready to pay premium for green packaging conditioned to the beliefs, though paying a premium based on knowledge and concern does not show sufficient support in the study. The study helps to extend the understanding about the process of attitude development towards green packaging.

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## 7.1 Introduction

In a constantly evolving market, communities around the world are facing new challenges in the form of environmental concern brought by pollution, improper waste disposal, and diminishing biodiversity. As a result in the last two decades, as the environment concern moved from a fringe to a mainstream issue, there has been a progressive increase in consumer environmental consciousness. Despite being late starters, many of the firms operating in emerging economies are trying to respond to the environmental concerns of their stakeholders including customers and governments. There has been a sharp increase in the number of consumers with environmental awareness in the recent past owing to excessive media coverage and policymakers intervention. As a result of this, concern for the environment is on the rise even among the existing base of customers.

As the move towards what may be considered a “green revolution,” (Friedman 2008) gains momentum, people throughout the world seek to alter the current path of rapid environmental degradation. Customers are willing to change their consumption and purchasing behaviour in order to help improve and sustain the environment. This change is indicative of the fact that consumers have begun to integrate environmental considerations into lifestyle choices including their purchase decisions based upon dual objectives or how well products satisfy their needs and how these products affect the natural environment. Extensive coverage by media and efforts by independent groups and others have increased the awareness about environmental issues (Chen 2010; Diamantopoulos et al. 2003; McIntosh 1991; Rivera-Camino 2007) As a consequence, consumers have become more concerned about their everyday activities and habits and the impact that it can have on the environment.

Packaging has been identified as a major contributor of non-degradable waste, which is harmful for the environment (Marshall 2007). The packaging industry in particular has been under extreme pressure for quite some time to reduce packaging waste and over-packaging and, improve recyclability (Lewis Helen et al. 2007). In the recent past, considerable attention has been given towards making product packaging more sustainable, eco-friendly, recyclable and also improving the ‘carbon footprints’ (Bone and Corey 2000; Cleveland et al. 2005; Rokka and Uusitalo 2008). Green packaging has started to gain popularity among manufacturers and consumers. Green packaging, though a good alternative, comes at a cost which can act as a deterrent to firms in this competitive scenario. Bearing the cost alone for them might take away their price competitiveness in price conscious markets. If consumers are willing to pay more, then cost might not affect their competitiveness. Consumers’ market knowledge converting into positive attitude and willingness to pay more would drive the marketers to work on green attributes and bring awareness among consumers.

Many recent studies have explored the impact of green packaging at macro-level (Bone and Corey 2000; Roper and Parker 2006). The studies include ethical perceptions of product packaging issues. Bone and Corey (2000) examined how

pragmatic and moral values differed with respect to ethical sensitivity, perceived consequences of the business practices, and perceived business norms among the three stakeholders—packaging professionals, brand managers and ethically interested customers. Researchers have been examining the impact of consumer choices, behaviour and marketing activities on culture and human well-being with respect to packaging. However, studies focusing on exploring the impact of green packaging at the level of consumer buying behaviour have been very scanty. In India, the concept of green marketing is relatively new, and the consumer buying behaviour is also different from that of the developed nations. India is an ideal market with a lot of scope, but a little research has been done in the Indian context investigating the consumer's attitude towards green marketing. This paper aims to bridge this gap by attempting to understand the relationship between the three variables, namely concern for the environment, knowledge about green packaging and beliefs about the consequences of using green packaging with consumer attitude towards willing to pay a premium for green packaged products in an emerging market context.

## 7.2 Literature Review

### 7.2.1 *Green Marketing*

The concept of green marketing found mention in popular literature almost four decades ago. In 1971; Kotler and Zaltman (1971) proposed a definition of green marketing in terms of social marketing. Henion and Wilson (1976) further developed the concept and coined a term called ecological marketing and proposed: “*ecological marketing is concerned with all marketing activities: (1) that served to help cause environmental problems and (2) that may serve to provide a remedy for environmental problems*”. Environmental marketing process was identified by integrating ecological concerns into the business, its strategies, policies, and processes. In addition, Coddington (1990) defined Green or Environmental marketing as “*the marketing activities that recognise environmental stewardship as a business development responsibility and business growth opportunity*.” He also suggested the adding of environment factors as decision-making variables in strategic marketing plans. The concept gained ground in subsequent years both in practice and in theory and got added as one of the key catalyst variables in strategic marketing decisions.

Later in the 1990s, many scholars attempted to further the discourse on environmental concerns in marketing decision-making by exploring various perspectives on green marketing. Harrison (1993) attempted to link it with the positioning of a product so that its environmental benefits are part of the consumers' purchasing decision and went on to identify organisations, consumers, competitors, regulators and government as major components of green marketing forces. On the other hand, some researchers tried to highlight the inherent dichotomy between

environmental concern and consumption practices. They proposed that the green marketing understanding must address the needs and wants of a segment of consumers who express environmental concerns (Do Paço and Raposo 2009; Finisterra do Paço and Raposo 2010). More recently Prakash (2002) articulated green marketing as strategies to promote products by employing environmental claims either about the product attributes or about the firm's processes in manufacturing or selling and distributing the products.

On the firms' side, Peattie and Crane (2005) found corporate interest in green marketing and also suggested major changes and innovation in the corporate approach. It was argued that companies are pursuing green marketing for product differentiation, new product development, product/process innovation, operational efficiencies, to enhance corporate reputation, and attain greater brand loyalty and economic benefits in the long run (Chen and Peng 2012; Han et al. 2009; Kang et al. 2012; Manaktola and Jauhari 2007; Vaccaro 2009; Vaccaro and Echeverri 2010). A number of organisations are developing and implementing long-term, proactive environmental strategies (Pujari and Wright 1995). There is an active effort by organisations to develop environment friendly (EF) products. Unfortunately, there were several incidents where such EF products were misleading and made false and trivial promises (Davis 1991), with some companies exaggerating or even fabricating the environmental qualities of their products especially in the hotel and tourism industry.

In an era of growing awareness about environmental issues lies a strange paradox. Growing awareness and increasing concern towards the environment is not able to generate expected sales for several EF products. In many consumer product categories, the EF producers have achieved disappointingly low levels of market share (Aspinall 1993; Wong et al. 1996). A recent survey's result indicated that consumers' concern about the environment continues to grow but their willingness to buy EF products has declined (Essoussi and Linton 2010; Gupta and Ogden 2009; Laroche et al. 2001; Mintel 1991, 1995). These findings support the claim that consumers are reluctant to change their purchasing patterns despite their expressed concern about the environment.

### ***7.2.2 Role of Packaging and Its Effect on Product Evaluation***

A majority of consumers seek product information and make their purchase decisions at the store (Schmidt et al. 2011). This trend has redirected the attention of brand managers towards point of purchase marketing variables. One of these strategic variables is package design, an element of the marketing mix which has received relatively little attention in the past (Prone 1993; Rosenfeld 1987). In today's competitive market, the role of the packaging is to gain the attention of the consumer, convey a strong and distinctive brand identity, and quickly and clearly

communicate the product's features, quality, and value (Becker et al. 2011; DeBono et al. 2003). Despite its criticality, there is a lack of interest about packaging as a variable in academic research as compared to other sources of marketing information (e.g. advertising and pricing). One of the reasons for this is that there is little agreement between marketing scholars about what packaging is in the marketing scheme of things. Berman et al. (1995) described packaging as a characteristic of the product, while others, like Olson and Jacoby (1972), refer to packaging as an extrinsic attribute of the product (e.g., price, brand name, level of advertising). Zeithaml's means-end model (Zeithaml 1988) classifies packaging as both an extrinsic and an intrinsic attribute. The packaging when defined in terms of physical composition of the product is intrinsic while the information appearing on the package (e.g., brand name, picture and logo) is considered an extrinsic attribute.

Cue Utilisation theory provides a natural starting point for understanding how consumers evaluate and process packaging information. Cue Utilisation theory (Cox 1967) is based on the idea that consumers utilise cues which are associated with the product as surrogate indicators for product quality. Olson (1972) defines extrinsic cues as "*attributes which are product related but not part of the physical product itself (e.g. price, brand name, level of advertising)*". He describes intrinsic cues as "*attributes which cannot be changed without altering the nature of the product itself and are consumed as the product is consumed (e.g., flavor, colour and texture of a product)*." Consumers can use information provided by packaging to evaluate eco-friendliness of products.

### 7.2.3 Green Packaging

Functional packaging characteristics such as convenience of use, design and aesthetics have been given more importance while deciding about packaging characteristic. Only in the recent past have the environmental consequences of packaging and the amount of household waste become a focus, leading to more eco-friendly products and in this context product packaging has received particular attention (Bone and Corey 2000; Cleveland et al. 2005; Rokka and Uusitalo 2008) and has been identified as a major contributor of non-degradable waste (Marshall 2007). In order to make packaging more eco-friendly, several initiatives have been introduced including (i) reducing packaging waste; (ii) increasing recycled content; (iii) enhancing biodegradability of content; (iv) reducing water usage and carbon/other particle emissions during packaging production; and (v) improving the functionality of the packaging (Lewis Helen et al. 2007). Coca-Cola apart from water recycling as a sustainable measure had launched "green" bottle in 2011. A part of the packaging initiative makes use of plant-sourced materials including switch grass, orange peels and potato peels to make bottles. Plant Bottle is the first recyclable PET plastic beverage bottle that is made from up to 30 % plant-based materials and is a 100 % recyclable bottle.

It is the marketers' responsibility not only towards the consumers but also towards society as a whole to redirect the needs and wants towards consumption which is ecologically least harmful (Fuller 1999). This might result in consumers adding the environment-friendliness of product packaging as an important attribute while taking a decision about a product. Most of the research so far has been related to waste production and disposal at the aggregate level, or to consumers' recycling behaviours (Pieters 1991; Thøgersen 1994). Few studies can be found where the environmental product packaging is explicitly studied at the buying stage as one of the determinants of consumers' product choice. Personal norms (Thøgersen 1999), social norms (Uusitalo 1989) and favourable environmental attitude are the important determinants in predicting consumers choice behaviour.

Studies (Bech-Larsen 1996; Moisander 2007) on green packaging suggest that there might be a group of consumers with a strong preference for green packaging. It has been established that consumers do value environment-friendly and ethical products. However, the daily buying behaviour of consumers is often inconsistent with this (Roizen and De Pelsmacker 1998); hence, there might be a potential market for this type of packaging. Treating the promises and problems posed by green packaging as an opportunity or a threat depends on the outlook of the various stakeholders, namely (1) customers, (2) manufacturers, (3) marketing intermediaries and (4) consumer advocacy groups and government agencies (Kassaye and Verma 1992).

There are limited studies which compare the importance of green packaging with other relevant product attributes at the level of attitudes (Bech-Larsen 1996; Thøgersen 1999), but the attributes have not been examined in a choice situation. Level of abstraction tends to have an impact on results; in general when consumers are asked about their attitudes towards packaging, consumers in general associate it with negative environmental effects, whereas when asked about a specific packaging, consumers tend to emphasise on the positive, functional characteristics of the packaging (Bech-Larsen 1996; Borin et al. 2011).

Researchers suggested that consumers will do moral reasoning only when they perceive that there are considerable environmental impacts and there are no other key attributes (e.g. price) which vary in a particular purchasing situation. Consumers fail to find any strong relation between their buying decision and various environmental consequences specially when there is no additional environmental information, such as labels, to remind them of it. Another important reason is the lack of availability of environment-friendly packaging options in the marketplace. Moreover, consumers are unable to distinguish between the more and less environment-friendly package alternatives (Thøgersen 1996). Consumers are not able to link the impact of their own 'marginal' contribution to environmental issues. Personal norms improve the likelihood to choose such environment-friendly packages in the supermarket (Thøgersen 1999).

This issue is of interest because recently many manufacturers of fast-moving consumer goods (FMCG) are investing on "green packaging" (Hartman 2009; Rigby and Tager 2008; Stewart 2008) which will reduce packaging waste and enhance the biodegradability of their product packaging. It is important to

understand and explain the factors that motivate consumers' decision to purchase, or refrain from purchasing, products that have been packaged using sustainable materials. Research suggests that consumer interest for green packaging has been growing. There is scope of further investigation on consumer attitudes and intentions towards purchasing products that have identifiable green packaging attributes, such as minimal/biodegradable packaging.

#### ***7.2.4 Knowledge, Attitude and Willingness to Pay More***

The most convincing evidence supporting the growth of ecologically favourable consumer behaviour is the increasing number of individuals who are willing to pay more for environmentally friendly products (Laroche et al. 2001). Research shows that these consumers are willing to pay a premium ranging from 5 to 20 % (Coddington 1990; Suchard and Polonsky 1991). In the case of hotel and tourism, customers are willing to pay even premium prices (Kang 2012). Realising the direct impact on many ecological problems by their purchasing behaviour, over the years, consumers adapted to the new and threatening circumstances by considering the environmental issues by purchasing ecologically compatible products (such as products wrapped in recycled material and biodegradable products).

Several factors influence consumers' willingness to pay more for EF products which have been classified into five categories: demographics, knowledge, values, attitudes and behaviour (Laroche et al. 2001). This study is looking into knowledge, attitude and behaviour. Knowledge in consumer research is distinguished as a relevant construct that not only significantly affects how consumers gather and organise information (Alba and Hutchinson 1987) but also how this information is used to evaluate products and services (Murray and Schlacter 1990) and influences all the phases in the decision process (Brucks 1985). Contradictory results concerning empirical support for the influence of consumers' ecological knowledge on their environmentally compatible behaviour can be found in the limited research. While Vining and Ebreo (1990) as well as Chan (1999) have shown that knowledge about environmental issues is an imperative predictor of ecologically friendly behaviour, Polonsky et al. (1998) found that individuals were willing to pay a premium for green products that were highly knowledgeable about environmental issues. In another study, Polonsky et al. (2011) found that both general knowledge and environmental behaviour were affected by education, age and gender, with carbon knowledge being affected by education while no demographic factors influenced carbon-related behaviour.

Attitude as per Allport (1935) has been defined as: "*A mental and neural state of readiness, which exerts a directing, influence upon the individual's response to all objects and situations with which it is related*". While attitudes of environmental concern as per Zelezny and Schultz (2000), "*are rooted in a person's concept of self and the degree to which an individual perceives him or herself to be an integral part of the natural environment*". The extant literature helps in concluding that

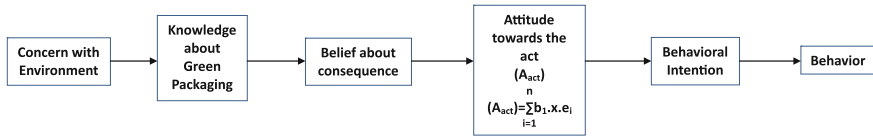
attitude represents what consumers like and dislike (Blackwell et al. 2006) and the product purchasing decisions of the consumers are often based on their environmental attitudes (Irland 1993; Schwepker Jr and Cornwell 1991).

From the extant ecological literature, importance and inconvenience are the two most studied attitudes with respect to environment friendly behaviour. Socially conscious customers with high ecological concern consider the social impact of their buying behaviour and feel strongly that they can contribute for the preservation of the environment (Webster Jr 1975; Wiener and Sukhdial 1990). This attitude impacts the behaviour of the customers towards their willingness to spend more for environmentally friendly products. Cheah and Phau (2011) in their study in Australia stated that consumers with favourable attitudes towards environmentally friendly products are more likely to purchase environmentally friendly products. Research on consumer attitudes towards green products have been scanty but are gaining speed. In one of the studies on consumer attitude towards green products, researchers have stated that consumer attitudes on the government's role and their personal norm towards the environment contributed significantly to their attitude towards green products (Chan 1999; Chen and Chai 2010; Polonsky et al. 1998). Another study in Canada checked the interplay between environmental groups and business firms, and the complexities of environmental issues while looking into consumer attitudes and behaviours and suggested that firms should be cautious about directly positioning either the firm or its products as environmentally friendly (McDougall 1993). Most recent studies on green products, attitude and willingness to pay more have been in the hotel and tourism industry (Chen and Peng 2012; Han et al. 2009; Kang 2012; Manaktola and Jauhari 2007; Vaccaro 2009; Vaccaro and Echeverri 2010; Walker 2013; Weng and de Run 2013).

Normally, many buyers perceive that the green products are costlier compared to the non-green products (Washington 2010). Indian consumers who are considered price-sensitive will search for value for the money paid by them when it comes to purchasing a green product or service. It is also likely that the Indian consumers will not be willing to pay a premium only for greenness.

### 7.3 Proposed Research Model and Hypotheses

The Theory of Reasoned Action (TRA) (Ajzen and Fishbein 1975, 1977) is one of the most widely studied models to understand the relation between attitude and behaviour. The model has received considerable support in several empirical studies of consumer's decision-making and also in social psychology (Sheppard et al. 1988). According to the theory, an individual's intention to perform a given behaviour is a function of two basic determinants: attitude and subjective norm. Ajzen's theories of reasoned action and planned behaviour have been used to study the determinants that influence consumers' intention to buy environmentally friendly products (Coleman et al. 2011; Kalafatis et al. 1999). While one study provided the conceptual framework of the research and the appropriateness of the



**Fig. 7.1** Theoretical framework

theory and was tested in two distinct market conditions (UK and Greece), the other study explored how attitudes and beliefs influence intention and behaviour. Although the findings offer considerable support for the robustness of the TPB in explaining intention in both samples, there were some indications that the theory is more appropriate in well-established markets that are characterised by clearly formulated behavioural patterns.

The study explores the relationship between consumers' attitude towards green packaging and their intention to engage in the behaviour of paying additional money to consume green packaging. As proposed by the TRA, attitude towards behaviour is the summation of the product of the beliefs (leading to behaviour which has salient consequences) and the evaluation of these salient consequences. The other component of attitude formation in the TRA is the subjective norm. The study will not focus on this part of the model. Several studies in the past have followed a similar methodology (Bang et al. 2000). The key variables measured in this study are concern for the environment, knowledge about green packaging, beliefs about green packaging and willingness to pay more for green packaging. For the concern and knowledge variables, these variables contribute to the belief component of the Fishbein model (Bang et al. 2000) (Fig. 7.1).

### ***7.3.1 Relationships Between Consumer Environmental Concern with Knowledge and Willingness to Pay More***

Environmental concern is one of the most commonly studied variables related to environmental consumer behaviour. Dunlap and Jones (2002) proposed that "*Environmental concern refers to the degree to which people are aware of problems regarding the environment and support efforts to solve them and/or indicate a willingness to contribute personally to their solution*". Simply put, environmental concern can be defined as the possession of a concern for the ecosphere itself or over the degradation of the ecosphere created by human beings.

It has been suggested that global warming and other environmental concerns will lead to a resurgence of interest in green packaging (D'Souza 2004). Consumers' interest in environmental issues is related to their concern about possible consequences of environment imbalance on their health and the future of family (Howarth and Norgaard 1995). Zaichkowsky (1987) explained that an issue, involving personal importance or values such as health or children's future, will



enhance involvement, which results in information search. Information can lead to higher levels of consumer knowledge about alternative solutions to environmental problems. Accordingly, it is expected that those people who are more concerned about the environment are more likely to be knowledgeable about green packaging or other environmentally friendly alternatives.

**H1:** Concern about the environment will positively impact knowledge about green packaging.

Consumers who are concerned about the environment indicate that they would prefer environmentally friendly products and would reward environmentally conscious marketers whom they perceive as socially responsible (Pickett et al. 1993). Consumers are also prepared to financially support their concern for the environment by paying a price premium and supporting other initiatives (Jordan 2003; Jordan and Wurzel 2004). Therefore, it seems reasonable to propose that consumers who are more concerned about the environment are more willing to pay a premium for green packaging than consumers who are not as concerned about the environment.

Thus, the study also expects the following with regard to the relationship between consumer concern for the environment and consumer willingness to pay more for green packaging:

**H2:** Higher level of concern about the environment among consumers is likely to make them willing to pay more for green packaging.

### ***7.3.2 Knowledge and Beliefs***

Perceptions and preferences about packaging and environmental issues are influenced by objective factual information and sometimes by a lack of it (Pieters 1991). It is argued that higher knowledge about green packaging would lead to stronger beliefs about the positive consequences or benefits of using green packaging and to more positive beliefs about the impact of the use of green packaging. It is further likely that concern affects knowledge, which, in turn, affects beliefs. Thus:

**H3:** Higher knowledge about green packaging tends to lead to stronger beliefs about the positive consequences of using green packaging.

### ***7.3.3 Concern and Willingness to Pay More***

As proposed by TRA, the individual's concern about environment mediated by belief and knowledge would affect behaviour. Based on this premise, it can be

argued that the user's willingness to pay more for green packaging reflects a high concern for the environment. Thus:

**H4:** Higher level of concern about the environment among consumers tends to have stronger beliefs about the positive consequences of using green packaging.

### ***7.3.4 Beliefs and Willingness to Pay More***

As proposed by TRA, an individual's overall attitude towards performing behaviour is the sum of beliefs towards and evaluation of that behaviour. Based on this premise, it can be argued that the user's willingness to pay more for green packaging reflects a positive attitude towards green packaging. Thus:

**H5:** Stronger beliefs about the positive consequences of using green packaging tend to make consumers willing to pay a premium for green packaging.

### ***7.3.5 Knowledge and Willingness to Pay More***

A consumer's knowledge about environmental issues and possible positive effects of using green packaging may result in developing more positive attitudes toward green packaging. Ultimately, such consumers may be inclined to engage in behaviour that is consistent with their beliefs or knowledge.

