Chapter 1
Emerging Economic Models of Sustainability—An Introduction

Jayati Talapatra

Abstract The world is richer in terms of monetary wealth than it has ever been before. GDP per capita globally is at its highest despite increase in population. Such unprecedented economic growth has come at the price of human and planetary health. This chapter captures the growth trajectory of the economic world, from shareholder primacy to stakeholder welfare. It gives an overview of how each chapter in this book presents a facet of sustainability that shows how economic development and social and environmental improvement can happen side by side. Chapters in this book touch upon various examples, cases studies and theoretical frameworks ranging from corporate social responsibility to building efficiencies to the role of consumers. This chapter attempts to knit these concepts together based on the chronological flow of events as they have taken place in the field of sustainable development.

Keywords Sustainable development · Stakeholder theory · Economic models

1.1 Introduction

Milton Friedman won the Nobel Memorial Prize in Economics in 1976, for his research on consumption analysis, monetary history and theory and the complexity of stabilisation policy. He is credited with defining the purpose of an organisation to be to maximise shareholder value (Friedman 1962). Organisations and world leaders, Margaret Thatcher and Ronald Reagan in particular, adopted this tenet and focussed on maximising shareholder value, by every possible mean. Corporate America in the 1970s saw an increase in social and environmental activists, demanding better welfare for the communities and the planet. But the 'shareholder primacy' theory urged business leaders to be wary of spending money on social welfare and environment, which reduced the firm's profits. However, it was not always like this. From the end of World War II to the 70s, businesses followed a process of 'Retain and Reinvest', which ensured welfare of employees, and consequently the communities they belonged to

J. Talapatra (✉)
Sustainability Faculty and Consultant, New Delhi, India

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(Lazonick 2014). This sustainable model gave way to 'Downsize and Distribute' in an effort to maximise profits, at the cost of welfare.

The Business Roundtable is a meeting of American CEOs where principles of corporate governance are issued periodically. 'Shareholder Primacy' has been a focus area for this group since 1997. In 2019, the group declared for the first time that increasing value of all stakeholders, which include the employees, the communities they work in and all players in the value chain, will