In other words, consumers' positive attitude towards paying more for green packaging may be further strengthened by their knowledge of its benefits. People's attitude towards an object is more likely to be consistent with their behaviour if they encounter benefits from their own direct experience (Fazio and Herr 1983). In contrast, consumers who are less knowledgeable about green packaging may be less inclined to justify the extra expense associated with its use. Thus,

**H6:** Higher knowledge about green packaging tends to make consumer willing to pay more for green packaging.

## **7.4 Research Design and Methods**

### ***7.4.1 The Choice of Packaged Products***

To explore the same, the authors of this paper have selected packaged mundane food/non-food products as product category. Previous studies on such products have focused predominantly only on their core benefits (health effects) and how

consumers are motivated by them (Bech-Larsen and Grunert 2003; Niva and Mäkelä 2007; Urala and Lähteenmäki 2003, 2004). The purpose of our study, however, is to take the core benefits as given and focus on the attribute under study i.e. green packaging that can influence the consumers' willingness to pay a higher price.

#### **7.4.2 Sample and Data Collection**

A survey was employed to examine the hypothesised associations in the cities of Kolkata and Ahmadabad. The sample of respondents was drawn from three major locations in each of the cities which represented the core shopping centres in the city. A large number of buyers who had been to these locations for purchasing were approached using mall intercept method. Of the total 450 potential respondents approached, in all 176 respondents agreed and correctly filled up the questionnaire. Thus, the final sample size was 176 respondents, indicating a response rate of 39 %. This type of data collection enabled a feasible, cost-effective and quick way of gathering the data.

In order to test the hypothesised relationships, a survey instrument was developed to gather information on respondents' concern for the environment, knowledge about green packaging, beliefs about green packaging, and willingness to pay more for green packaging. At first, a list of items was developed exploring related literature. The scales of various empirical studies by researchers (Bamberg 2003; Bang et al. 2000; Weigel and Weigel 1978) have been reported to have a relatively higher reliability. A modified scale was constructed from the list of items with the help of a focus group discussion of actual consumers. The initial list of items developed from the focus group was submitted to experts researching in the area of environment protection, consumer research and also researchers in the field of psychology. Based on feedback, a preliminary instrument was developed and administered online to a sample of consumers (29 in number and not included in the 176 respondents) to pilot test the questionnaire.

#### **7.4.3 Reliability Statistics**

Coefficient alpha ( $\alpha$ ) was used to test the internal consistency among the measurement items for a given construct. In this study, coefficient alphas of 0.89 (concern), 0.87(knowledge), 0.81(beliefs), and 0.883 (willingness to pay more for green packaging) were obtained. These results reveal that the reliability for each construct exceeds the general recommended criteria of 0.7 (Nunnally and Bernstein 1994) and meets the requirement of reliability (Churchill Jr 1979; Nunnally 1978, 2010; Nunnally and Bernstein 1978).

Alphas and the scale items with their factor loading are shown for the four constructs in Table 7.1.

Additional measures were assessed using structural equation modeling, Amos 7. There are two stages to test the proposed research model: Testing of measurement model and testing of structural model.

In the first stage, CFA is used to assess the measurement model. The reliability of the overall fit of the measurement model was checked along with the convergent validity and discriminate validity, and estimated parameters' significant level. In this study, the overall goodness-of-fit indices for the measurement model include  $\chi^2$  (CMIN) = 148.413, df = 71 ( $p = 0.001$ , significant) and  $\chi^2/df = 2.090$  (<than 3).

**Table 7.1** Reliability statistics of the measurement scales

Measured constructs/items	$\alpha$	$\lambda$	$\lambda^2$	CR	AVE
<b>Knowledge about green packaging</b>	0.87			0.87	0.70
Green packaging is important in protecting environment		0.76	0.57		
Green packaging/eco-friendly packaging is equally reliable and safe compared to other packaging material		0.88	0.78		
It is important to look for green packaging/eco-friendly packaging before making a purchase		0.86	0.74		
<b>Concern about environment</b>	0.89			0.91	0.68
Concern for environmental pollution		0.82	0.66		
Excessive usage of packaging material such as plastic which can be harmful to eco-system		0.89	0.80		
Usage of packaging materials which can harm environment		0.92	0.84		
Increase in the quantity of empty packets after consumption which is non-biodegradable		0.84	0.70		
Companies should use packaging materials which are safe for environment even if they are expensive.		0.63	0.39		
<b>Beliefs about consequence</b>	0.81			0.82	0.60
Green packaging is important in protecting environment		0.87	0.75		
Green packaging/eco-friendly packaging is equally reliable and safe compared to other packaging materials		0.68	0.46		
It is important to look for green packaging/eco-friendly packaging before making a purchase		0.77	0.59		
<b>Willingness to pay more</b>	0.883			0.90	0.75
Are you willing to pay extra price if product packaging is eco-friendly/green packaging?		0.81	0.66		
Are you willing to support local initiatives to support green packaging/eco-friendly packaging?		0.82	0.67		
Are you willing to purchase a more expensive product to reduce the amount of harmful packaging material in the world?		0.96	0.92		

$\alpha$  Cronbach's Alpha;  $\lambda$  Standardised factor loading;  $\lambda^2$  Indicator reliability; CR Composite reliability; AVE Average variance extracted

These indices demonstrate that the model is acceptable (Bagozzi and Yi 1988). The Goodness-of-Fit Index (GFI) = 0.92, the Normed-Fit Index (NFI) = 0.934 and the Comparative-Fit Index (CFI) = 0.98 are each greater than 0.9. Though the root-mean-square residual (RMR) = 0.135 ( $>0.05$ ), the root-mean-square error of approximation (RMSEA) = 0.06 (smaller than 0.08). These findings reveal that the observed variables fit the measurement model well (Bagozzi and Yi 1988). The other three indices indicators, reliability ( $\lambda^2$ ), composite reliability (CR) and average variance extracted (AVE), which complete the reliability analysis, are shown in Table 7.1. All reliability indices are within the acceptable criteria (greater than 0.5) (Bagozzi and Yi 1988) and effectively measure their corresponding constructs. Composite reliability (CR), which is between 0.82 and 0.91 (greater than 0.8); and average variance extracted (AVE), which is between 0.6 and 0.75 (greater than 0.6).

The authors start with the convergent validity for the validity analysis. Standardised factor loading ( $\lambda$ ) and AVE are the two indices used to examine convergent validity. Convergent validity can be evaluated by examining factor loadings and t-values. Referring to Table 7.1, all the standardised factor loadings are greater than 0.75. As discussed, AVE is between 0.6 and 0.75 (greater than 0.6). These results relate that all convergent validity indices meet suggested criteria and effectively measure their corresponding construct (Fornell and Larcker 1981). The discriminant validity is evaluated by a confidence interval test to examine the degrees of correlation among the constructs (Anderson and Gerbing 1988). The results show that the correlation coefficient between any two constructs plus or minus two standard errors does not include 1, and thus discriminant validity is achieved.

The second stage is to analyse the structural model. As can be seen from the table, the overall fit indices are as follows:  $\chi^2 = 111.83$ ,  $df = 68$  ( $p = 0.001$ , significant),  $\chi^2/df = 1.645$  ( $<$ than 3). The other indices, GFI = 0.914, NFI = 0.932 and CFI = 0.972, are greater than 0.9; RMR = 0.144 (ideally should have been  $<0.05$ ), but RMSEA = 0.06 (smaller than 0.08). The findings signify that the indices are all within the acceptable criteria and the structural model has a good fit (Bagozzi and Yi 1988).

## 7.5 Results

### 7.5.1 Data Analysis

To test Hypotheses 1–6, referring to the path of structural model (Table 7.2) for:

**H1:** Concern about the environment will positively impact knowledge about green packaging.

The hypothesis is supported and one can conclude that consumers who are more concerned about the environment were more knowledgeable about green packaging than consumers who are less concerned about the environment.

**Table 7.2** Path of structural model

Path (Hypothesis)		Coefficient	S.E.	C. R.	Results
<b>H1</b>	Concern about environment → Knowledge about green packaging	0.396**	0.14	2.94	Supported
<b>H2</b>	Concern about environment → Willingness to pay more	0.197	0.12	1.61	Not Supported
<b>H3</b>	Knowledge about green packaging → Beliefs about consequence	0.124*	0.05	2.33	Supported
<b>H4</b>	Concern about environment → Beliefs about consequence	0.76***	0.12	6.32	Supported
<b>H5</b>	Beliefs about consequence → Willingness to pay more	0.645***	0.13	4.89	Supported
<b>H6</b>	Knowledge about green packaging → Willingness to pay more	0.075	0.05	1.4	Not Supported

CMIN ( $\chi^2$ ) = 111.83; Df = 68; CMIN/Df = 1.645; P-value = 0.001; CFI = 0.972; NFI = 0.932; GFI = 0.914; AGFI = 0.867; RMSEA = 0.06; PLOSE = 0.15; RMR = 0.144

\* $p < 0.05$ ; \*\* $p < 0.01$ ; \*\*\* $p < 0.001$

**H2:** Higher level of concern about the environment among consumers likely to make them willing to pay more for green packaging.

As stated, concern for the environment would have an impact on purchasing behaviour. Therefore, it was anticipated that a positive relationship exists between concern for the environment and willingness to pay more for green packaging.

Results do not support the significant difference on willingness to pay more for green packaging. The study does not conclude that consumers with a higher level of concern for the environment were considerably more likely to be willing to pay a premium to use green packaging than consumers who indicated somewhat less concern about the environment. Therefore, Hypothesis 2 was not supported.

**H3:** Higher knowledge about green packaging tends to lead to stronger beliefs about the positive consequences of using green packaging.

According to TRA, one can suggest that higher knowledge about green packaging would lead to stronger beliefs about the positive consequences or benefits of using green packaging and to more positive beliefs about the impact of the use of green packaging. The results support Hypothesis 3.

This result suggests that level of knowledge is significantly related to consumers' positive beliefs about the positive effects of using green packaging.

**H4:** Higher level of concern about the environment among consumers tends to have stronger beliefs about the positive consequences of using green packaging.

The study also checked the direct linkage between concern for environment and belief about the positive consequences of using green packaging. The results supported the hypothesis.

**H5:** Stronger beliefs about the positive consequences of using green packaging tend to make consumers willing to pay a premium for green packaging.

Hypothesis 5 was supported that customers with a strong belief about the positive consequences of using green packaging tend to be more willing to pay more for green packaging than consumers with lower belief about positive consequences of using green packaging

**H6:** Higher knowledge about green packaging tends to make consumer willing to pay more for green packaging.

Hypothesis 6 is not supported from the data. Thus, it cannot be concluded that consumers with higher knowledge about green packaging are willing to pay more for the same.

## 7.6 Discussion and Implication

Hypotheses 1, 3, 4 and 5 were supported which means that if the consumer is made more concerned about the environment he will make an effort to obtain knowledge about alternatives which can protect the environment and he is willing to pay more if he believes green packaging would have positive consequences on the environment and not merely due to his concern and knowledge about the environment. A clear important finding of this study involves the strength of the relationships between attitude and consumers' beliefs for green product attributes. It cannot be concluded from the study whether they are willing to pay more for the same attributes based on their concern and knowledge. The results are in line with many studies (Byrne et al. 1971; Byrne et al. 1970; Ehrlich and Graeven 1971) where the measures of attitude made no reference to any particular behaviour, the attitudinal and behavioural entities corresponded only in terms of their target elements but not in terms of their action elements. This might also be due to the reason that consumers with high concern and knowledge about the environment are not willing to pay as companies have been exaggerating and fabricating the environmental qualities of their products (Davis 1991; Garfield 1991). Our results show that environment-friendly product aspects can have a clear positive impact on consumer choices which are confirmed from various recent studies in the tourism and hospitality industry especially concerning green positioning by hotels (Weng and de Run 2013; Dodds et al. 2013; Walker 2013). In our study, environmental packaging was a strongly preferred product attribute among consumers with higher concern and knowledge about the environment. Factors which resulted in greater awareness about environmental issues include extensive media coverage and the rise of activist groups.

Theoretically, the results can help to comprehend the attitude-behaviour dilemma found in many environmental studies. Our study showed, for instance, that consumers with higher environmental concern and higher knowledge about the

environment look for eco-friendly attributes such as environment-friendly packaging while choosing products among the different alternatives available though they are not yet willing to pay a premium for the same. Higher knowledge and concern about the environment helps in developing a belief which in turn has significant impact on the willingness to pay more. Bei and Simpson (1995) in their study suggested that consumers' environmentally compatible behaviour can be motivated by emphasising the importance of environmental issues. Apart from awareness (concern and knowledge), effort should be made in order to increase the belief that green packaging is a step towards protecting the environment which would be useful to consumers in the long run.

There is a growing concern among consumers about environmental issues, and they have a strong belief that initiatives such as green packaging can help them to contribute a little towards improving the situation. Hence, adopting green packaging might be a good differentiating strategy as they can focus on customers who are utilising environmental issues as a factor in product-buying decisions. Consumers' positive attitude towards environmentally friendly products is large enough to warrant marketers' attention to make consumers more aware and develop a stronger belief about the consequences so that they would be willing to pay a premium for these attributes. The same is in line with the finding of Laroche et al. (2001) where they found significant positive attitude to pay more for green products in a particular segment of customers. Laroche et al. (2001) in their study had done profiling of customers depending on the attitude to help the marketing managers to estimate the section who would be willing to pay more for green attributes in a product.

Companies can be benefitted from helping consumers' choice behaviour concretely, for example, by offering new environmentally product alternatives, green packaging and labels. More and more companies are educating consumers about the expediency of buying ecologically safe products. It is of primary importance for the marketers and brand managers of companies to advertise about the convenience of choosing green products to increase awareness and knowledge among the environmentally concerned consumers and also others so that they become more responsible towards the environment they live in. Companies can also include different stakeholders, including customers for developing new green products or attributes in a product which will not only increase awareness but also belief. Companies can take the initiative of environment-friendly packaging as their corporate social responsibility activities where they can partner their consumers and other stakeholders for improving the living space, i.e. environment (Polonsky et al. 1998). It is assumed that a certain set of consumers would be willing to pay a price premium for EF products; identifying them is another important challenge. This research will help in moving closer to an understanding of what causes individuals to develop an attitude or beliefs for positive impact of green products, thus helping marketers to understand their target segment of customers and profile them to develop strategies specifically targeted at these consumers. Furthermore, it is critical for companies to develop a long-term strategy plan that can make sustainable profit using green marketing strategies and also be more socially responsible.



## 7.7 Limitations and Future Research

As indicated during the early part of this paper, the study did not test all of the variables included in the theory of reasoned reaction. Thus, the study raises more questions than it has answered. For example, present research focused solely on the attitudinal components. Social norms may be an important variable in the case of the adoption of green packaging by customers. The choice of variables included in this may not be exhaustive. It would be worthwhile to know what additional variables might also influence consumers' ecologically conscious behaviour. Furthermore, it would be interesting to see what impact other factors related to the firms and their products, such as prices, brand image, advertisement and product quality have on this relationship.

The present study was based on a cross-sectional design which does not reflect the long-term impact of the variables on a consumer's attitude. A longitudinal design may be useful as it can further our understanding of the development of the consumers' environment friendly behaviour and its outcomes. The study can be further replicated in different settings and with different types of product categories. This would help in enhancing the scope of the work and also its generalisability.

Major data for this research were collected using an online survey which might have resulted in some biases. Another limitation of the study concerns the possibility of social desirability bias influencing the results. Research suggests that respondents tend to answer questions in a socially desirable way, especially when questions deal with values (Zerbe and Paulhus 1987). Because green packaging issues are closely associated with societal values, it is possible that respondents might give socially desirable answers.

Future research can be focused on the utility derived from eco-friendly or green packaging. Researchers can profile the customers and check for the validity of the hypotheses not supported in our study. Profiling of consumers on their attitude and behaviour may show different results for the unsupported hypotheses. It can be expected that in support to Laroche et al. (2001), a different profile of customers with higher concern and knowledge about the environment would be willing to pay more. Further research can also focus on consumer behaviour towards green packaging in the presence of other relevant variables such as brand name and product type.

## 7.8 Conclusion

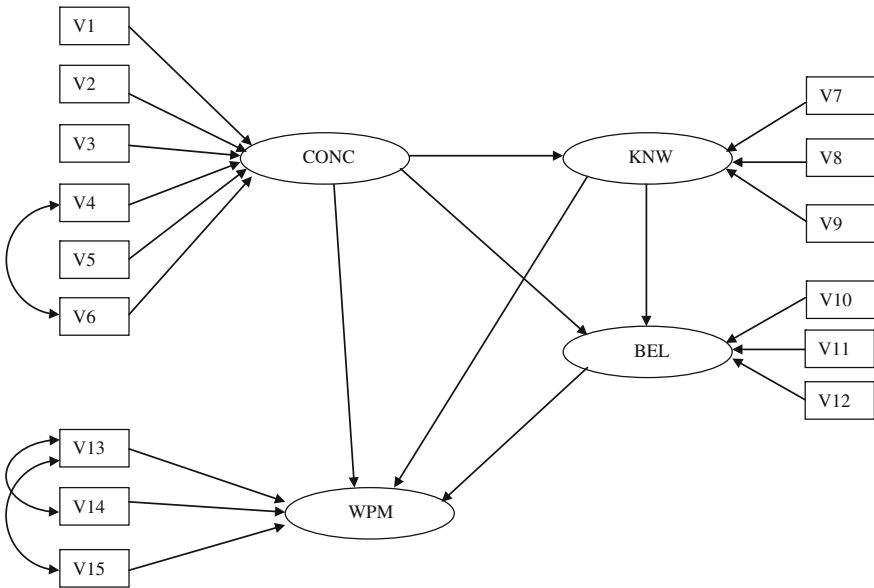
With the threat of global warming looking large, it is the right time that all nations adopt green marketing and make strict rules for the same. A majority of consumers have realised that their consumption behaviour has a direct impact on environment. The results show that rising concern would lead to gathering knowledge and beliefs of positive consequences of green product consumption for which the customers are willing to pay a premium.

## Appendix

### 7.1 Descriptive Statistics

Constructs		Range	Mean	Stand. Dev.	Median
Knowledge	High (97 respondents)	21–03	13.07	4.50	13
	Low (79 respondents)	21–13	16.40	2.49	
		12–03	8.90	2.55	
Concern	High (95 respondents)	42–08	30.90	6.90	32
	Low (81 respondents)	42–32	35.80	3.01	
		31–08	25.07	5.53	
Beliefs	High (105 respondents)	21–03	15.15	3.81	15
	Low (71 respondents)	21–15	17.7	1.9	
		14–03	11.37	2.63	

### 7.2 The Model



### 7.3 Variable Index of the model

V1	Environment pollution	CON
v2	Excessive usage of packaging material such as plastic which can be harmful to eco-system	CON
V3	usage of packaging materials which can harm environment	CON
V4	Increase in quantity of empty packets after consumption which are non-biodegradable	CON
V5	How concerned are you about the environment when making purchases?	CON

(continued)

(continued)

V6	Companies should use packaging material which are safe for environment even if they are expensive	CON
V7	Green packaging/eco-friendly packaging?	KNW
V8	Companies using green packaging/eco-friendly packaging?	KNW
V9	Different packaging material which are green/eco-friendly?	KNW
V10	Green packaging are important in protecting environment	Bel
V11	Green packaging/eco-friendly packaging is equally reliable and safe compared to other packaging material	Bel
V12	It is important to look for green packaging/eco-friendly packaging before making purchase	Bel
V13	Are you willing to pay extra price if product packaging is eco-friendly/green packaging?	WPM
V14	Are you willing to support local initiatives to support green packaging/eco-friendly packaging?	WPM
V15	Are you willing to purchase more expensive product to reduce the amount of harmful packaging material in the world?	WPM

#### 7.4 The survey instrument sources and the reliabilities in previous studies

Variable	Scale	Items	Source	Reliability
Knowledge about green packaging	Green packaging is important in protecting environment	V9	(Bamberg 2003; Bang et al. 2000)	r = 0.76, p < 0.05
	Green packaging/eco-friendly packaging is equally reliable and safe compared to other packaging material	V8	(Bamberg 2003; Bang et al. 2000)	
	It is important to look for green packaging/eco-friendly packaging before making purchase	V7	(Bamberg 2003; Bang et al. 2000)	
Concern about environment	Concern for environmental pollution	V6	(Weigel and Weigel 1978; Bang et al. 2000)	r = 0.83 to 0.87, p < 0.05
	Excessive usage of packaging material such as plastic which can be harmful to eco-system	V4	(Weigel and Weigel 1978; Bang et al. 2000)	
	usage of packaging materials which can harm environment	V3	(Weigel and Weigel 1978; Bang et al. 2000)	
	Increase in the quantity of empty packets after consumption which is non-biodegradable	V2	(Weigel and Weigel 1978; Bang et al. 2000)	

(continued)

(continued)

Variable	Scale	Items	Source	Reliability
	Companies should use packaging materials which are safe for environment even if they are expensive.	V1	(Weigel and Weigel 1978; Bang et al. 2000)	
Beliefs about consequence	Green packaging is important in protecting environment	V12	(Bamberg 2003; Bang et al. 2000)	r = 0.80, p < 0.05
	Green packaging/eco-friendly packaging is equally reliable and safe compared to other packaging materials	V11	(Bamberg 2003; Bang et al. 2000)	
	It is important to look for green packaging/eco-friendly packaging before making purchase	V10	(Bamberg 2003; Bang et al. 2000)	
Willingness to pay more	Are you willing to pay extra price if product packaging is eco-friendly/green packaging?	V15	(Borin et al. 2011; laroche et al. 2001; Bang et al. 2000)	r = 0.86, p < 0.05
	Are you willing to support local initiatives to support green packaging/eco-friendly packaging?	V14	(laroche et al. 2001; Bang et al. 2000)	
	Are you willing to purchase more expensive product to reduce the amount of harmful packaging material in the world?	V13	(laroche et al. 2001; Bang et al. 2000)	

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**Part IV**  
**Sustainability, Corporate Governance and**  
**Corporate Social Responsibility**

# Chapter 8

## Corporate Governance and Corporate Social Responsibility

Arpita Ghosh

**Abstract** The environmental, financial, social, and governance crisis, which countries across the globe are struggling with, warns the world of a resource constrained future where progress can no longer be sustained. This has made it imperative for companies, governments and civil societies to act together to address the common, universal cause of saving the ‘People’ (society), the ‘Planet’ (environment) in the process of making ‘Profits’ (economic development). The concept of corporate sustainability (CS) has come from environmental concerns, the concept of corporate social responsibility (CSR) has emerged from social concerns, and the concept of corporate governance (CG) has originated from agency problems. They all seem to have evolved to embrace the three pillars of corporate responsibility toward environmental balance, social justice and economic prosperity. This broad concept of corporate responsibility has almost become synonymous with ‘corporate sustainability.’ Within the overall broad realms of corporate sustainability, CSR can be narrowly looked upon as the responsibilities of companies toward the society in which they operate and on which they thrive. The concept of CG evolved around the ‘way’ in which business corporations should be managed and governed toward achieving their objectives, with the primary focus being maximisation of shareholders’ interests. In this chapter, an attempt has been made to understand *the interrelationships between these concepts and their implications*. The interrelationships are discussed through factors such as institutional investors, risk management, information asymmetry, board of directors, regulations, media, ethics and financial performance. A brief empirical analysis has also been conducted in the Indian corporate context to check whether CG has any impact on CS.

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R. Sarkar and A. Shaw (eds.), *Essays on Sustainability and Management*,  
India Studies in Business and Economics, DOI 10.1007/978-981-10-3123-6\_8

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## 8.1 Introduction

This paper intends to bring together two dynamic and fundamental concepts, namely ‘*Corporate Social Responsibility*’ and ‘*Corporate Governance*’ within the overall umbrella of ‘*corporate sustainability*.’ These concepts have been occupying a large space in the academic literature and business world and are assuming ever-increasing importance primarily due to growing concerns associated with the ‘*power and accountability of corporations*.’

Business corporations do bring in overall well-being in society through beneficial effects such as creating jobs, generating wealth, and providing goods which fulfill the needs of customers. But business corporations have become so large, visible, and powerful that market forces and regulations are not deemed good enough anymore to restrain their inappropriate conduct, if any. Due to this situation, many corporations are found to have achieved their growth and affluence in complete defiance of consequent negative externalities such as exhaustion of scarce natural resources, global warming, exploitation of stakeholders (such as employees and consumers), and expropriation of investors’ interests. So, the corporations, considered as engines of economic development, have been accused of having prospered at the cost of damage to the environment and society. The damage has been perceived to be higher due to globalisation which has enabled these powerful corporations to make use of resources from across the globe, particularly from the underdeveloped/developing nations and without adequate accountability. Such power and accountability concerns related to the corporations have given rise to the three concepts of ‘corporate social responsibility’ (CSR), ‘corporate governance’ (CG), and ‘corporate sustainability’ (CS).

The chapter starts with a brief primer on the concepts of ‘corporate sustainability,’ ‘corporate social responsibility,’ and ‘corporate governance’ in section 8.2. Section 8.3 involves delving deeper into the concepts individually and their integration through the lens of the extant literature. This will be followed by discussions in the later sections about the factors which create interlinkages between these concepts and the implications of such interlinkages.

## 8.2 A Brief Primer on the Concepts

### 8.2.1 *Corporate Sustainability (CS)*

The concept of ‘*corporate sustainability*’ (CS) finds its root in the term ‘sustainable development.’ The term ‘sustainable development’ came into vogue when leaders across the world from business, government and civil society joined hands to hold Earth Summits (in 1992, 2002 and 2012) to recognise that economic development

which comes at the cost of environment and society is not sustainable. The concept primarily evolved from the concerns to handle global environmental challenges such as climate change, water scarcity, land degradation, erosion of biodiversity, and the fuel crisis. The Brundtland Commission Report, 'Our Common Future' [World Commission on Environment and Development (WCED) 1987] defined 'sustainable development' as '*... development that meets the needs of the present world without compromising the ability of future generations to meet their own needs.*' The definition emphasises a quality of development which ensures equitable fulfillment of intra-generational and intergenerational needs.

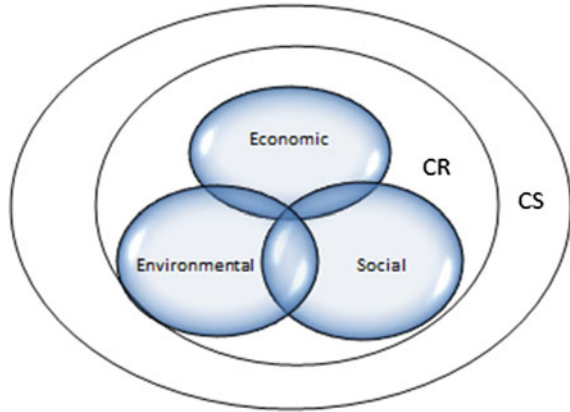
The concept of 'sustainable development' when incorporated into corporate strategies became popular as 'corporate sustainability.' In line with the above WCED definition, United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) has defined '*corporate sustainability*' as '*meeting the needs of a firm's direct and indirect stakeholders without compromising its ability to meet the needs of future stakeholders.*' The definition has both a time dimension as well as a stakeholder dimension. Dow Jones Sustainability index (DJSI) defines CS as '*a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments.*' Such definitions look at CS as a business approach with a clear focus on the creation of long-term value for shareholders.

Overall, one can say that '*corporate sustainability*' suggests that corporations seek to achieve the triple bottom-line goals (Elkington 1997) of economic prosperity (profit), social equity (people), and environmental balance (planet). So, companies operating in a sustainable manner behave in a way which is not only in the interest of people and planet, but also in the interest of their own long-term survival and growth. One can thus note that the concept of 'corporate sustainability' (CS) originally emerged from environmental concerns and then has been broadened to include all three pillars of economic growth, environmental protection, and social equality.

### **8.2.2 Corporate Social Responsibility (CSR)**

There is hardly any universal consensus on defining the concept of CSR. CSR can be looked upon as the social component of corporate responsibility (CR) contained in the broader set of corporate sustainability (CS). One of the very popular definitions of CSR is the '*obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society*' (Bowen 1953). CSR is also often viewed to be voluntary in nature and to be manifested in the form of philanthropy and corporate charity toward creating a positive impact on society. Davis (1960) linked the power and accountability of business by holding that 'social responsibilities of business

**Fig. 8.1** Corporate sustainability, corporate responsibility and the three subsets



need to be commensurate with their social power.’ The Committee for Economic Development (CED) 1971<sup>1</sup> introduced CSR by saying ‘business functions by public consent and its basic purpose is to serve constructively the needs of society to the satisfaction of society.’ This definition also has a social focus.

WBCSD (World Business Council for Sustainable Development) goes a little broader and defines corporate social responsibility as, ‘the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.’ So, based on these definitions, one can say that CSR is one of the means of achieving the triple-bottom-line goals of ‘Corporate Sustainability’ (Fig. 8.1).

### 8.2.3 *Corporate Governance*

The concept of *corporate governance* found its origin in ‘agency concerns’ in business corporations, arising primarily due to conflicts of interest between shareholders and managers. The term ‘governance’ derives its root from the Latin word ‘gubemar’ which means, ‘to steer.’ So ‘corporate governance’ broadly refers to ‘*the system by which companies are directed and controlled*’ (Cadbury Committee Report 1992, UK). The concept is fundamental to the continuing operations of a company. Corporate governance is about leading a company in a fair, transparent, and accountable manner while protecting the rights of the shareholders. When companies are run in this fashion, it builds the confidence of the investors as well as promotes transparency and efficiency in capital markets. This often acts as an important factor in attracting foreign investments.

<sup>1</sup>Social Responsibilities of Business Corporations, 1971.

Failures of corporate governance found in corporate scandals (like Enron, WorldCom, Tyco in the US; or Parmalat, A hold in Europe; or Satyam in India) as well as in vulnerable capital markets (like the East Asian financial crisis of 1997), triggered the need for formulation of CG norms. The norms were found to need further strengthening in light of the global financial crisis of 2008.

### **8.3 Theories of Corporate Governance (CG) and Corporate Social Responsibility (CSR)**

This section will dig deeper into the literature of CG and CSR to set the context for understanding the interrelationships among them. *Corporate governance* involves deciding about the objectives of a corporation. It comprises of a system of controls and incentives which govern the corporations toward meeting their objectives. The definition triggers the question as to *what is the objective of a corporation and in whose interest it should be run.*

#### **8.3.1 Shareholder Theory versus Stakeholder Theory of CG**

The question has bought in an interesting debate between two contrasting views, namely a *'shareholders' view'* and a *'stakeholders' view'*. According to the *'shareholders' view'*, also called the traditional view, the objective of a corporation should be to maximise value for its shareholders. Shareholders provide the risk capital for the company and, therefore, are the owners and residual claimants of a company. So, going by the property rights of the investment and the risks undertaken by the shareholders, it is argued that the company should be directed and controlled in the best interest of shareholders only. This fits with CG defined as *'the ways in which suppliers of finance assure themselves of getting a return on their investment'* (Shleifer and Vishny 1997). The *shareholders view* goes to the extent of arguing that the one and only one social responsibility of business is to maximise profits, of course, without committing any fraud (Friedman 1970). So as per the traditionalist, *shareholders view*, popular in 1970s, spending money for socially responsible causes might not be the way shareholders want to spend their money. Shareholders might prefer the company resources to be utilised toward core commercial activities. So, CSR would look like doing philanthropy and the squandering of useful corporate resources and thus somewhat of a violation of the fiduciary duty entrusted to the managers. There was also a moral hazard argument according to which managers (agents) spend money on CSR opportunistically to build their *own reputation* and promote their own political, social or career agendas, which compromises on the interests of the shareholders (principals). So, *this view has contended that CSR is value destroying and against 'desirable CG,' which should protect the interests of shareholders.*

On the other hand, the ‘*stakeholders view*’ has widened the accountability of companies and posited that in order to be successful, it is critical for a company to go beyond the maximisation of shareholders’ interests to taking actions which *balance the interests of wider, multiple groups of stakeholders* such as employees, suppliers, customers, communities, government, trade associations, regulatory authorities, media, and NGOs (Freeman 1984; Roberts 1992). This is in line with the *resource dependency theory* which proposes directors of a company to be the lynchpin between the company and the external resources the company needs to achieve its goals.

The stakeholder view has made CSR look positive, in light of the social contract of the firm with society. The argument was that companies operate in a social environment comprising of various stakeholders and if a company fails to operate in a way consistent with what is expected or considered *legitimate* by the stakeholders, its survival might be threatened (*legitimacy theory*). So, undertaking CSR activities was considered important to meet the stakeholders’ expectations as contained in the institutional framework of formal regulations or in informal norms (*institutional theory*). Other than ‘shareholders’ theory’ and ‘stakeholders’ theory,’ there are various other theories of CG and CSR, the discussion of which is done in the following part of this section.

### 8.3.2 *Other Theories of CG*

A significant body of CG literature has developed in the context of ‘*Agency Theory*’ where a firm is believed to be a nexus of contracts (Berle and Means 1932; Jensen and Meckling 1976). It is argued that *separation of ownership and control* due to the ownership of companies by multiple, dispersed shareholders (principals), and delegation of decision making authority by shareholders to managers (agents) leads to information asymmetry between the principal and agent. The delegation assumes an expectation that the managers will make best possible use of the financial resources entrusted to them and generate maximum returns on their investments. But if both the parties are utility maximisers, there is a potential that managers might make use of the information asymmetry to conduct business operations in their own personal interest, to the detriment of the shareholders’ best interests. For example, the managers might have a tendency to invest in their favourite projects and build an empire, even if the projects are not in the best interest of the company (adverse selection). They might have a tendency to get themselves overpaid (expropriation). The managers might be lazy, inefficient, and shirking on their stewardship role in particular, because this behaviour is difficult to observe (moral hazard). All this would erode firm value. This reduction or erosion in firm value arising out of the separation of ownership and control is termed as ‘agency costs,’ which the *corporate governance mechanisms* seek to minimise. *Agency costs can be minimised and thus firm value improved* through monitoring and exercise of control on the managers through CG mechanisms, external or internal to the company.



- a. *Internal governance mechanisms* can include the following:
- i. *Ex-ante monitoring and disciplining managerial actions* undertaken by the board of directors (who are elected by the shareholders), internal audit and controls, and large shareholders (block-holders).
  - ii. It can also include *incentivising the managers* to act in congruence with organisational interests by designing managerial compensation, which aligns the interests of managers with that of the shareholders (say, through profit-linked bonus, share-based compensation etc.).
- b. *External governance mechanisms* can be in the form of:
- i. *Ex-ante monitoring by institutional investors* or,
  - ii. Market-based controls arising from product market competition, labor market<sup>2</sup> competition, market for corporate control/takeovers<sup>3</sup>, capital markets, and security analysts or,
  - iii. *Ex-post monitoring of disclosures* by external auditors, or debt covenants levied by lenders, or regulations like investor protection laws (La Porta et al. 2000) or, pressure from the media.

*Transaction Cost theory* from economics, which is based on the ‘nexus of contracts’ view of the firm (Coase 1937), argues that a firm exists because there are economic benefits to undertaking transactions internally rather than externally. But since the contracts by their very nature are likely to be imperfect and incomplete, it looks at the governance structure as a mechanism to handle decisions in such contracts in a way which aligns the interest of the principal and agent.

*The Stewardship Theory* of CG complements the agency theory by arguing that managers might not always be opportunistic but they might act as responsible, trustworthy stewards protecting and making the best use of the resources entrusted to them by the shareholders (James et al. 1997).

This belief would require managers to be empowered for decision making rather than controlled.

Under *Managerial Hegemony Theory*, directors consider themselves as elites and they recruit/promote new directors based on their criteria of elitism while *Class Hegemony Theory* believes that the managers, through their operational knowledge, can dominate and control the directors as well as weaken the influence of directors on decision making.

Corporate governance concerns and therefore, the CG norms differ across countries depending upon the institutional environment, enforceability of investor protection laws, efficiency of capital markets, and reliability of accounting

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<sup>2</sup>Value of the managers in the labour market goes up if their firms perform well.

<sup>3</sup>Poor performing firms being taken over and the managers being fired post takeover—Morck et al. (1988).

standards as well as the culture and societal values of the country. For example, unlike in Anglo-Saxon countries, the CG concern in Asian economies is about expropriation of minority shareholders' interests by large, controlling shareholders (typically family control) (principal-principal agency problem).

### 8.3.3 Theories of CSR

CSR can be *strategic, coercive, and altruistic* (Husted and Salazar 2006). *Strategic CSR* focuses on maximising profits and firm value and has a business case. It can be said to fall within the realms of acceptability of agency theory. *Coercive CSR* makes use of regulations, taxes, and subsidies to force CSR behaviour when CSR is needed and voluntary CSR is missing. A few examples of such regulations are pollution control laws and mandatory 2 % CSR spending required of companies of certain financial health in India by the Companies Act 2013. If there are regulations driving certain CSR behaviour, companies would undertake such CSR simply in order to comply with the regulations and to avoid penalties, if any, associated with non-compliance. *Altruistic CSR* focuses on social good and charity. Companies are said to be good 'corporate citizens' if they undertake CSR out of philanthropy to meet the general expectations of society, over and above those required by law.

Apart from the economic, social, and legal dimensions, Carroll brought in an 'ethical' and 'philanthropy' dimension to CSR. She proposed a three-part conceptual model for 'Corporate Social Performance (CSP)' containing four responsibility dimensions (economic, legal, ethical, and philanthropic), related responsibility issues, and possible organisational responses (such as reactive, defensive, accommodative, and proactive) (Carroll 1979, 1991, 1999). Wood (1991) came up with a more comprehensive theory of CSP based on stakeholders' expectations and talked about the principles of CSR at three levels (institutional, organisational and managerial), processes of corporate responsiveness, and outcomes of CSR behaviour. Principles at *institutional level* focused on legitimacy and considered business obligations such as social institution in the context of the power-responsibility equation; principles at *organisational level* were about public responsibility confined to outcomes related to the involvement of business with society; and principles at *managerial level* left CSR upto the discretion of managers, who were considered moral actors.

There has evolved a huge literature on *strategic CSR* which focused on the business case of CSR and how CSR can provide *competitive advantage*. For example, the *Supply and demand view* of CSR (McWilliams and Siegel 2001) theorised that companies would undertake CSR as a means to leverage the demands of the external environment as opportunities, with a view to maximise profits. The *Resource-based view holds that* companies choose to go for CSR in order to create firm-specific intangible resources which are costly to imitate and hence provide a long-term competitive advantage (Clarkson et al. 2011; Russo and Fouts 1997; Porter and Kramer 2006). The competitive advantage can be in terms of *internal*

*benefits* related to know-how, corporate culture, committed workforce etc., or *external reputational benefits* (Russo and Fouts 1997). This falls in line with Elkington (1997), who referred to business firms as:

‘cannibals’ who would use the ‘fork’ of the ‘concept of sustainable business’ to devour their competitors and progress into a new stage of civilization.

When the triple-bottom-line goals of economic prosperity, social justice and environmental protection are put together, it leads to *the concept of ‘corporate responsibility’ or ‘corporate sustainability.’* So, CG and CSR can be regarded as two of the three ‘prongs’ of the corporate sustainability ‘fork’.

## 8.4 Integration of the Concepts

Most of these theories of CG and theories on strategic CSR looked at taking care of the interest of multiple, broad groups of *stakeholders* as the means of achieving *wealth maximisation for shareholders* and not necessarily taking care of the interests of the stakeholders if it comes at the expense of reduction in shareholders’ wealth. This is reverberated in the G20/OECD Principles of Corporate Governance (2015) which mention that:

Corporations should recognise that the contributions of stakeholders constitute a valuable resource for building competitive and profitable companies. It is, therefore, in the long-term interest of corporations to foster wealth-creating cooperation among stakeholders.

It suggests that CG, in a broad sense, means aligning and balancing the interests of all stakeholders. A broad view of CG can also be found in the words of Sir Adrian Cadbury,<sup>4</sup> *‘corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals.’* The broad view is even clearer in the following quote:

‘Good corporate governance is the glue that holds together responsible business practices, which ensures positive workplace management, marketplace responsibility, environmental stewardship, community engagement, and sustained financial performance.’ Thierry Buchs, Head, Private Sector Development Division of Switzerland’s State Secretariat for Economic Affairs (SECO).

CG failures affect all stakeholders. It is important to note that corporate collapses have adverse consequences not only for the shareholders, but also for other stakeholders such as employees, suppliers, and customers in the value chain, NGOs, and ultimately the society as a whole. So, the responsibility of the companies toward meeting their economic goals also takes care of stakeholders’ interests to a large extent. Therefore, we can say that a company, maximising shareholders’ wealth, is benefitting the society and therefore, is socially responsible

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<sup>4</sup>In the foreword to ‘Global Corporate Governance Forum’ World Bank 2003.

on its own. It can also be said that the shareholders' interests and other stakeholders' interests are not necessarily at the opposite ends of the continuum as shareholders, particularly, the institutional investors might also be committed to economic, social, and governance issues. In such scenarios, taking care of these issues can be said to be tantamount to taking care of shareholders' interests.

After having discussed the two concepts of CG and CSR at length, the following sections will deliberate on the factors which provide *interlinkages* between the two concepts and the implications of such interlinkages.

#### ***8.4.1 Institutional Investors as Corporate Governance Mechanism as Well as Driver of CSR and Sustainability***

The ownership structure of the corporations has been undergoing significant change and is gradually getting concentrated in the hands of institutional investors. Institutional investors such as banks, mutual funds, pension funds, insurance companies, and hedge funds have become very powerful by virtue of the huge amount of wealth they control, and the significantly large and increasing percentage of equity investments they hold. *Investment in companies by institutional investors is perceived as a corporate governance solution to the 'free-rider problem' in monitoring the companies which can arise out of dispersed ownership.* Institutional investors are more sophisticated, more knowledgeable about business, and have better monitoring skills than dispersed owners. Owing to their large equity stakes in the companies, they have more power and ability to garner more information about the operations of the company. *So, institutional investors are expected to provide better ex-ante monitoring of the companies and therefore, they have become a very important part of the CG mechanism.*

Due to the large amount of wealth at their disposal, institutional investors are expected to behave as responsible guardians of people's money and engage in 'Responsible Investing.' Accordingly, they have started using environmental, social, and governance (ESG) screens in their investment decisions. Long-term value (Bebbington 2001) and returns comparable with conventional investments associated with use of such screens has led to the growth of Socially Responsible Investments (SRI)<sup>5</sup> (Renneboog et al. 2008) and the development of various sustainability indices across the world, like the Dow Jones Sustainability Index (DJSI). Trading by institutional investors is also likely to have an influence on stock prices. So, one can infer that by running business in a socially responsible way and by reporting the same, *a company can attract investments from institutional shareholders.* This can go a long way in increasing a company's access to capital markets

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<sup>5</sup>In 2012, sustainable and responsible investing accounted for around \$3.74 trillion out of \$33.3 trillion in the US investment market place (<http://ussif.org/resources/sriguide/srifacts.cfm>).

and reduction of its cost of capital. It therefore becomes imperative for CSR and sustainability issues to be incorporated in corporate strategies. Empirical literature has also found institutional ownership to be positively associated with corporate social performance (Coffey and Fryxell 1991). It is clear that *institutional investors, who provide one of the important mechanisms of corporate governance, seem to be getting interested in investing in companies which are more engaged in CSR and sustainability activities*. This phenomenon can play an important role in bringing CSR and corporate sustainability into the portfolio of corporate governance issues.

#### **8.4.2 Incorporation of ‘Risk Management’ into the Concepts of CG, CSR, and Sustainability**

Running any business involves handling uncertainties and managing risks, more so in today’s volatile and globalised, connected business environment. So, ‘risk management’ is considered to be an integral part of corporate governance, and ‘risk-oversight’ is considered one of the important responsibilities of the board of directors. Directors of a company need to understand the risks facing a company holistically at the enterprise level, in the context of business strategy, while keeping in mind the company’s risk appetite and risk capacity, so that they can ensure that an appropriate risk response has been devised (i.e., the risks to be avoided, minimised, accepted, transferred, and used to create value). However, during the global financial crisis of 2008, risk management was found to be one of the important *weak areas of the prevailing CG practice*. Several companies suffered huge losses due to failed risk management. If risk management is truly embedded in CG practice, it has been found to act as a source of core competence and competitive advantage.<sup>6</sup>

Risk Management in a company cannot be considered holistic if risks such as compliance risks, legitimacy risks, and sustainability risks stand ignored. For example, a company might have to pay a huge penalty for failing to comply with environmental rules; its legitimate existence might be threatened in the face of loss of reputation. With rising levels of stakeholder sophistication, stakeholder empowerment, and their increasing expectations, a company cannot afford to ignore these risks.

CSR can be very important in the corporate risk management process, by way of helping companies identify potential sustainability risks and devising appropriate response mechanisms. This facilitates an effective way of managing relationships with various stakeholders. The key to effective risk management thus lies in engagement with all stakeholders, managing their expectations, and making them participate in the risk management process. The importance of CSR in risk

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<sup>6</sup>Recent studies have found that companies which are more mature in terms of their risk management earn higher profits than their peers (Ernst and Young 2012).

management is reflected in ‘Sustainability Risks’ being incorporated in COSO’s Enterprise Risk Management (ERM) framework.

Rather than using CSR to react to survival threats, companies can use CSR proactively as a real option tool of risk management, thereby focusing on its upside potential. For example, companies can engage in CSR activities in an innovative way to exceed stakeholders’ expectations, which can lead to large intangible benefits. The view of risk management has thus evolved from focusing on ‘economic issues’ to include broader risks associated with environmental as well as social issues, which can have long-term implications. These risks can be minimised by incorporation of sustainable development goals in corporate strategies, linking the broader stakeholders’ concerns with core business operations, and inviting stakeholders’ participation in the risk management process.

### ***8.4.3 Effect of CG and CSR in Reducing Information Asymmetry and Cost of Capital***

Corporate governance mechanisms such as monitoring and disclosures are expected to reduce information asymmetry between the managers and the outsiders, and bring down agency costs. This can bring reduction in the cost of capital of the company, which in turn can increase firm value. Evidence of the reduction in information asymmetry has been found for companies scoring high on CSR activities (Lopatta et al. 2015). It might be because companies engaging in CSR, through effective stakeholders’ management, gain higher confidence of the investors. They are perceived to have higher moral standards and higher transparency. It is also possible that the companies which engage in CSR also put in effort to minimise information asymmetry.

*So both CG and CSR are found to bring a reduction in information asymmetry as one of the common outcomes, which in turn can be expected to boost firm value, through lower cost of capital.*

### ***8.4.4 Role of the Board of Directors in Leading from the Top—Creating Long Term Value***

Another factor which creates an interlinkage between CG and CSR is the role of the board of directors. The board of directors of a company comprises the most important internal mechanism of corporate governance. They provide oversight as well as overall strategic direction to the companies. Corporations have realised that social responsibility and sustainability goals need to be incorporated into core corporate strategy, and that implementation of the same requires leadership from the top. The recent global crisis has found gaps in corporate governance which suggest

that rather than adopting a checkbox approach to corporate governance, it is important for the board to provide thought leadership to the firm in achieving its objectives.

Boards of directors have started recognising that in governing corporations, it is important to adopt ‘CSR’ and ‘sustainability’ as part of corporate strategy because it would help companies gain competitive advantage and create long-term value for the shareholders. They have an important leadership role to play in sensitising senior managers to the risks and long-term value associated with handling CSR and sustainability issues. It is important for boards of directors to appreciate that the firm value can be created as well as long-term license to operate can be achieved by a company, by taking care of the stakeholders as follows:

- **Employees:** Boards should understand that the company will build reputation as employer and attract talent, not only if it provides fair recruitment, fair wages, timely promotion, and safe working environment, but also if it takes care of their health, education, and training (Greening and Turban 2000). All these would create a productive, skilled, healthy, motivated, and committed work force, a very valuable intangible resource which can be used further, to improve upon product quality through innovation.
- **Customers:** Boards should also take cognizance that a company cannot survive if it does not invest in customer satisfaction and loyalty through fair prices, safe products/services, and responsible marketing of their products (Pivato et al. 2008). Sophisticated customers today are willing to pay a premium for sustainability<sup>7</sup> and sustainable products. All this helps boost the profits of the company through higher market share and differentiation pricing.
- **Environment:** Boards should also be conscious about the impact of the company on the environment. A company causing harm to the environment not only gets negative publicity, but also lands up spending money on fines and legal costs of fighting suits (Chen and Metcalf 1980). A company should, rather, make efficient use of natural resources (material, energy, water etc.), adopt clean technology to minimise pollution, preserve biodiversity, and recycle waste. Being environment friendly adds to the reputation and brand value of the company.
- **Investors:** Boards should also realise that the investors need to have confidence in the company to ensure that they supply their funds to the company. CSR practices and sustainability reporting can help build credibility in their eyes. A positive image can also have the effect of lowering the cost of capital (Ng and Rezaee 2012) and thereby increasing firm value.
- **Community:** Directors should be caring about the well-being of the local community and its inclusive growth. It can get employees and suppliers from the locality, provide charitable contributions toward building schools, hospitals, toilets, and require its employees to engage some hours in helping people around. This will help the company win the trust of the community, which then acts with greater cooperation.

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<sup>7</sup><http://mashable.com/2014/06/30/sustainability-consumers/#SpVNbEtPmkq9>.

- **Human Rights and Anti-corruption:** Human right abuses like discrimination in the workplace based on gender/ethnicity etc., use of child labor, forced labor etc., hurts individuals and society while anti-corruption measures win the trust of the stakeholders. Boards should understand the threat to corporate reputation if the company fails to ensure that it is against human rights abuses and does not have anti-corruption mechanisms in place.
- **Regulators and civil society:** The directors should also be able to see that companies engaged in superior CSR are likely to get favourable treatment from the regulators and government. It also leads to favourable media coverage and least disruptive intervention from NGOs.

A company, whose board encourages it to adopt CSR and sustainability as a strategic imperative is likely to *differentiate itself by exploring innovations* in using resources efficiently, in using technology and in producing customer-friendly products. So, boards by incorporating CSR and sustainability focus in their governing role can help companies gain competitive advantage and thereby enable them to outperform their peers in the long run. Overall, the companies can build intangible assets such as brand value and reputation for themselves. Intangibles are valuable assets which are attributed to be as high as 80 % of the true value of an average firm for S&P 500 companies.<sup>8</sup>

Among various criteria, which make the board of directors an effective corporate governance mechanism are as follows: size, independence, and ability of the directors to devote adequate time to the company affairs, etc. One can therefore expect these board characteristics to be positively associated with a company's sustainability performance. I summarise these observations for Indian companies in a later part of the chapter. Having at least one woman on the board is considered to be a desirable CG practice. It can also have a positive influence on the CSR practice of a company.

## 8.5 Regulations Related to Corporate Governance, CSR, and Sustainability

Corporate governance and corporate sustainability regulations and norms developed in an isolated way. The need for bringing in mandatory regulation is felt strongly when market mechanisms are not effectively operational. Information asymmetry, which is at the heart of corporate governance is possibly increasing with increasing complexities in business and with increasing information load caused by technological advances. Increasing dispersion in the ownership of companies aggravates the free-rider problem in monitoring corporate behaviour. So,

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<sup>8</sup>Ocean Tomo, LLC, "Ocean Tomo's Annual Study of Intangible Asset Market Value—2010," 4 April 2011, <http://www1.prweb.com/prfiles/2011/04/04/8269063/OT%20IAMV%202010%20Release%20FINAL%204-11.pdf>.



with lesser complexities, CG norms were voluntary in nature in the initial years. But with increasing information asymmetry and free-rider problems, they have evolved to become more mandatory in nature.

CG norms are different across countries and have changed over time. High-profile corporate governance failures<sup>9</sup> have given rise to CG norms world-wide. The more important CG norms which had national and international impact include the Cadbury Report (1992), Sarbanes-Oxley Act (2002), and OECD Principles of Corporate Governance (1999, 2004, 2015). One can classify CG norms into two broad categories: *Principle based and Rules based*. For example, CG practice in the US as per the Sarbanes Oxley Act and other regulations from SEC/US stock exchange is rule based and mandatory, requires more disclosures, and is subject to severe non-compliance penalties. On the other hand, CG practice in United Kingdom as per the Combined Code in the UK; or CG as practiced in OECD countries as per the OECD Principles of CG is principle based. Companies are expected to ‘comply or explain.’

The recent financial crisis of 2007–2008 showed the need for strengthening CG norms further. The Dodd Frank Act 2010 was enacted in the US (to bring greater transparency to boards, top management positions, and their compensation). According to OECD studies (Kirkpatrick 2009), the recent global financial crisis of 2008 can be largely attributed to the failure and weaknesses in corporate governance particularly in the areas of risk management, board practices, the exercise of shareholder rights, and executive remuneration. This provided the most recent trigger for the ‘OECD Corporate Governance Committee’ to review and come up with a revised text for the ‘G20/OECD Principles of Corporate Governance’ (2015).

In India, the time line of corporate governance guidelines is as follows: It began in 1998 with the Confederation of Indian Industries (CII) bringing in ‘desirable corporate governance’ as a voluntary code for adoption by listed companies. This was followed by the Kumar Mangalam Birla Recommendations (1999), Clause 49 of the listing agreement of SEBI (2000), Narayanan Murthy Committee recommendations (2006), Naresh Chandra Committee Report (2009), Adi Godrej Committee recommendations (2012), Companies Act 2013, and SEBI’s new corporate governance norms (2014). All these guidelines have evolved commensurate with best practices in CG developed internationally and in tune with the country context. For instance, CG norms in the UK have a focus on strengthening the board, controlling the CEO, and in ex-ante monitoring and internal controls; while CG norms in the US focus on incentivising managers and ex-post monitoring through external audit. In India, the CG norms balance strengthening of board (independence, diversity, separation of CEO-Chairman duality, committees) with disclosure requirements. The norms are partly mandatory and partly voluntary. It is believed that the companies will adopt the best practices beyond the rubric of law.

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<sup>9</sup>Like Bank of Credit and Commerce International (June 1991), Maxwell Group bankruptcy (1992), Enron, Worldcom, Parmalat (2002).

### 8.5.1 Guidelines on CSR and Sustainability Reporting

The idea of triple-bottom line goals brings in accountability which in turn can be demonstrated through corporate reporting. Several initiatives have been taken worldwide to encourage corporate sustainability reporting. Global Reporting Initiatives (GRI) G3 guidelines, United Nations Global Compact (UNGC)'s annual 'Communication of Progress (COP)' and Carbon Disclosure Project (CDP)'s annual questionnaires are some of the popular global frameworks available for *sustainability reporting*. All these put pressure on companies to act in a sustainable way as well as report how well they are performing on triple-bottom-line counts.

In India, some environmental disclosure regulations were in place since the 1980s.<sup>10</sup> Clearer sustainability reporting rules however have emerged lately. In December 2009, the Ministry of Corporate Affairs (MCA) issued *CSR Voluntary guidelines*<sup>11</sup> to encourage businesses toward socially, environmentally, and ethically responsible behaviour. Two years down the line, in July 2011, MCA released *National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of business (NVG)*, which laid down nine comprehensive core principles to be adopted by companies as part of their business practice and structured a format for business responsibility reporting. A company was required to either report its sustainability performance or explain the reason for not doing so.

Within a year from the release of NVG, in August 2012, Securities and Exchange Board of India (SEBI) issued a circular mandating the top 100 listed companies (based on market capitalisation) to submit a Business Responsibility (BR) Report as part of their annual report, with effect from financial year ending on/after December 31, 2012. This is in tune with the recent inclination of global investors toward an 'integrated reporting framework,'<sup>12</sup> which will help comparison of companies across markets.

The Companies Act 2013 requires companies which meet certain thresholds in terms of sales, net worth, or profits to have a committee on CSR, a CSR Policy on

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<sup>10</sup>According to the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 (effective from 1st April 1989), every company is required to disclose, as part of its Director's Report, efforts made by the company toward conservation of energy, technology absorption and its foreign exchange earnings and outgo. SEBI's Clause 49 of listing agreement provides an exhaustive list of matters that a listed company must place before its Board and the same includes ESG issues like pollution problems, significant labor problems, product liabilities etc. In June 2008, GOI released 'National action plan on climate change', which intended to promote clean technology and outlined eight national missions to be worked through 2017.

<sup>11</sup>The document indicated six core elements to be covered in the CSR Policy of a company and suggested that companies disseminate their CSR activities through websites, annual reports and other media. The six core elements were: Care for stakeholders, ethical functioning, respect for human rights, environment and workers' rights and welfare, activities for social and inclusive development.

<sup>12</sup>It is being developed by International Integrated Reporting Council (IIRC). It intends to include non-financial disclosures like those related to sustainability; risks etc. into corporate reporting framework.

the Board's report and to spend 2 % of their 3-year average profits<sup>13</sup> on CSR activities. With this requirement, India became the first and the only country in the world to have mandated CSR spending.

So one can see how over time, the government and regulatory bodies in India changed their role from being 'enablers' to becoming 'enforcers' of CSR spending and corporate sustainability reporting. With the new regulations, companies in India can be expected to be active on CSR and sustainability performance.

## 8.6 Market, Media, and Ethics—CG and CSR linkages

Markets and media act as a CG mechanism as well as pressure factors discouraging socially irresponsible behaviour. The customers in product markets, employees in the labor market, and investors in the capital market are likely to choose and engage with a company with better CG and superior CSR. Even the 'purchase consideration' in the market for mergers and acquisitions can be influenced by the CG and CSR superiority of the target company. Media also acts as one of the important means to make the companies accountable to the minimum standards of ethics, responsibility, and governance. Media can create a positive image about firms particularly, before seasoned equity offerings, at the time of low investor sentiment, and when operating in sin industries (Cahan et al. 2015). It is also often used for 'green-washing,' to conceal harmful impact of a company's operations on environment. Corporate ethics provides an important link with both CG and CSR. Unethical behaviour has been found to lie at the heart of numerous corporate failures like Enron. This has motivated companies to engage in various ethics programmes, so as to encourage and monitor ethical performance and make ethics part of the corporate culture. A company, which has strong ethics integrated in its corporate culture, is less likely to have corporate governance failures. Johnson et al. (2008) proposed that companies can choose from four possible 'ethical stances,' namely short-term shareholder interest, longer term shareholder interest, multiple stakeholder obligation and shaper of society. 'Short-term shareholder interest' is the least ethical stance while the 'shaper of society' is the best. The ethical dimensions, when embedded in corporate culture, can not only be expected to encourage better CG, but also would take CSR activities to a progressive level.

## 8.7 Effect of CSR and CG on Financial Performance

Both CSR and CG can be expected to affect the financial performance of a company and its value. CSR can be value destroying if it is driven by the manager's personal agenda of social reputation, political connections, or career advancements (agency

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<sup>13</sup>Central public sector enterprises (CPSE) are mandatorily required to set aside a part of their profit for CSR activity.

concerns). However, CSR is expected to have a positive influence on firm performance if it is undertaken to balance the diverse interests of multiple stakeholders (stakeholder theory). When engagement and care of the stakeholders such as employees, suppliers, customers, government, civil society, community, and investors brings their trust and confidence in a company, its sustainability risks get minimised. Reduced sustainability risks can be expected to bring down the 'risk-adjusted cost of capital' of a company. CSR can also increase the number of years of future expected cash inflows, by providing the company with a longer period of license to operate in society.

Higher 'future expected cash flows' discounted by a lower 'risk-adjusted cost of capital' can be theorised to have a higher firm value. An overwhelming number of studies attempted to find out whether corporate social performance (CSP) has a positive influence on corporate financial performance (CFP), but no clear evidence could be gathered yet (Margolis and Walsh 2001; Orlitzky et al. 2003; Allouche and Laroche 2005; Lo and Sheu 2007; Rashid and Radiah 2012). A comprehensive meta-analysis covering studies from 1972 to 2007 found affirmative results for only 28 % of the sample (Margolis et al. 2009).

CG is expected to increase firm value by minimisation of agency costs, achieved through the CG mechanisms of monitoring, incentivising, and directing managerial behaviour. CG mechanisms also lead to minimisation of information asymmetry through better disclosures, which in turn can lead to reduced cost of capital and higher firm value. Several studies looked into the effect of good corporate governance on firm performance (Parigi et al. 2015; Bebchuk et al. 2009; Gompers et al. 2003) but found mixed results. However, the association between CG and CSR (or CSP used interchangeably) is less researched. Such association can help researchers and policymakers understand the links between CG and CFP as well as those between CSR and CFP more clearly. Jo and Harjoto (2011) asked similar questions in their study and found the lag of CSR to affect CG and not vice versa and also that CSR led to increase in firm value.

## 8.8 Importance of CG and CSR in the Indian Context

Emerging economies like India have been experiencing rapid growth resulting in more wealth. But fast growth also means a higher demand for resources, higher pollution, and greater stress on environment and society, which can constrain future growth. Globalisation has encouraged Indian companies to go abroad and allowed the flow of foreign investments into the country. The global investors and customers the Indian businesses are now dealing with are highly conscious of CSR and sustainability issues. Civil society at home and abroad has also become very strong and active. These developments have made CSR, sustainability and sustainability reporting very important for Indian businesses. A strong CSR and CG can prove very valuable to investors, particularly because India is found to have a weak institutional environment—with weak investor protection and enforcement, and

**Table 8.1** Corporate governance characteristics of CSP versus non-CSP firms

Variables	For CSP-leaders					For non-CSP firms				
	Obs	Mean	SD	Min	Max	Obs	Mean	SD	Min	Max
Board size	75	15.68	3.56	10.00	26.00	222	13.60	4.00	6.00	26.00
Board independence	75	49.88	12.20	0.00	75.00	222	39.23	16.11	0.00	66.67
CEO duality	75	0.29	0.46	0.00	1.00	222	0.43	0.50	0.00	1.00
Institutional shareholding	75	35.66	17.41	7.02	87.67	222	21.46	12.18	0.04	51.20
Average block holding	75	24.20	20.48	5.43	89.50	223	40.01	25.71	6.50	99.59

Source Author's analysis based on data from S&P ESG India Index, Annual Reports and CMIE Prowess database

poor transparency (Leuz et al. 2003; Dhaliwal et al. 2012; Dowell 2000). Indian companies are found to have started embracing CSR and sustainability reporting, driven by the 'strengthening of brand & reputation' and 'ethical considerations' (KPMG 2011).

### 8.8.1 Empirical Evidence of the Relationship Between CG and CS in India

A superior CSR and corporate sustainability can lead to improvement in financial performance through increase in revenues, decrease in costs, optimal risk management, or a combination of the three. There is also likely to be a favourable impact of CS on firm value through higher 'future expected cash flows' and lower 'risk-adjusted cost of capital'. A recent study examining the top 200 listed companies in India revealed that superior sustainability performance led to superior financial performance in the form of higher ROA, ROE, and Tobin's Q ratio (Ghosh 2013). Superior sustainability performance was captured through the consistent appearance of the companies on S&P ESG index. The Indian context was examined to see whether companies which have superior corporate governance are superior in Corporate Sustainability Performance (CSP).<sup>14</sup> Table 8.1 below shows a comparison of the corporate governance characteristics of superior CSP firms with those of non-CSP firms.

A one way Anova test confirms that board independence and board size are statistically and significantly different for CSP leaders and non-CSP companies. CSP leaders on an average have higher levels of board independence and larger board size when compared to non-CSP companies. However, the CEO-Chairman

<sup>14</sup>Appearance in 'S&P ESG India index' was used to measure CSP.

duality was not found to be statistically different for the two groups. As far as the ownership variables are concerned, the oneway anova test showed that the percentage of shares held by institutional investors and average block holding is statistically and significantly different for CSP leaders versus non-CSP firms. CSP leaders have a higher level of institutional investors and a lower level of average block holding. The statistics thus suggest that CG factors, such as large and more independent boards, ownership by institutional investors, and average block-holding (large shareholders), do influence sustainability performance.

## 8.9 Concluding Remarks—A Different Past and a Common Future

The power and need for the accountability of corporations have given rise to the concepts of CG and CSR. With globalisation, the negative externalities of corporations adversely affecting stakeholders are on the rise and enforceability of contracts is becoming increasingly difficult. This underscores the increasing expectations from the corporations to engage in self-regulated CSR.

The concept of CSR has been continuously evolving and broadening from a mere focus on the obligations of business to that of society. According to the United Nations Industrial Development Organization' (UNIDO),<sup>15</sup> *'CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ('Triple-Bottom-Line-Approach'), while at the same time addressing the expectations of shareholders and stakeholders.'*

Forces behind CSR are changing the CG landscape. It has broadened the number of stakeholders to which a company is accountable. It is interesting to note that the 'G20/OECD Principles of corporate governance (2015)' recognises the importance of the role of stakeholders in the following words: *'The competitiveness and ultimate success of a corporation is the result of teamwork that embodies contributions from a range of different resource providers including investors, employees, creditors, customers, and suppliers, and other stakeholders.'* The definition of CG now stands expanded as a *'system by which companies are directed and controlled in the interest of shareholders and other stakeholders.'*

This chapter discussed how some CG factors (such as ownership by institutional investors, board of directors, risk management) play an important role in CSR practices. CG and CSR also have common outcomes in the form of a reduction in information asymmetry, decrease in cost of capital, and increase in firm value. One can see that while the concepts of 'corporate governance,' 'corporate social responsibility,' and 'corporate sustainability' might have developed independently with different beginnings, the concepts have broadened so much that they are more or less converging to a common future.

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<sup>15</sup>[http://www.unido.org/en/what-we-do/trade/csr/what-is-csr.html#pp1\[g1\]/0/](http://www.unido.org/en/what-we-do/trade/csr/what-is-csr.html#pp1[g1]/0/).

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# Chapter 9

## Demystifying CSR and Corporate Sustainability, and Its Impact on the Bottom of the Pyramid

Ramendra Singh and Sharad Agarwal

**Abstract** Academic literature on Corporate Social Responsibility (CSR) suggests that organisations undertake CSR or sustainability activities with larger objectives in mind that generate several economic, social, and other returns. Some of these objectives include increasing their triple bottom-line performance, gaining social legitimacy in society, developing healthy stakeholder relationships, improved customer loyalty, and superior financial performance. However, organisations have always been haunted by the question, ‘Social performance is good for society, but does it pay?’ Quite often, the beneficiaries of the CSR and sustainability activities of organisations are poor communities, also known as the base of the pyramid (BOP) of society. Since BOP markets are largely informal and exist under the shadow of formal markets governed by public policies, using CSR as a tool to impact the ugly underbelly of our country is quite common. Academic research suggests that CSR has been widely leveraged as a poverty alleviation tool by organisations while also achieving business objectives keeping in mind the firms’ ethical values, while serving multiple stakeholders to meet their economic, legal, and philanthropic goals. Finally, organisations do look for a good corporate citizen image that helps them keep the momentum of ‘business as usual.’ However, it would be interesting to see empirical evidence of how things are shaping up in the Indian corporate landscape. In this study, we interview CSR and sustainability heads of ten large Indian organisations to understand how CSR and sustainability activities impact the bottom of the Indian pyramid.

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## 9.1 Introduction

Many years ago Brown (1998, p. 271) asked the daunting question, ‘Social performance may be good for society, but does it pay?’ Answers are not easy to get, but it raises the important issue of the attitude of business organisations toward social responsibility, often called corporate social responsibility or CSR in the literature and which has slowly evolved into a new term called sustainability. Echoing Brown’s question, and almost around the same time, Miller (1994) had sought the answer to the question: Should CSR only remain a duty-based moral code? The attitude of organisations toward sustainability is important because successful implementation of sustainability initiatives within on the organisation largely depend the institutionalisation of the right perspective (Steg and Vlek 2009).

Today, management scholars seem to be researching sustainability with an emphasis on its possible impacts on both the business itself and society, the intended beneficiary. In a recent special issue of the *Journal of Academy of Marketing Science* on Sustainability in 2011, the guest editor suggested that CSR’s salience as well as its applicability has increased manifold to a level that occupies a strategic position in the organisation such that the latter can now leverage CSR activities to reap sustainable competitive advantage (Hult 2011). But is it a tool for innovation, where firms create new products, processes, and practices to realign businesses toward triple bottom-line performance, or is it targeted toward integrating business with society, or both? When it comes to the targeted societal stakeholders of businesses, it is very often the bottom of the pyramid which becomes the sink of the negative externalities of these businesses and therefore deserving of their philanthropic and social programmes.

In this chapter, we take a relook at sustainability as a dilemma for business organisations, and what they intend to achieve for themselves and their stakeholders. We interview CSR and/or sustainability heads of 10 large Indian organisations and map their CSR and/or sustainability practices on the field along with the intended and unintended consequences of these practices on the bottom of the pyramid. We interviewed several organisations during January–June 2013 to understand their CSR and sustainability programmes. These key respondents were responsible for their organisation’s CSR or sustainability programmes and represented a sample consisting of diverse business sectors in India.

We discuss our results under four themes, namely (1) using CSR and/or sustainability for poverty alleviation; (2) using CSR and/or sustainability for stakeholder relationship development; (3) the CSR and/or sustainability route to exploring market-based opportunities at BOP; and (4) using CSR and/or sustainability to build social capital at BOP that can be leveraged later.

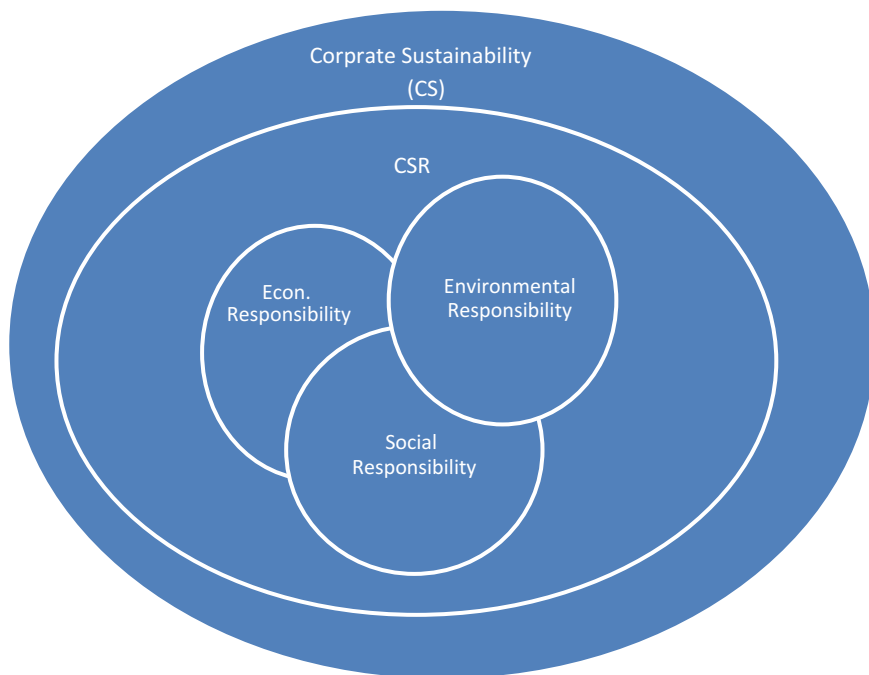
## 9.2 Corporate Sustainability (CS) and Corporate Social Responsibility (CSR)

In the past few decades, sustainability has generated interest from scholars in several business and non-business fields. Issues such as corporate social responsibility (CSR), corporate citizenship, cause-related marketing, cause-related advertising, enviropreneurial marketing, corporate environmentalism, triple bottom line and business ethics have emerged as important topics for debate and discussion among academics and practitioners alike. Though defined in many ways, most commonly sustainability is referred to as ‘development that meets the need of the present without compromising the ability of future generations to meet their own needs’ (World Commission on Environment and Development 1987). Businesses, globally, have begun to practice this perspective as the Triple Bottom Line (TBL) which has its foundation on three dimensions: environment quality, social equity, and economic prosperity (Elkington 1997).

CSR is defined as the policies and actions of an organisation that aim to meet the expectations of stakeholders toward the triple bottom-line of economic, social, and environmental performance (Aguilera et al. 2007). CSR is thus an obligation as well as a strategy for stakeholder management and a prime mover for the development of relationships with stakeholders. CSR as a tool and strategy is loaded with moral and normative dimensions that help organisations seek legitimacy from society for their actions both good and not-so-good. As a fundamental premise of business is resource optimisation, and society being the prime custodian of resources used by organisations for their for-profit objectives, there needs to be a balance between social and business objectives. Sustainability is one lens to view this balance between society and business.

Elkington (2004) has discussed the three main waves of public pressure that have shaped the corporate environmental agenda in the developed economies, which could serve as three-stage guidelines for organisations in the emerging economies to turn themselves more environmentally sustainable. In the first stage, the organisations understand the environmental impact and natural resource demands of their businesses, and try to reduce this impact. In the second stage, they deal with tweaking production technologies and developing new products that reduce the negative impact on the environment during its life cycle. In the third stage, organisations recognise that sustainable development requires profound changes in governance structures and a renewed focus on government and on civil society.

Some scholars, in the past, tried to make a distinction between the constructs: corporate sustainability and corporate social responsibility with the former primarily focusing on ecological sustainability and the later focusing only on social responsibility. However, it is now widely accepted that the overall sustainability of the organisation depends upon three major dimensions: economic sustainability, social sustainability, and environmental sustainability. Each of these three



**Fig. 9.1** General model of Corporate Sustainability (CS) and its dimensions (*adapted from Van Marrewijk 2003*)

dimensions is interdependent on the other two rather than being an independent entity in itself. In a recent review of literature on CS and CSR, Montiel (2008) found that, ‘Although CS and CSR have evolved from different histories; they are pushing toward a common future. They both share the same vision, which intends to balance economic responsibilities with social and environmental ones’ (Montiel 2008, p. 246).

As conceptualised by Van Marrewijk (2003), Fig. 9.1 depicts the relationship between CS and CSR, along with the economic and environmental dimensions. This relationship puts the social, environmental, and economic relationship as part of organisation’s CSR which is turn forms a major component of corporate sustainability. This model, however, suggests that apart from CSR there are other factors responsible for the sustainability of an organisation such as the distribution of the family business among family members or closure/disruption of a firm’s activities to comply with a new policy. Though these factors may be responsible for the sustainable operation of the firm, they are not very common. Therefore, for our research, we follow the generally accepted idea of CSR and CS being similar constructs and we use both these constructs interchangeably in this chapter.

### 9.3 Why Do Indian Organisations Undertake CSR and Sustainability Programmes?

Indian organisations have been aware of their social responsibility since their inception from the pre-independence era. Big business houses such as those of the Birlas, Godrej, and the Tatas have contributed to nation building in their own way such as through philanthropic donations, building academic institutes (for example, BITS, Pilani), hospitals, and parks. During the past few decades, the CSR orientations of Indian organisations have evolved from just being random activities, as it was in the earlier days of their organisational set up, to structured CSR orientations. In our earlier research we found that 32 % of the top 200 Indian companies had their own charitable trusts or foundations, which were used primarily for carrying out the respective organisation’s CSR activities (Singh and Agarwal 2014). A similar percentage of companies (31 %) were joining hands with like-minded NGOs to address the social concerns of their (company’s) choice. These two methods (charitable trusts/foundations and NGOs) were found to be commonly used by Indian companies for carrying out CSR activities.

The companies also aimed to enhance their social performance using CSR initiatives. CSR is one of the most prevalent topics concerning the social dimension studied in sustainability research. Indian corporations pursue their CSR activities in many different ways. A study on CSR of the top 200 Indian companies, done by us (Singh and Agarwal 2014), found that a majority of Indian companies (almost 68 %) work toward community development as part of their CSR activities. A similar number of companies (almost 61 %) were reported to be working for the cause of education. Figure 9.2 depicts the social activities carried out by corporations in India as part of their CSR practices.

The Indian government has now made it mandatory for corporations operating in India to spend at least 2 % of the average of their previous three years of profit on

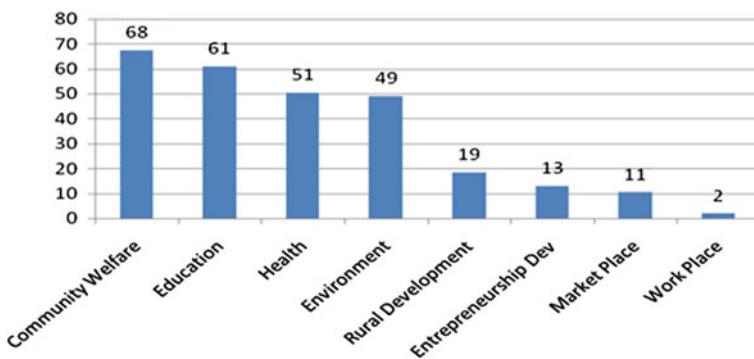


Fig. 9.2 CSR activities (in percentage) of the top 200 Indian companies. Source Singh and Agarwal (2014)

CSR activities. This gives an opportunity to all corporations to adopt social causes and work toward the betterment of society.

Although CSR initiatives are not new to organisations, as well as the local communities that benefit from these initiatives, CSR and sustainability are now being used by organisations to get much-needed sustainable competitive advantages (Hult 2011). As competition becomes more intense and brands are commoditised, organisations have started to make their businesses more 'social' in order to make their business models more sustainable. An important dimension of making a sustainable business model is to ensure that as many stakeholders as possible are important, and so organisations are going beyond developing relationships with primary stakeholders such as shareholders and customers and have started to build bridges with secondary stakeholders such as local communities that had been largely ignored so far. Apart from moving from social legitimacy to building bridges with local communities, organisations are also lately realising that moving into green and virgin business opportunities is the way to grow, and more profitably too. So when urban markets show symptoms of saturation and maturation, organisations have started to take the bottom of the pyramid more seriously as a potential market for the future. Developing new markets at BOP has been considered more difficult than developing existing markets. Therefore, BOP market development involves participation of more stakeholders, which includes the local communities themselves. In fact it involves development of successful ecosystems where each ecosystem partner looks at the other partner as crucial for its own success.

## 9.4 Doing Business at BOP

Bottom of the pyramid or BOP, in short, refers to marginalised communities and people who are socially and economically at the periphery of our society. In most cases, they are also excluded from many of the activities of mainstream society and therefore, their participation is not conspicuous. Technically, BOP is defined by scholars (e.g., Prahalad 2006; Prahalad and Hammond 2002) as consisting of people who survive on less than \$2 a day which in India means around Rs. 100 per day or less. Scholars have highlighted the difficulties in the lives of the people sustaining at BOP due to resource constraints. People living in the BOP are outside the confines of the formal economy, and being relatively less skilled and less literate, lack welfare and good quality lives.

BOP became a popular term after the US president, Roosevelt used it in the days of the world depression in the 1930s, and again gained momentum after the noted scholar Prof. C.K. Prahalad propagated the seductive business idea of discovering a fortune at the bottom of the pyramid (Prahalad and Hammond 2002). Ever since then, several business organisations have got excited by the idea of tapping BOP as

the next growth engine, but growth has often proved to be a mirage according to many critics. Despite the ongoing debate in this area, many organisations see an overlap in their consistent pursuit of CSR and sustainability on one hand, and the exciting market opportunity at BOP, on the other. The bridge between the two is still not fully developed, but it is work in progress. Most often organisations realise the futility of doing business directly at the BOP since it is too risky, a high-investment low-return proposition and has longer gestation periods. In order to mitigate the negative dimensions of doing business at BOP, many organisations have found the CSR and/or sustainability route of tapping market opportunities as less risky and more experimental in approach and which gives them initial market test results that can be additional inputs in the decision-making process before deciding to take the final plunge.

## 9.5 Methodology

In order to get empirical support for our proposition that several organisations are using CSR and/or sustainability route to market development at BOP while at the same time meeting their CSR- and sustainability-related objectives, we interviewed the CSR and sustainability heads of 10 large Indian organisations. These organisations were as follows: Hindustan Unilever Limited (HUL), RPG group, ITC, Jindal Steel Limited (JSL), TCS, Steel Authority of India Limited (SAIL), Ambuja Reality, Godrej Consumer Products Limited (GCPL), Nokia, and Infinity Infotech. The choice of organisation was based on the convenience of the authors, as most of these organisations and their CSR and/or sustainability heads were either known to one of the authors or were easily approachable. We followed a semi-structured interview format so that the interviewees could provide as much detail as possible and not get confined to our broad research objectives. We asked questions such as ‘How did [organisation name] decide on any CSR activities,’ ‘Is [organisation name]’s CSR activities aligned to the business,’ ‘How do [organisation name]’s CSR and/or sustainability activities impact the poor in society,’ and ‘Does [organisation name]’s CSR and/or sustainability activities affect the development of future markets.’

## 9.6 Discussion

We now discuss our results under the four underlying themes emerging from our interviews.



### **9.6.1 *Using CSR and/or Sustainability for Poverty Alleviation***

Our discussion with the 10 CSR and/or sustainability heads of leading Indian business organisations led us to believe that Indian organisations do have a strategy behind their sustainability initiatives. Many organisations such as HUL have combined business objectives with social objectives seamlessly for many years. The business and social objectives are, in fact, two levels in the same pyramid. The different levels represent the difference in the hierarchy of objectives, sometimes the business becomes important and sometimes the social objectives are more important. So when it comes to leveraging sustainability programmes for poverty alleviation, the different levels in the CSR pyramid range from pure philanthropy at the top of the pyramid, to primarily social business, to commercial business with social linkages, and at the bottom of the pyramid, to the business ethics of commercial business.

The HUL sustainability head mentioned the following:

Shakti is a beautiful model from the past and we help those who need a livelihood. There are 46,000 Shakti ammas that cater to around 250,000 villages in India. So it is not covering employment but it is covering under employment, and we sort of train the women, they become entrepreneurs and they sell our products: it's a win for her, as the additional money that she earns helps her household, her kids and sort of gives her financial freedom, adds to their family status. It also gives us access to around 500–1000 villages which are in interior depth and difficult to serve.

The way we hand hold and the uniqueness of this product is that we conceptually develop and model it and then we handhold it for 3 months. There is an online tracking system so if someone is not performing they go there and intervene and find out what is the problem: is market a problem, is product range a problem, or is capability an issue. So whatever is lagging we train here for it and impart it. Secondly, we are constantly upgrading her to become a bigger entrepreneur with partnership and mobile technology too, and then there is a simple application which is on her phone. So it's a win-win deal for both of us. If she gets a mobile tool and she is running out of stock she can immediately order and serve and cater to her needs....we have a partnership with a lady of the State Bank of India and she helps making bank accounts for villagers which is a good practice because they can access the credit market and she earns the commission which we give her. There is no conflict with the category and centering her business to continue what she has done.

Interestingly organisations such as HUL do not have a separate CSR department. Being an MNC, HUL runs its business on sustainability, under the premise of maximising shared value with society.

Similarly, GCPL under its CSR programme called 'Good and Green' encourages a beauty training programme for poor girls in the villages who are given a product kit (containing products manufactured by GCPL) which they can use for and after training. GCPL does not give its CSR partners any cash, but only such product kits. In a way, GCPL is also using the CSR route to increase the adoption of its products among first time consumers at BOP. The idea is to catch them young and catch them first (before others catch up). In the entire process, not only does the

organisation end up increasing product adoption, but it also promotes entrepreneurship at BOP that helps increase incomes of people.

Poverty alleviation also may happen in other forms such as scholarships for poor students. Giving such an example, the sustainability head, HUL narrates the story of a poor girl student:

...this girl from Malegaon ...she applied for a Fair & Lovely scholarship and did her Masters ...today she works in the company ...a school teacher from Malegaon who did not did know a word in English, today she is an assistant manager...has bought a house ... bought a car ...got married and has a daughter ....so that is the effect of commercial initiative also ...it has changed a life and it has changed so many lives ...this one I know because I came across this one.

However, in the above example, the scale of impact may be very limited. Such scholarships are limited in number, and the extent to which they can help reduce poverty by realising the dream of the poor is also quite limited.

As emphasised earlier, no attempt to reduce poverty is independent of the opportunity to enhance business in any form, although the trends keep evolving. For example, JSL's CSR head suggested:

Initially the focus was on charity welfare and then there was another initiative...Gradually, over time, they become your very important customers. The CSR policies have been worked out and the CSR policies addressed along with their three pillars, of course, the people, the planet and the requirement based on which the profit that is generated; so keeping that philosophy in mind, now over the last 5 years we have initiated it in our companies. We are, for example, working on it for a little longer period and they have budgeted it much higher. But the idea of operation will remain being restricted around your manufacturing facilities and in our case is the same.

Moreover, poverty alleviation without sufficient engagement and dialogue with the BOP communities is also not scalable. Therefore, for many such reasons partnerships with self-help groups (SHGs) and non-governmental organisations (NGOs) are important. Such partnerships also help develop relationships with local communities and enhance the necessary skills to increase their income generation capabilities. JSL's CSR head gives an example:

...take dairy, for example. People who got loans have opened their small new dairies. They have their own buffaloes and cow, even sheep. Other activities that some of them have done is opened up tuition centers or beauty salons in the villages and they are doing their own training of other women and earning money...and such like activities have been done by the CSR.

Skills enhancement and education, key areas of focus of CSR programmes are also emphasised by TCS. The CSR head narrates:

...The skill building route is very important ...not [just] within India but also globally where there are a large number of young people who need to be productively employed or engaged and who are not. Now, within this education is appreciated. The company would say education is school education; primary level, high school level, for us education is more than that. Yes, education is school, education is college, education is nurturing, education is

engineering, education is also intimation, education is also sting programme, and adult literacy programme. So our umbrella of education is more and much wider than the need of understanding education in corporate life.

Our volunteers have adopted a school, so they go there in their spare time and on weekends. In addition, they teach maths, science and English which they are very good at. Right now it is running in Chennai, soon it will be in more locations of the country. What does this programme do? There are, placements in the job level, that is going to be the next important thing here. In the eleventh standard, we want students to know how you go through an interview, this will raise their confidence. If you say results, then I would say an increase in revenue or reduction in the level of poverty is not difficult.

RPG's model of CSR-based education works like this:

We not only make them ready for workmanship within our factories, we educate them. We don't teach only one kind of skill. We make them all-rounders. They get employed elsewhere. If you really look at them, the community around has been engaged in this activity and has benefited from the knowledge and skill and has taken up jobs on its own. They have not come back only to work for us. Thus, it is not a captive in-house programme.

Such skill enhancement programmes along with educational programmes definitely contribute toward poverty alleviation at BOP. ITC's Sustainability Head also explains:

Today in India, in around 7 states we are doing such programmes on a large scale and there is supportive primary education which is not linked with business in terms of monetary benefit, but other benefits like we are creating the base for the communities in those areas where they are around us. Their children become educated so that they also become part of our company's growth process.

In contrast to the previous examples from private organisations, when we spoke to a public sector organisation, Steel Authority of India Limited (SAIL), we found that their CSR is largely driven by the MOU signed with the government. Moreover, their CSR is more widely spread across a larger gamut of domains such as education, healthcare, and income generating activities, and largely influenced by the diktats of the government. Their CSR head mentioned the following:

...We have set up a large number of hospitals and health centers where people can come, get treated, get medicines, and various pathological tests; then, there are eyes camps, specialised camps to take care of diabetes. We also set up a number of drinking water installations like digging up dams or ponds, water conservation and overhead supply of portable water in the villages which are there around our plants. Then we have also promoted a number of income generation schemes, fishery development and others like handicrafts; we have given professional training for being self-sufficient and earning livelihoods through these trainings. I have also seen that the other needs, like setting up community centers for women are routinely done. Besides that, we have adopted about 79 villages, where sanitation, portable water and other necessities are augmented in these villages. This was a commitment to the Ministry of Steel that we should fully adopt a number of villages. The selection was done under various parameters and in consultation with the local government.

In conclusion, it came out strongly in our interviews that organisations are using multiple tools such as education, skill enhancement, training, scholarships, and even business partnerships (HUL Shakti) at BOP for poverty alleviation. Nevertheless, there are explicit or implicit business opportunities that can be tapped using these CSR initiatives.

### ***9.6.2 Using CSR and/or Sustainability for Stakeholder Relationship Development***

We also observed CSR and/or sustainability being used as tool for relationship development with BOP communities with or without overt business interests. Academic literature also supports this notion since maintaining healthy relationships with stakeholders, especially local communities, helps to reduce certain risks associated with doing business at BOP. An ITC executive mentions below an example of developing a relationship with BOP which is also a sourcing point for their agarbatti (incense stick) business:

So mainly our activities are at back-end sourcing side and people who are the stakeholders, who are producing for us, working with us, bringing them new people into that fold and by helping them financially and technically. For pulpwood plantation, we are bringing in new tribal communities and other poor farmers by raising pulpwood plantation. Soya, wheat, tobacco are anyhow cultivated. Agarbatti is bringing new women who are not involved in any productive activities, so you have trained them, given them financial support, made them produce agarbatti, now they are linked with business. Supply chains are being taken care of. Therefore, in this way we have taken up activities wherein community and company are having a symbiotic relation, where both are being benefited. Our activities are away from the company.

The above example from ITC highlights the win-win situation where organisations can find such social investments mutually beneficial. On one hand, organisations are sourcing from poor producers, while on the other hand, they are also developing long-term business relationships with them (BOP) as key stakeholders. In the ITC case, we see that BOP producers are actually supply chain partners, and their stakeholder role is different from the role played by BOP as customers.

A JSL executive hits the nail on the head when he explains the rationale of CSR and/or sustainability investments while explaining one of their healthcare programmes:

...through this mobile outreach programme we cover about 10 villages a week and the timings are fixed so that the people come there. In addition to that we have specialists camps like for eye care and orthopedics and in which we take the patients to the hospitals at our own cost, get them treated with the follow up, whether its eye care or orthopaedic. For example, we have taken our patients thousand miles away for corrective surgeries. When they come back, even if it is a handful of 13–14 people, they are the ones who speak well about you and this how you build up your community relationships. You are basically targeting people to win their hearts and minds and they will give you a top rate. If you don't

have a conducive environment in the field where you are operating, then you might land up like, may be Tata Steel, which had to move out from West Bengal or from Gopalpur or maybe like some other companies which are having problems also in Bilari and Nangul and many other corporates. It is major challenge of convenient relations.

The quote above highlights the importance of ‘convenient relations’ to business organisations when it comes to developing relationships with local communities for business continuity. There seems to be a high degree of strategic intent when organisations attempt to develop such relationships with local communities. Looked at from a different perspective, such attempts are also acting as a great equaliser among the organisational stakeholders. While shareholders are important stakeholders, since they are ruthless in demanding higher organisational profits, we have the BOP local communities as another set of stakeholders who derive their power over the firm by virtue of their ‘invisible’ power to veto the land allotted to them for a new project or demand greater rehabilitation efforts (Tata Nano in Singur; Mittal Steel in Niyamgiri).

The RPG CSR head mentions how stakeholder relationships at BOP help in community development that makes business more sustainable by ensuring the welfare of the local communities that are supporting their tea business in Kerala:

I personally feel that the CSR programme is inter related to sustainability as there is no way we can survive without having programmes for the community and for the environment to help us sustain our own business. For example, we have Harris and Mangalam which is a very big plantation which we have in Kerala. There without the community development—all the tribal and nontribal villages around they are absolutely engaged in the strategy there; right from looking after hospital needs, education, employment, everything, whether they are directly working or not working. And thereby helping those communities to sustain rather than migrate. Give options over there itself. Thus, sustainability and CSR work together.

Interaction between CSR and the society in micro terms or else, let’s say, on non-economic terms which is to say you know engagement with local communities or even to neutralise the negative externalities of the manufacturing, or the pollution that happens near the factories. So, of all these activities at the ground level, how does it positively impact the social and the economic life? through the training programme. If you look at the social life and the benefit through our activities, it is clearly visible through the 80 acres of tea plantations in Kerala. Today we have the third generation and fourth generation working with us and not migrating away like most and the youth and parents are working with us. Thus we have ensured that they are not only well looked after but they have enough ecosystems like good schools and colleges and medical facilities for them to continue to live more comfortably than the people who have migrated.

Thus, we see sufficient evidence to believe that organisations develop relationships with BOP as stakeholders to reduce business risks and to maintain business continuity. Social investments as seen in the case of ITC are proactive measures used by few organisations, although many others in our sample were less proactive in their approach.

### ***9.6.3 CSR and/or Sustainability Route to Exploring Market-Based Opportunities at BOP***

We observed very strong trends of CSR and sustainability initiatives being used as pilot projects that have potential to scale up as business opportunities of the future. ITC's example of exploring market-based opportunity with farmers in pulpwood cultivation for their stationary business is relevant to cite here. Another example that is given is of its agarbatti business. Here is what ITC's sustainability executive has to say:

... When we say social investment, there are two ways of looking at it. The farmers who are around us are actually not cultivating because they can't invest financially, so there is a mutual benefit on a long term basis. In the closer vicinity, you'll have plantations which mean you'll have a price advantage at least to compete with others. It's not so that you are binding the farmers. They are not into the contract type of farming agreement covered by us. But the other advantage, we'll have is saving in transport cost because these are close by. So the social investment is building social gravity. ...so that way there is social development capital created for a benefit as raw material resources are being generated.

Similarly, as I said agarbatti, is an unstructured market. The risk for us is they may control you, they may suddenly dictate terms to you and the other risk for community is more social welfare schemes extended to them. So like we don't know in what working conditions this is actually being produced so when we get involved, we directly tap into the women's groups. The advantage is that women's groups are the owners and the workers in the whole activity. Therefore, there is a developmental angle in that they are handling it, not we. So they will directly deal with the business and whatever margin the middleman would have got, that they are sharing. For the company, it is like very strong linkages with the suppliers. For us women's groups will become a supplier for the company. So you are actually having a more dedicated and more loyal type of suppliers and also because of the capacity building activities there is more like quality related regularity, bringing in the uniformity in quality that is actually achieved when we work with a group on a long term basis. So the advantage for us is sustained production and quality, for them, it is the getting of new avenues, and scope for employment.

Nokia Life started as a sustainability project of Nokia India which has now become a full-fledged business for the organisation. It is yet another example of how sustainability and CSR are low-risk routes to initiating new business pilots. In the case of Nokia, it is important for them to realise how and when to move from a sustainability project to pure-business, as mentioned by their sustainability head:

When we move from sustainability to virgin business... (it's critical to know) how many subscribers we have and what is the data source ... then it becomes a business service.

The fact that sustainability means good business can be gauged from the following quote from the HUL sustainability head:

One of the projects we have done in which we have set up on livelihood with our foundation, there were 75,000 women whose livelihoods were the focus and we invested 2 crores and we got 18 crore worth of return through their interest initiatives so there is a set of principles you follow but not for the companies ROI and contribute to the community. So it's like a people plan in prosperity rather than a people plan in profit.

Apart from what we found in our interviews, there are many examples of organisations that are engaged in market development at BOP such as Microsoft's tie up with leading education-based NGO, Pratham to deliver computers to villages in India which helped it to develop markets for computers and computing in the Indian schools. Such initiatives often start as a pilot project using the CSR funds of these organisations, and many are now successful independent businesses.

#### ***9.6.4 Using CSR and/or Sustainability Route to Build Social Capital at BOP that Can Be Leveraged Later***

Building social capital that can be leveraged later is like drawing money from your own bank account that you deposited sometime back. ITC's e-choupal case highlights that the farmers who saved money by selling their agri-outputs at ITC's procurement hub (rather than selling in government mandis) paid back their gratitude toward ITC by buying consumer and durable goods from choupal sagar retail outlets which are adjacent to these procurement hubs. The social capital that ITC has developed for the last decade or so in the e-choupal project has yielded huge savings because of reduced procurement costs of agricultural products that are raw materials for the ready-to-cook food products manufactured in their International Business Division. Capitalising on the social capital is probably good business, and CSR and/or sustainability programmes provide a good platform to build such social capital.

The following quote from the sustainability head of India's largest software organisation, TCS, shows that in service sector firms the organisation's human capital is critical in creating social capital at BOP.

The embedded model is on core competency, what is core competency? Our core competency is that we are very rich in human capital of the social client/kind. So it is about IT professionals, they are innovative, brilliant. They are out of box thinkers. What has happened there over time is a process-, systems, products, services have been built within the company, by engineers on the company time and company resources which are offered to the organisation that works with the vulnerable community.

Nokia also recently started an e-waste management initiative under the sustainability umbrella that involves recycling of used and dead mobile phones from consumers. The broad objectives of the initiative can be understood from their sustainability head's words given below, which highlights that Nokia is eager to seize a leadership strategy in sustainability by building social capital based on the education of consumers on e-waste management and teaching the consumers the basics of recycling concepts:

If you take e-waste, we were the first organisation to start...and the largest recycling network in India....so if I look at our indicator on what we were aware of, recycling waste in 2007 vs. 2012 may have had a significant change....almost 30 % odd points have changed and we have got knowledge of this in recycling...earlier recycling was only

associated with paper, glass and plastic...they never even thought that phones, televisions and fridge were recycled...so these things do have a significant impact on the context we evolve.

Even PSUs such as SAIL develop social capital through their CSR and sustainability activities and programmes. PSUs also need to carry out such activities to build social capital with the government which is their largest stakeholder.

## 9.7 Concluding Remarks

In this chapter, we have attempted to understand the approaches of Indian companies toward CSR and sustainability initiatives and see whether they are actually looking at these as mere compliance or more as strategic tools to achieve specific objectives as discussed under the four broad themes. Although the recently amended companies act has made CSR a matter of compliance, at least from the perspective of the government, some corporates are labeling the '2 % CSR' requirement as another form of tax! However, we see clear and compelling evidence from our interviews that the CSR and/or sustainability philosophy is as much a strategy and goes beyond the realms and requirements of CSR as compliance or even sustainability as a bandwagon effect. We also observe that CSR and/or sustainability strategy is largely aligned to company business, of the present and the future. There are incidental outcomes and some intended outcomes of this strategy on the bottom of the pyramid. Organisations create some jobs under CSR on one hand, to compensate for other losses and negative externalities they create as part of their core businesses. We, therefore, are quite convinced that as long as businesses create negative externalities, CSR would make a lot of strategic sense for these organisations. Enhancement of market-related skills in local communities such as in the case of ITC's e-choupal or encouragement of micro-enterprises such as in the case of HUL Shakti are living examples.

We found four broad themes emerging from our interviews of CSR heads of large organisations in India. These were using CSR and/or sustainability for: (1) poverty alleviation, (2) stakeholder relationship development, (3) exploring market-based opportunities at BOP, and (4) building social capital at BOP that can be leveraged later.

From the financial year 2015–2016, the CSR and/or sustainability strategy of organisations in India has to be aligned to the legislative obligations of CSR under the amended Companies Act. Although CSR practices are, at least a hundred years old in India, the recent amendments to clause 135 of the Companies Act suggest that organisations need to have a Board to formulate a CSR policy. There should also be clear and mandatory reporting formats. All this requires organisations to practice CSR and/or sustainability agendas to create a larger impact on BOP so that not only do they get a larger bang for their CSR buck, but they also create a louder noise in this space. The country is also waiting for the much-talked about CSR index!



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**Part V**  
**Sustainability: A Critique of**  
**Organisational Practice and Government**  
**Regulation**

# Chapter 10

## Embedding Sustainability in Organisational Action and Thought

Abhishek Goel

**Abstract** Sustainability of businesses has become a moot point for industrialised as well as fast industrialising economies. In the movement towards sustainability of businesses or organisations thus far, two polar positions are clearly seen:

- (a) Macroview/overall broad perspective of how the world is likely to shape up, the position an industry should take, etc. have dominated the argument space.
- (b) Action strategies for organisations by elite fora such as the World Business Council for Sustainable Development.

It is argued here that while these polar positions are useful for creating ends of the spectrum, organisations need greater clarity on what needs to be done. For an organisation to be committed to sustainability, there have to be strong internal systems in place, and the members of the organisation itself become the key stakeholders who should first accept the idea of creating a sustainable organisation. The internal requirements of an organisation and the understanding of “sustainability” as an approach towards organising would be imperative for leaders as they create and run the organisation. The idea is that internal compliance and thoughtful action by the organisation in relation to its context is more important than mere completion of activity. It would require organisations and their bosses to think in an entirely different manner—that shall not just be limited to reporting compliance. In other words, arguments will be made in favour of making “sustainability” a core value in our organisations that is deeply embedded in the culture of the organizations. The focus for organisations, thus, has to be internal as well. It is only when the organisations themselves become aware of the needs of those they influence; there is greater hope of responsible voluntary action—that could result in true sustainability throughout the life of the organisation.

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R. Sarkar and A. Shaw (eds.), *Essays on Sustainability and Management*,  
India Studies in Business and Economics, DOI 10.1007/978-981-10-3123-6\_10

## 10.1 Introduction

The sustainability of businesses has become a moot point for industrialised as well as fast industrialising economies. Academics, industry and action groups have created think tanks to ensure that sustainability of nature and therefore of businesses gets enough attention from organisations and policy makers. These three groups bring forth their arguments from different sides. Action groups and industry bodies seem to be arguing from opposing ends. Most or all action groups have strongly highlighted, in the media, the lack of care for environment and societal cause by dollar-greedy corporates around the world. Their efforts have succeeded in bringing about policy changes pushing for greater care for otherwise ignored issues. Corporates are creating coalitions to collectively counter the force of action groups, and to contribute to social responsibility and environment care. They have also made technological changes in order to comply with the new policy as per the demands of the regulatory and social environment. Academic arguments are seen on both sides. Some have made a scathing attack similar to action groups; others have argued that this is the price of progress—albeit there is need to be more careful; and a few are trying to balance the two sides.

This chapter is not meant to be a review. It is part of a large compendium with varied perspectives, and it was thought that the space is better utilised to carry out a critique and focus on the idea. The foundation of the chapter is nevertheless based on an extant literature review. The relevant pieces are included as part of the argument.

## 10.2 Perspectives—Macro and Micro

The details of the guidelines and arguments reveal three points clearly: (i) sustainability for businesses is important because it makes resources available and useful for the general good of consumers; (ii) action towards sustainability results in positive outcomes for corporations as well as for not-for-profit organisations; and (iii) regulations for businesses to become more sustainable are already on the ground.

Two polar positions are clearly seen in the movement towards sustainability of businesses or organisations: (a) a macroview or overall broad perspective of how the world is likely to shape up, the position an industry should take, etc. and (b) action strategies for organisations. The former seems to have dominated the argument space so far.

The macroview is indeed very important because it allows us to draw a mission, and understand the future demands. It is also inherently useful in drawing a roadmap for society, from which organisations could take the cue for development in the future. The strategies, systems, processes, choice of goals are all dependent on a strong environment scan. Besides, the environment also dictates the need for competition, legitimation, and ecological responsibility—the three reasons for which organisations decide to invest in sustainability (Bansal and DesJardine 2014). The macroview has certain limitations, however.

While the guidelines and frameworks are laid out by the macroperspective, it requires considerable effort to translate the frameworks into actionable strategies and measurable outcomes. There have been debates on the level of observation—immediate context of the organisation or the larger context (Haugh and Talwar 2010), or pertaining to the domain—economic, environmental, or social (Banerjee 2011; Garza 2013).

The microperspective lies at the other extreme as it argues for action at the last mile in running an organisation. Running an organisation is fraught with the challenges of meeting both short term and long term demands, achieving operational goals that seemingly are derived from strategic goals, balancing the needs of various stakeholders, and so forth. The reality of the manager/leader is more complex than it appears to be. She needs to perpetually juggle in order to maintain the balance, decide in a much compressed time frame (see Unilever CEO Paul Polman's interviews in Ryssdal 2013 and Confino 2013, for example), satisfy internal and external stakeholders, abide by systems, and so on. A manager or a leader in an organisation needs to have a set of measures or metrics that allow her to continuously monitor the organisation's progress towards meeting its commitments (Epstein 2008; Epstein and Roy 2001).

In the business of running an organisation, it is not clear as to which polar position to choose. While polar positions are useful to create the ends of the spectrum for presenting a basis to an argument, the real decision-making demands greater clarity on what should be done. For instance, how to strike a balance between the desired and possible, the macro and the micro, how to measure where we are, how to drive everyone to the same goal—all such choices are enabled by the clarity of the leader or decision-maker (Confino 2013 interview with Paul Polman).

Some scholars have argued that metrics and internal systems are necessary to meet the requirements (Epstein 2008). Others have elaborated about prescription of inputs (Haugh and Talwar 2010) or the debate between cognitive frames at the time of making sustainability decisions (Hahn et al. 2014). In all of these, the common acknowledgement seems to be that sustainability related issues are both complex and ambiguous (Hahn et al. 2014).

### 10.3 Balancing the Perspectives

There is little doubt that both macroperspectives and microperspectives are needed. However, a balance needs to be struck between the two. Epstein (2008) and Epstein and Roy (2001) have indicated metrics and internal systems that an organisation can have. The approach is strikingly similar to creating a Balanced Score Card that was popular with corporates in the decades of 1990s and 2000s. The pioneering attempt in the area of driving corporations towards a more sustainable future notwithstanding, these polar positions are useful for creating the ends of the spectrum. However, the organisations need greater clarity in difficult times on what to do. They need a guiding force in periods of uncertainty and complexity. Sets of metrics may not necessarily be the guiding light for they themselves have to undergo

change with changing times. Szekely and Knirsch (2005) have argued in favour of bringing leadership and organisational systems to the forefront.

It is indeed surprising that despite such clear calls from scholars early on, measurement/tools have dominated the academic and practice thought process (Strand 2014; Wolf 2014). This thought puts an enormous burden of proof on certain outcomes that are deemed useful by a “measurement scale.” Such objectification potentially leads to a short-term approach—of satisfying certain immediate stakeholders at the expense of ignoring the needs of long-term stakeholders especially because they are less clearly identified.

This, I argue, is one of the key errors committed in the past. The focus on the short run and the satisfaction of certain demands of select stakeholders only had fuelled a system that rewarded satisfying. Thus, a satisfying performance on meeting certain “standards” and some lip service to a certain criterion in a document qualified as being responsible. Evidence of such markers is also available in rigorous academic literature (Bansal 2005) and have been strongly argued as myopic by critics (Banerjee 2011). Such myopic responsibility is quite rewarding because it ticks the right boxes in measurement based approaches. It however violates the basic premise of the UN’s sustainability principle laid out in the WCED (1987) report which very clearly pointed out that myopic actions and attitudes in the society cannot create a series of sustainable businesses.

## 10.4 Who Should Decide?

The next question therefore is of the appropriate level at which such effort should be guided. Of course, it in turn means that corporate sustainability itself moves up the ladder from being sustainability of “my corporate” to what will ensure sustainability of those involved—the environment, the resources, the organisation itself, and of the relevant people within and outside the organisation. Since it is difficult for a single organisation to think on everybody’s behalf due to issues of jurisdiction and territory, the appropriate forum for such an activity could be a think tank for an industry or a regulatory body that is genuinely interested in understanding sustainability for those that fall under its jurisdiction. Getting to think together about “what is sustainable for us” could probably be the biggest hurdle. The challenge does not end here. Schneider and Meins (2012) have systematically argued that adherence to standards set by associations and agencies has two shortcomings: (a) while the environmental and social goals aspects make it to the evaluation criteria, the goals of the organisation itself are generally not given due consideration; and (b) performance and governance of the organisation are generally mixed together.

It is argued here that organisations, irrespective of their line of business or quest for profit, should define sustainability in their context, themselves. In other words, they should feel empowered to take up the cause because they are the central actors in the quest for creating sustainable businesses.

## 10.5 Constituents of Sustainability Definition

One of the most accepted academic definitions of corporate sustainability refers to the concept as “company’s activities demonstrating the inclusion of social and environmental concerns in business operations and in interactions with stakeholders” (van Marrewijk and Werre 2003, p. 107). One of the pioneer documents in the domain, the WCED report of 1987 more commonly referred to as Brundtland report—has envisaged sustainability as development that “meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED report 1987, p. 16); and business sustainability has been offered to be a balance between achieving the short-term financial objectives of a firm without harming the long-term interest of the firm or of others in the field (Bansal and DesJardine 2014). This financial or economic view has also dominated the literature. Maybe, the assumption is that this is the only way that corporates would accord some value to the idea of sustainability. Banerjee (2011) finds this idea quite short-sighted and laments that social sustainability has not got its due either as an idea or in corporate action and consequently in academic literature.

This omission is noteworthy because while there is a desire to see the demands and objectives for society and the organisation as independent of each other, it is ironical that the two entities share strong and complex interlinkages among themselves. This is more so because corporations wield extraordinary influence over their social and environmental contexts in addition to their economic context. Corporates are more than sources of revenue for governments and other stakeholders. They are also very powerful and sometimes resource rich—i.e. in a position to create some change in the social context which in turn is leveraged for business gains. Chinese corporations, for example, have converted their social investments in several countries around the world into opportunities for themselves. The route to business was through social engagement. It is difficult to conclude however whether the next stage will lead to sustainable businesses and societies.

The problem gets further compounded when the actions of managers are under severe stretch owing to divergent goals of business profitability (economic sustainability) vis-à-vis reducing impact on the environment and maintaining social sustainability. These somewhat orthogonal goals put tremendous pressure on the cognitive resources of managers (Hahn et al. 2014). It is therefore quite likely that most decision-makers would succumb to the pressure of rational looking number based outcomes in order to thwart scrutiny.

One can empathise with decision-makers in organisations that they have to choose from within the set of considerations available as rational decision-making processes. Thus, it is even more important that both decision-makers and thought leaders should widen their mental framework to have a clearer understanding. Such an approach needs to be more nuanced and may have alternate frames of thinking as well. A new frame of thinking would mean that an organisation decides to understand sustainability in the larger context and tries to identify how it is going to contribute to an overall goal, in howsoever miniscule terms possible. Thus, the

definition of sustainability has to be unique to an organisation. The above proposed scheme of identifying four major stakeholders should take care of some of the concerns. There is room to do more. The leadership thought, goals, actions and demands for environment need to be aligned.

The constituents of sustainability for an organisation have to be built on the pillars of economic, social and environmental responsibility. However, the definition of sustainability should be such that it allows the organisation to be competitive, provides legitimacy of purpose and ensures accountability for the three pillars outlined above.

## 10.6 Embedding Sustainability at the Core

It is needed that organisations and their decision-makers realise the importance of putting sustainability at the very core of the organisation. All actions performed by such an organisation will try to adhere to the core value of sustainability rather than use sustainability as a performance indicator alone, as highlighted in the literature (e.g. Garza 2013). Epstein (2008) has elaborately argued that values by themselves will not achieve much, and there is need to have a series of systems and processes in place and proposed a set of guidelines that allow organisations to comply with regulatory frameworks. The argument over complicates the situation by going into the details of multiple perspectives, and sounds quite strong and forceful of a best way. It could be much simpler if the corporates are allowed to work on their own.

## 10.7 Sustainability Is Simple

The argument here is that sustainability is not as complicated as it is made to be. It appears complex because it is often seen at the time of output, consequence—in a post-facto manner. This may not be the correct approach because in several developing societies, the frameworks may not yet exist. Moreover, we do not need to be suspicious of the corporates all the time. The corporates could be harnessed to work in favour of the objectives of various stakeholders by simple empowerment from policy makers. If only we could broaden our horizon and acknowledge the important role of corporates in ensuring sustainable solutions for the society and therefore their businesses—it is a win-win. Thus, I argue, it is a question of mindset. It is about what we wish to be and to what extent we want to go to achieve what we wish to be. This assertion is based on work done beyond CSR by some corporations. In India, for example, ITC the erstwhile tobacco major has been systematically working on building sustainability as an integral part of its businesses (*see: [www.itcportal.com/sustainability](http://www.itcportal.com/sustainability)*). If one were to put this in context, it is a unique effort in itself because much of it is not demanded by its consumers or the regulatory framework. This is also in contrast to the input-based approach of the Tata group of organisations within the same context as outlined in Haugh and Talwar (2010) and critiqued by Banerjee (2011).



I argue here that for an organisation to be committed to sustainability, there have to be strong internal systems in place; the members of the organisation itself have to become the key stakeholders who should first accept the idea of creating a sustainable organisation. The internal requirements of an organisation and the understanding of “sustainability” as an approach towards organising would be imperative for leaders as they create and run the organisation; the idea being that internal compliance and thoughtful action by the organisation in relation to its context is more important than mere completion of activity. It would require organisations and their bosses to think in an entirely different manner—that shall not just be limited to reporting compliance. In other words, arguments will be made in favour of making “sustainability” a core value in our organisations that are deeply embedded in the culture of the organisations. The focus for organisations thus has to be internal as well.

### 10.8 Articulating Sustainability

It is only when the organisations themselves become aware of the needs of those they influence that there is greater hope of responsible voluntary action—that could result in true sustainability throughout the life of the organisation. Sustainability is best embedded as a value at the core with the following simple definition:

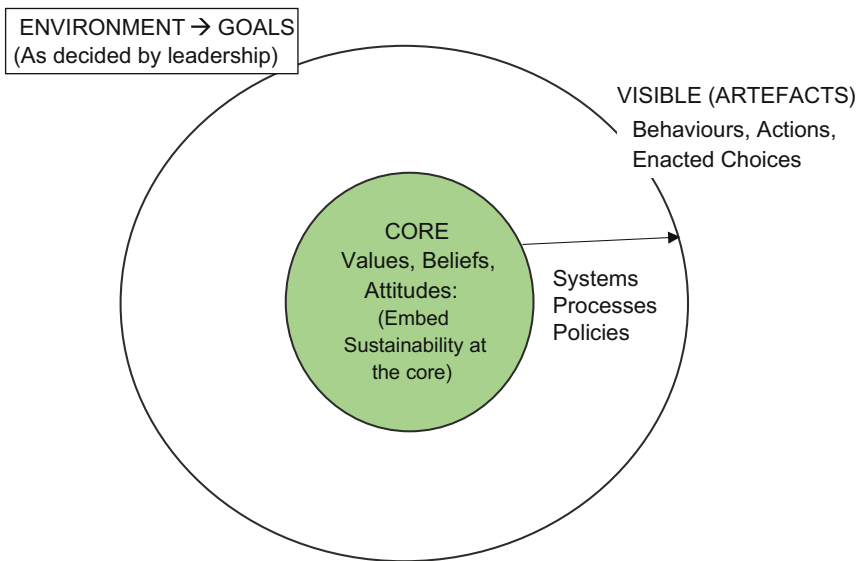


Fig. 10.1 Schematic representation of organisational culture

[Sustainability for our business is defined as a] .... Set of actions that allow the organisation to be economically viable, responsible for its actions in the environment, and works towards creating a better social context around our areas of operation in the foreseeable future.

This proposed definition puts the meaning of sustainability right into the set of deliverables for the organisation in all actions and thought.

An alignment between values and observables is considered necessary for superior performance (Bansal 2002). Continued performance comes from the leadership's action of adopting the right set of values followed by creating appropriate systems and processes (Schein 2008). Putting a clearly defined value at the core is desired by current scenarios (See Fig. 10.1).

Thus, sustainability will become a cultural feature of the organisation. Choice of organisational culture as a vehicle enables us to have one framework that addresses the issue of alignment between the demands of the environment, choice of goals, and the external image that needs to be seen by those under the organisation's influence. Besides, there is plenty of evidence that leadership action, indeed, has a strong influence on the evolution of culture (Schein 2008).

This model enables us to keep the necessary decision-makers and thinkers in the loop i.e. there is a possibility to fix accountability at the very top of the organisation. This in itself could be very important in high power distance cultures such as ours.

## 10.9 Conclusion

Despite differences in the position of various camps, the debate around the constituents of sustainability seeks a settlement. Corporations cannot deny the importance of sustainability, and social action groups cannot ignore the role of corporations in delivering value to society. This chapter is an attempt to bridge the divide and to propose a simple workable definition that allows decision-makers to define sustainability within their immediate context irrespective of a regulatory framework demanding it from them.

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# Chapter 11

## There Now...Gone Now...Sustainability in CSR Regulation in India

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**Abstract** As per the Companies Act of 2013, CSR initially included pursuit of shared value including sustainability by business but the eventual rules that were notified omitted reference to shared value and with that, sustainability. This chapter discusses the background to the omission and focuses attention on the meanings of CSR and sustainability in Indian regulation and policy. It argues that Indian regulation has from the beginning used a dual meaning approach by referring to more domestic notions of philanthropy and community development along with global notions of shared value. The omission of shared value needs to be interpreted in the light of developments for reducing fiscal burden on the nation and the need to create an alternate source of funds for the social sector.

### 11.1 Introduction

The fields of corporate social responsibility (CSR) and sustainability are closely entwined. The most common definition of CSR—“social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organisations at a given point in time” (Carroll 1979, p. 500)—reveals this interconnectedness.<sup>1</sup> Other definitions of CSR like “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (European Commission 2001, p. 6) also subsume sustainability within CSR. The UN Global Compact (UNGC) aimed at voluntary pursuit of responsible and sustainable business based on ten principles in the areas of human rights, labour, environment and anti-corruption also includes environmental sustainability.<sup>2</sup> The ten principles of

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<sup>1</sup>The prevalence of this definition has been established by Montiel (2008).

<sup>2</sup><https://www.unglobalcompact.org/>, Accessed 26th February 2015.

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UNGC derived from the existing international covenants like the Universal Declaration of Human Rights, ILO's Fundamental Principles and Rights at Work, the Rio Declaration on Environment and the UN convention against corruption also embrace sustainability. CSR has thus in many ways subsumed the field of sustainability within itself.

Notions of sustainability in business trace their beginnings to the World Commission on Environment and Development (also known as Bruntland Commission) report titled *Our Common Future* that was released in 1987.<sup>3</sup> According to this report, “*sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.*” This concept has been appropriated into business and forms a part of the general approach to CSR. The appropriation has been greatly enabled by the work of Swiss industrialist Stephan Schmidheiny, who formed the Business Council for Sustainable Development in 1990 which was subsequently reorganised as the World Business Council for Sustainable Development.<sup>4</sup> This Council has used the Bruntland Commission's definition of sustainability and actively promoted it as a component of responsible behavior to be pursued by businesses.

Practitioners today define corporate sustainability as “a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments.”<sup>5</sup> This approach has also been known as the shared value approach in strategy (Porter and Kramer 2002) since it involves creating value both for business and society. Such convergence in the notions of CSR and sustainability seen in business practice can be found even in academic writings in these fields. As Montiel (2008) through an analysis of journal publications has demonstrated, the fields of CSR and sustainability in spite of their different origins have now merged. While the beginnings of the more dominant American model of CSR are particularly identified with Howard Bowman's book *The Social Responsibilities of a Businessman* published in the 1950s (Carroll 2008; Jean Pascal Gond et al. 2011), and the academic field of sustainability with environment management and engineering, “[c]urrent research seems to show that, because of their shared environmental and social concerns, CSR and CS [corporate sustainability] are converging, despite their paradigmatic differences” (Montiel 2008, p. 260).<sup>6</sup> Accepting this incorporation of sustainability

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<sup>3</sup>[http://www.unece.org/oes/nutshell/2004-2005/focus\\_sustainable\\_development.html](http://www.unece.org/oes/nutshell/2004-2005/focus_sustainable_development.html), Accessed 26th February 2015.

<sup>4</sup><http://www.wbcsd.org/home.aspx>, Accessed 26 February 2015.

<sup>5</sup><http://www.sustainability-indices.com/sustainability-assessment/corporate-sustainability.jsp>, Accessed 26 February 2015.

<sup>6</sup>As Jean Pascal Gond et al. (2011) have argued along with others like Moon (2004), Brejning (2012) and Matten and Moon (2008) the European experience of CSR follows a different trajectory from that of the US. However the American model has now come to dominate contemporary understanding of CSR through various isomorphic pressures (Matten and Moon 2008; Jean Pascal Gond et al. 2011).

into CSR, this chapter looks at how sustainability has been dealt with in the legal and statutory frameworks on CSR in India.

## 11.2 CSR in India

India joined the global CSR/CS bandwagon when it became one of the first signatories to the UN Global Compact (UNGC) in December 2000. Keeping in line with global practice, India's CSR also includes sustainability. The most significant initiative in India's CSR space has been the Companies Act which was enacted in 2013. This Act includes a special section, Section 135 on CSR which specifies that companies which meet certain profitability criteria have to spend 2 % of their profits on CSR. This Act makes India the first country in the world to mandate spending on CSR.<sup>7,8</sup>

India's Companies Act had been in the making for several years and was largely modeled on the provisions of UNGC and globally accepted standards of pursuing "shared value" (Porter and Kramer 2002). The rules for implementation of the Act were released in February 2014, but the subsequent addenda bore little resemblance to the *shared value* principle of UNGC or to the consensus arrived at multi-stakeholder consultations in the run-up to this legislation. Intense criticism followed. Businesses, activists and academics argued that the provisions of Section 135 were a mockery of CSR. Section 135, they said, placed pursuit of *shared value* outside the ambit of CSR and did not compel corporations to be responsible. They added that the Act failed to uphold and protect the interests of society, and therefore, it did little for the cause of sustainability and CSR. How does one make sense of this legislation and the supposed reversal of stance on *shared value* that followed the notified rules? What does this mean for the pursuit of sustainability by Indian businesses? These are some of the questions this chapter engages with.

The first part of the chapter will broadly examine the development of contemporary understanding around CSR and sustainability in India and the run up to the Companies Act of 2013. The second part of the essay will focus on the changes in the notified rules. The third part will suggest some explanations for situating these legislative developments in the larger context of societal needs and governance in India.

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<sup>7</sup>European countries like France, UK and Denmark have had laws mandating social impact disclosures by companies.

<sup>8</sup>[http://www.business-standard.com/article/companies/india-now-only-country-with-legislated-csr-114040300862\\_1.html](http://www.business-standard.com/article/companies/india-now-only-country-with-legislated-csr-114040300862_1.html), Accessed 26, February 2015.

## 11.3 Run up to the Companies Act 2013

### 11.3.1 Introducing “Shared Value” to Indian Business, Reporting on Sustainability

India joining the UNGC meant that India would have to transform its customary ways of engaging in responsibility. Sundar (2000) profiled a long customary practice dating back to the colonial times where businesses were informed by a sense of philanthropy and gave back in their own ways through the building of schools, hospitals and other means of development and citizen amenities. Customary practice had frequently been understood as “giving.” Philanthropy was a distinct category from responsibility embedded within the business practice. Mohan (2001) cited studies and surveys of businesses in India in the 1960s, 1980s and even 1990s which showed that Indian businesses were not only conscious of their social responsibilities but gave back to society through donations and other programmes.

Contemporary business practice in the context of UNGC and CSR meant that the pursuit of responsibility had to be integrated with business. Companies were expected to create *shared value* and examine and reduce their ecological footprint. Business strategy advocated that even philanthropy had to have a correspondence with business interest. Thus, signing onto the UNGC was perceived to be a significant change toward sustainable business practice amongst Indian businesses. Large Indian businesses were exploring ways of internationalising, and it became very important for them to be perceived as “responsible.” Adoption of globally accepted reporting standards for reporting on CSR and sustainability became an important mechanism for generating positive perceptions of Indian businesses. To facilitate the migration of Indian businesses to these new “sustainability practices,” several meetings, workshops and conferences were organised by industry associations to inform, assist and advocate for change. Since several global reporting frameworks and standards came into existence around the same period as the formation of the UNGC, several workshops and conferences were organised by Confederation of Indian Industry, Federation of Indian Chamber of Commerce and Industry and other local industry associations in India to facilitate the adoption of Global Reporting Initiative (GRI) and/or Triple Bottom Line guidelines.<sup>9</sup> State owned enterprise NTPC became one of the first mentors for facilitating these adoptions. Industry progress on CSR began to be measured by the extent to which companies were now reporting according to the GRI guidelines. By 2011, about 47 companies had begun sustainability reporting, prompting observers to remark that sustainability reporting in India was still at a nascent stage; “Out of 8,691 [GRI]

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<sup>9</sup>In 1997, the Global Reporting Initiative (GRI) came into being as an accountability framework for reporting on sustainability. In the late 1990s, the Triple Bottom Line reporting framework also took root borrowing on the coinage of “People, Planet and Profits”.

reports only a handful of 122 reports is published by Indian companies.”<sup>10</sup> As of 2012, about 80 companies were known to be producing GRI-based sustainability reports, whereas the number was 34 a year earlier.<sup>11</sup> Thus, by the end of the decade at 2010, momentum on sustainability reporting picked up within India. This was aided in part by the global trends toward sustainability reporting.

### 11.3.2 *Early Government Guidelines*

Indian businesses received considerable encouragement from the Indian government to pursue these global trends on sustainability and reporting. Beginning in late 2007, the Indian government started actively intervening in the CSR space. Intervention into CSR and sustainability came through the corporate governance route. In June 2007, the Department of Public Enterprise had issued voluntary guidelines for corporate governance to Central Public Sector Enterprises (CPSEs).<sup>12</sup> These guidelines did not include CSR. The following year in 2008, these corporate governance guidelines were made mandatory for public sector enterprises.<sup>13</sup> In 2009, the Ministry of Corporate Affairs introduced the Corporate Social Responsibility Voluntary Guidelines (CSRVG). CSRVG provided broad directive principles for businesses to practice responsibility. In this document, three pages were devoted to specifying the guidelines and their implementation. These guidelines referred to the globally accepted elements of sustainability, environment and labour. In addition, they included national development and welfare provision objectives.

In 2010, CSR was made mandatory for CPSEs and a new set of guidelines that made explicit references to Triple Bottom Line and the UNGC was issued to them. These guidelines further elaborated the CSRVG issued earlier. CSR was understood as “extend[s] beyond philanthropic activities and reach[e]s out to the integration of social and business goals” (Department of Public Enterprise 2010). Several elements were introduced in these guidelines: project-based approach for pursuing CSR, a long-term plan for CSR that was in tandem with business plans,

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<sup>10</sup>Institute of Company Secretaries of India website. <http://www.icsi.edu/portals/0/grapes/Sustainability%20&%20Reporting%20-Series%205.pdf>, Accessed 10 December 2014.

<sup>11</sup><http://timesofindia.indiatimes.com/business/india-business/80-Indian-companies-are-now-doing-sustainability-reporting/articleshow/17573219.cms>, Accessed 10 December 2014.

<sup>12</sup>Report of Panel of Experts on Reforms in Central Public Sector Enterprises (CPSEs), Planning Commission, Government of India, New Delhi, 2011. [planningcommission.gov.in/reports/genrep/rep\\_cpse1912.pdf](http://planningcommission.gov.in/reports/genrep/rep_cpse1912.pdf), Accessed 10 December 2014.

That CSR has been seen as a part of corporate governance is evident from the chaptalisation in this report. The reference to the CSR guidelines appears in the Chapter on Corporate Governance in CPSEs.

<sup>13</sup>Report of Panel of Experts on Reforms in Central Public Sector Enterprises (CPSEs), Planning Commission, Government of India, New Delhi, 2011. [planningcommission.gov.in/reports/genrep/rep\\_cpse1912.pdf](http://planningcommission.gov.in/reports/genrep/rep_cpse1912.pdf), Accessed 10 December 2014.



geographical focus areas for CSR, implementation partners for CSR and so on. More specifically, the activities that were suggested for pursuit under CSR included those indicated by UNGC and Sustainable Development principles (points vii, viii and ix, pp. 6–7 of the guidelines document, See Exhibit 1). In addition to these, the list also included those activities related to national development objectives. Point x of these guidelines specified:

[C]are may be taken to ensure that CPSEs work towards fulfillment of the National Plan goals and objectives, as well as the Millennium Development Goals adopted by our country, ensure gender sensitivity, skill enhancement, entrepreneurship development and employment generation by co-creating value with local institutions/people.

Bolstered by the reception of these CSR guidelines, on the 8th of July 2011, the Union Minister for Corporate Affairs released the National Voluntary Guidelines (NVG) on Social, Environmental and Economic Responsibilities of Business. The government expected that these guidelines would “help Indian businesses evolve into global leaders in responsible business” (Murli Deora, Minister of Corporate Affairs address).<sup>14</sup> The NVG (Ministry of Corporate Affairs 2011) were an elaborate document that explicitly laid out nine principles. They also provided suggestions for practice and included a reporting framework. The guidelines document had been developed through a dialogue with all stakeholders and was seen as

represent(ing)[s] the consolidated perspective of vital stakeholders in India, and accordingly la(id)[ys] down the basic requirements for businesses to function responsibly, thereby ensuring a wholesome and inclusive process of economic growth (Ministry of Corporate Affairs 2011).

Reference to global CSR and national welfare concerns was not explicitly made in the preamble or introduction to the NVG. But the second principle explicitly referred to sustainability. The second principle stated that “[B]usinesses should provide goods and services that are safe and contribute to sustainability throughout their lifecycle.” This notion was adopted from the views of the World Business Council for Sustainable Development. The idea of value-chain-based sustainability and responsibility was emphasised throughout the NVG, with the guidelines urging businesses to “raise the bar in a manner that makes their value-creating operations sustainable.”

A lot of buzz surrounded the introduction of the 2011 NVG. These guidelines were a revision of the CSR guidelines issued to CPSEs earlier and were initially positioned as mandatory for all businesses. Government was also expected to fix a minimum spend. But government had, in the last minute, exempted the private sector and made CSR mandatory only for the CPSEs. In August 2012, the Securities and Exchange Board of India issued a circular that mandated the top 100 listed companies to report their environmental and social governance initiatives in a particular format called the Business Responsibility Reporting (BRR) framework. The BRR framework bore similarities to the GRI and Triple Bottom Line. The final

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<sup>14</sup><http://pib.nic.in/newsite/PrintRelease.aspx>, Accessed 10 December 2014.

legislation for CSR was introduced, after much public debate, in the revised Companies Act of 2013 as Section 135. This Act over-rode all previous CSR guidelines.

### 11.3.3 Rules for CSR

The specific text of Section 135 of the Companies Act (2013) carried very basic details. It merely specified three criteria for companies. If a company met any one of the three criteria—a net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more, or a net profit of rupees five crore or more—it was expected to spend 2 % of its average net profit in the preceding three years on CSR. The company was also expected to form a Board level CSR committee and develop a CSR policy and plan. If a company failed to ensure such spending, it had to submit an explanation. The list of activities to be undertaken was specified in Schedule VII of the Act. This list had nine activities. All of these were in the domain of broader national and societal development and did not allude to the globally accepted notion of *shared value* and *sustainable business* (Exhibit 2). Since the text of the Act was a basic statement, the specific rules for implementing this Act were issued subsequently in February 2014. Before these rules were notified, a draft was circulated among the various stakeholders. The draft notification of rules made available for stakeholder comments defined CSR as<sup>15</sup>

...projects or programmes (either new or ongoing) excluding activities undertaken in pursuance of the normal course of business of a company.... CSR projects/programmes of a company may also focus on integrating business models with social and environmental priorities and processes in order to create shared value...

The *shared value* clause in effect expanded the list of ten activities that were provided under the Schedule VII of Companies Act 2013. The inclusion of activities to create *shared value* for businesses and society was a continuation of the understanding of CSR and sustainability that permeated the NVG issued in 2011.

The final notification of rules on the 27th of February 2014 introduced changes in the previously circulated draft rules (See Exhibit 3). Firstly, the clause on *shared value* present in the draft rules was completely omitted. As per the notified rules, CSR or rather CSR spending now meant only projects or programmes related to activities specified in Schedule VII. Activities undertaken under the *normal course of business* were excluded from CSR spend. Along with the notified rules, the list of activities given in Schedule VII was also slightly elaborated to include more national welfare activities (Exhibit 4). Subsequently, another notification in June 2014 explained that the list of activities should be interpreted *liberally* so as to

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<sup>15</sup>Proposed Draft Corporate Social Responsibility Rules under Section 135 of the Companies Act. Retrieved March 1, 2014 from [www.cuts-international.org/pdf/Draft-CSR\\_Rules\\_2013.pdf](http://www.cuts-international.org/pdf/Draft-CSR_Rules_2013.pdf).

capture the essence of the activities listed.<sup>16</sup> Activists argued that omission discourages companies from investing in developing sustainable processes and technologies. Businesses similarly called the omission a disincentive for companies to invest in sustainability.

## 11.4 Making Sense of the Omission of *Shared Value*

There has been much discussion around the omission of “shared value.” Several stakeholder consultations and representations have argued against this omission. In March 2014, a CSR Roundtable was held at Institute of Rural Management Anand as a multi-stakeholder consultation that examined the negative repercussions on business responsibility practices from the omission of shared value.<sup>17</sup> The arguments in favour of the perceived necessity of the inclusion of *shared value* rested on two premises. The first premise was that companies were pursuing sustainability practices in response to the government of India’s legislations on CSR. The second premise was that the government’s interpretation of CSR had suddenly shifted from sustainable business practices to national welfare. It would serve our present purpose well, if we examine the validity of both these premises.

The first premise suggests that ever since the government introduced the NVG’s in 2009, businesses started engaging in responsibility practices and the 2013 Act only institutionalised the pressures legislatively. In other words, legislation has been the driver for businesses practicing sustainability. However, a quick examination of recent history reveals that this premise is unsupported. In the 1990s, there were massive anti-corporate protests in the West. The exploitation of labour in Nike’s or Walmart’s suppliers in the third world, the environmental abuses and ethical stances of Shell, the patent versus patient struggles all converged on the global scene during this period. The anti-WTO demonstrations in Seattle marked a watershed and underlined the need for businesses to act responsibly. ILO’s core labour standards which highlight wage and working conditions were adopted in 1998. The UN Global Compact for CSR, the OECD guidelines, all came about during this period.

Indian firms quickly joined the Global Compact and adopted practices like certifications and triple bottom line reporting. A survey of ISO certifications in 2004 showed that the number of ISO 14001 certifications issued had gone up from 600 in 2002 to 879 by the end of 2003, a significant rise in just a year (Kumar 2004). A 2009 survey showed that three-fifths of the sample (82 Indian corporations) had

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<sup>16</sup>No. 05/01/2014-CSR, General Circular No. 21/2014, dated 18th June 2014.

<sup>17</sup><https://www.irma.ac.in/article.php?menuid=390>, Accessed 26 February 2015 and Personal Email received from organisers.

started CSR activity during the period 1991–2005.<sup>18</sup> Thus, Indian businesses were adopting responsibility practices for retaining their competitiveness in response to global expectations. For instance, the textile industry and leather industry were already facing sanctions and boycotts from Europe for failing to comply with environmental and labour standards.

Several projects were underway in the 1990s in the garment and leather industries of India with support from multilateral organisations like UNICEF and UNIDO to promote sustainable practices like effluent treatment and child labour rehabilitation. In more recent times, the KPMG survey of 2013 found that 71 % of top 100 listed companies in India saw climate change as a mega force that would impact their sustainability. These businesses viewed energy, fuel and water scarcity as serious challenges for sustainability. Such sustainability challenges were seen as a competitive risk by 45 % of the companies and as a physical risk associated with the availability of raw materials and key resources like water for operations by 42 %. Some companies even looked at these sustainability challenges as opportunities for innovation. 48 % thought that they could provide innovative solutions to these sustainability challenges, whereas 26 % believed their operational efficiencies could be improved.

Another report analysing the sustainability reporting practices of Indian companies in 2012 found that over 50 % of the companies identified climate change as a sustainability risk. About 50 % of the companies had issues related to material usage, emissions, waste management, biodiversity and energy consumption in the top management agenda. In other words, sustainability issues were reflected in the top management's agenda as could be judged from the Management's Discussion and Analysis section of Annual Reports (GIZ 2012).

Thus, we see that the drivers for pursuit of CSR and sustainability in India are primarily related to business and competitive context factors of resource availability and societal pressure. Given these pressures, businesses have been engaging in sustainability practices prior to the legislation and will have to continue to engage in sustainability practices whether or not legislation would mandate it. In fact, legislation is a late development. Legislation has lagged behind public and competitive pressures on business sustainability performance. As the KPMG survey itself points out, the legislation seems to have resulted in an increase in reporting per se, even as the quality of reporting itself is poor. Thus, the first premise is not fully substantiated.

The second premise concerns government's interpretation of CSR. An examination of the various guidelines released by the government reveals that from the very beginning, government was treading the path of dual meanings—the *global CSR and sustainability* meaning and *national welfare and development through philanthropy* meaning. In the foreword to the first guidelines "CSRVG" released in 2009, the Minister of State for Corporate Affairs says,

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<sup>18</sup>Times of India survey (2009).

“...the corporate sector is also standing in the midst of a sustainability crisis that poses a threat to the very existence of business. What we have before us is a cross-road where one path leads us to inclusive growth and the other may lead to unsustainable future...guidelines for responsible business which will add value to the operations and contribute towards the long term sustainability of the business”.

Along with this broader appeal for sustainable practices, the same foreword also carries on:

“...While the Government undertakes extensive developmental initiatives through a series of sectoral programmes, the business sector also needs to take the responsibility of exhibiting socially responsible practices that ensures the distribution of wealth and well-being of the communities in which the business operates.”

Similarly, the Secretary of the Ministry of Corporate Affairs’ preface to the guidelines also says:

“by exhibiting socially, environmentally and ethically responsible behavior in governance of its operations, the business can generate value and long term sustainability for itself..” and further adds, “the problems of like poverty, illiteracy, ...we need to address these challenges through suitable efforts and interventions in which all the state and non-state actors need to partner together to find and implement innovative solutions”.

Clearly, the government was foreseeing business participation in its national welfare efforts. The list of activities accompanying the guidelines included globally accepted sustainability activities as well as national welfare and development activities. The 2010 CPSE mandatory CSR guidelines similarly included “shared value” practices. At the same time, they also included a detailed list of activities that were in sync with the national development programmes and policies. Special provisions in the CPSE guidelines made sure that any unspent CSR budget would go to a central pool that could then be used for welfare programmes. This conveyed the intent of drawing upon CSR funding for financing the welfare spend of the government. The 2011 NVG guidelines continue to reflect this governmental view. The foreword to the NVG says:

“The Corporate Sector must now focus its attention on achieving the ‘triple bottom line’- people, planet and profit. Urged by the Prime Minister’s Ten Point Charter, the Corporate Sector is now trying to ensure that economic growth is social and environmentally sustainable...will help the Corporate sector in their efforts towards inclusive development.”

Clearly, inclusive development has been the stated national objective and CSR spending was being seen as a means for achieving the same. The NVG preface further adds “[T]he Guidelines emphasise that businesses have to endeavor to become responsible actors in society...Accordingly, the Guidelines use the terms ‘Responsible Business’ instead of Corporate Social Responsibility...”. Thus, it appears that the government had, right from the inception of regulating CSR, been following a dual meanings path, and the insertion of a national welfare agenda into CSR has not been a sudden development. The issue then becomes one of explaining why the government chose the dual meanings in the first place and why it then forsook the dual meanings when the final Act was legislated. The following section will provide a possible explanation for this.

## 11.5 The Dual Meanings Strategy

In early 2009, the Satyam corporate governance scandal broke out. The scandal of financial mismanagement in what had been one of India's most admired companies till then posed severe challenges to faith in corporate governance in India. India was seeking to become a global economic force, and such reputations of weak corporate governance, would have proved disruptive to these aspirations. In the wake of the scandal, the government quickly intensified its intervention in corporate governance, and these norms were already responding to global developments (Jaiswall and Jammulamadaka 2012). It is in this context that the government of India introduced the first set of guidelines for CSR. The government was invoking the notions of CSR and corporate governance to mandate a welfare spend by Indian businesses, even if this was restricted to public sector enterprises. It continued to invoke these notions through the later period, as CSR and corporate governance remained the zeitgeist of business and governance.

Toward the latter half of the 2000s in the context of the developing world, CSR was increasingly being debated as an instrument of poverty alleviation within business and multilateral governance and development agencies like UNDP (Blowfield and Frynas 2005). The central government in its pursuit of inclusive growth also launched several welfare schemes and measures such as MNREGA, PMGSY, NRHM, JNNURM, and SSA. All these welfare programmes mandated massive budgetary outlays and had implications for fiscal deficit. The flagship MNREGA scheme itself had a budgetary allocation of Rs. 30,000–40,000 crores per annum during 2008–2012.<sup>19</sup> The government of India was duty bound to reduce its fiscal deficit (Economic Times 2013). But with poor economic growth due to continuing global crisis, the government had been unable to achieve its fiscal deficit reduction targets. In 2012 April, Standard and Poor rated the outlook on India's long-term debt as negative. It also warned of a possible downgrade (Wall Street Journal). This was a serious threat for India's aspirations as a surging economic force. Failure to bring in reforms and high fiscal deficit were cited as reasons for the downgrade. This started putting pressure on the government to reduce its budget deficit. The central government had to make several quick decisions. The plan expenditure was slashed by Rs. 92,000 crores or 17.6 % for 2012–13:

“Spending on agriculture was cut by 9.5 per cent; rural development by 12.7 per cent; irrigation and flood control by 66.4 per cent; energy by 43.1 per cent; industry and minerals by 29.3 per cent, within which spending on village and small industries was cut by 36 per cent; roads and bridges 44.6 per cent; and science, technology and environment by 27 per cent; social services by 14 per cent; and Central assistance for state and Union Territory Plans by 13.8 per cent. Within social services, general education was cut by 8.1 per cent; medical and public health by 15.2 per cent; welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities by 15.9 per cent; social security and welfare by 12.6 per cent; and social spending on Northeastern areas by 20.3 per cent” (Aspects of the Indian Economy n.d.).

<sup>19</sup>Source: [nrega.nic.in/Netnrega/WriteReaddata/Circulars/Briefing\\_booklet13.pdf](http://nrega.nic.in/Netnrega/WriteReaddata/Circulars/Briefing_booklet13.pdf).

This reduction in plan expenditure to meet fiscal deficit targets meant that many of the flagship welfare schemes that had been introduced with much fanfare now faced major fund bottlenecks and the implementing NGOs would suffer from fund scarcity. The pressure to further cut this welfare spending only mounted the following year in 2013–14. Standard and Poor had threatened to downgrade India’s sovereign rating to “junk status.” India was getting these warnings in January and February 2013a, b, i.e., the run up to the budget in 2013–14 (Reuters).<sup>20</sup> These threats implied a further reduction in welfare spending.<sup>21</sup> It is in this context that the new Companies Act 2013 was introduced for discussions. Mandating a 2 % CSR spend by companies was expected to raise around Rs. 20,000 crores every year.<sup>22</sup> This amount could provide a small but significant alternative means to finance the NGOs that were undertaking various welfare initiatives that were under way for the development of the country. Thus, corporate financing of welfare became an important alternative source of funds.

Had the government gone ahead with its initial strategy of dual meanings of CSR and permitted “shared value” pursuit of expenditure along with national welfare spending under the rubric of CSR, it would have lost access to the Rs. 20,000 crores of CSR funding for national welfare spend. This is because businesses were already under competitive pressure to invest in sustainability and shared value pursuit. Businesses had to spend for “shared value,” and it would have been to their advantage to use the fungibility provided by the government’s dual meanings of CSR (shared value and national welfare). Businesses could have spent on the pursuit of “shared value” and reported the same spending as CSR spending. It would have meant some book keeping adjustments and newer heads of CSR for reporting the expenditure they were already incurring as a part of routine business. Such a practice would have denied the government access to Rs. 20,000 crores of CSR funds for national welfare. Government could have access to the CSR spend of businesses, only if it could ensure that shared value spending and national welfare spending were not treated as fungible by businesses. This meant putting shared value pursuit outside the ambit of CSR. The government could have used an alternative of raising corporate tax rate by 2 % and garnered additional revenues. However, India is already a country with high tax rates

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<sup>20</sup><http://in.reuters.com/article/2013/01/31/india-rating-sp-idINDEE90U07D20130131>  
<http://in.reuters.com/article/2013/02/25/us-india-economy-budget-idUSBRE9101BA20130225>,  
 Accessed 11 December, 2014.

<sup>21</sup>There have been several criticisms of India’s budgetary priorities and its targeting of reduction in welfare spending to bring down fiscal deficit instead of other mechanisms. However, the fact remains that welfare spending has actually been slashed.

<sup>22</sup>There are several estimates of this amount. Some say it could be far less than 10,000 crores since many companies may not have made profits for three straight years. However, the 20,000 crore figure is the commonly accepted figure.

compared to other nations globally.<sup>23</sup> Therefore, a blanket increase in tax rate would adversely affect the investment friendliness of India. This is probably also the reason why the 2 % CSR spend specified under the Companies Act 2013 is not really mandatory. The law provides for an “explain policy” in case the designated amount has not been spent by the company. Thus, the 2 % remains a voluntary spend by the company at the end of the day. A voluntary spend incurred for the development of the country.

## 11.6 What Does This Mean for the Future of Sustainability and CSR in India?

What does this mean for the future of sustainability, CSR and legislation in India? History is proof of the fact that legislation is a contested domain where diverse stakeholder groups are engaged in politics and negotiations on an ongoing basis. For instance, the Coastal Regulatory Zone notification has been amended over two dozen times (Jammulamadaka 2014). Similarly, the Forest Rights Act (FRA) 2008 limited the opportunities for businesses to engage in extractive processes in forest areas; the extractive industry was severely impacted by it. But in November 2014, a notification was issued which changed the definition of where the FRA was applicable rendering vast forested lands available for business exploitation.<sup>24</sup> Thus, it is very likely that the notification on CSR spend will be an open and contested space responding to stakeholder pressures.

The more significant element which has got sidelined in this debate is the crucial meaning of the phrase “*in the normal course of business*” that appears in both the draft and final notifications issued. It would really serve the interests of society and businesses at large if the *normal course of business* was elaborated to mean *sustainable*. This elaboration and fixing of meaning where *normal* will mean *sustainable* is what is necessary to provide a level playing field to businesses. This will require a firming up of the penal mechanisms around environmental abuse and violation. It will also assure society that businesses do not short change the future for quick profits.

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<sup>23</sup><http://www.thehindubusinessline.com/opinion/is-corporate-tax-rate-high-in-india/article6397953.ece>.

<http://www.kpmg.com/global/en/services/tax/tax-tools-and-resources/pages/corporate-tax-rates-table.aspx>, Accessed 11 December 2014.

<sup>24</sup><http://www.thehindu.com/news/national/activists-express-concern-over-forest-rights-act-dilutions/article6570088.ece>.



## **Exhibit 1: List of Activities as Specified in the Text of CSR Guidelines for CPSEs**

(List is indicative and not exhaustive)

1. Drinking Water Facility
2. Education
3. Electricity Facility
4. Solar Lighting System
5. Health and Family Welfare
6. Irrigation Facilities
7. Sanitation and Public Health
8. Pollution Control
9. Animal Care
10. Promotion of Sports and Games
11. Promotion of Art and Culture
12. Environment friendly technologies
13. Promotion of livelihood for economically weaker sections through forward and backward linkages
14. Relief to victims of Natural Calamities like earth-quake, cyclone, drought and flood situation in any part of the country
15. Supplementing Development Programmes of the Government
16. Non-conventional Energy Sources
17. Construction of Community Centres/Night Shelters/Old Age Homes
18. Imparting Vocational Training
19. Setting up of skill development centres
20. Adoption of villages
21. Taking action on points suggested by Ministry of Forest and Environment pertaining to Charter on Corporate Responsibility for Environment Protection for 17 categories of industries
22. Scholarships to meritorious students belonging to SC, ST, OBC and disabled categories
23. Adoption/Construction of Hostels (especially those for SC/ST and girls)
24. Skill training, entrepreneurship development and placement assistance programmes for youth
25. Building of Roads, Pathways and Bridges
26. Entrepreneurship Development Programme
27. Disaster Management Activities including those related to amelioration/mitigation
28. Activities related to the preservation of the Environment/Ecology and to sustainable Development.

## **Exhibit 2: List of CSR Activities as Prescribed in SCHEDULE VII of Companies Act 2013**

Activities relating to:

- (i) Eradicating extreme hunger and poverty;
- (ii) Promotion of education;
- (iii) Promoting gender equality and empowering women;
- (iv) Reducing child mortality and improving maternal health;
- (v) Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;
- (vi) Ensuring environmental sustainability;
- (vii) Employment enhancing vocational skills;
- (viii) Social business projects;
- (ix) Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; and
- (x) Such other matters as may be prescribed.

## **Exhibit 3: Text from Notified Rules for Implementing CSR, Dated 27 February 2015**

“Corporate Social Responsibility (CSR)” means and includes but is not limited to:

- (i) Projects or programmes relating to activities specified in Schedule VII to the Act; or
- (ii) Projects or programmes relating to activities undertaken by the board of directors of a company (Board) in pursuance of recommendations of the CSR Committee of the Board as per declared CSR Policy of the company subject to the condition that such policy will cover subjects enumerated in Schedule VII of the Act.

## **Exhibit 4: Notification of Activities as per Amendments to the Schedule VII Companies Act 2013, dated Feb 27, 2014**

1. Eradicating hunger, poverty and malnutrition, promoting preventive healthcare and sanitation and making available safe drinking water.

2. Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects.
3. Promoting gender equality, empowering women, setting up homes and hostels for women and orphans, setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.
4. Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water.
5. Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art, setting up public libraries, promotion and development of traditional arts and handicrafts.
6. Measures for the benefit of armed forces veterans, war widows and their dependents.
7. Training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports.
8. Contribution to the prime minister's national relief fund or any other fund set up by the central government for socio-economic development and relief and welfare of the scheduled castes, the scheduled tribes, other backward classes, minorities and women.
9. Rural development projects.

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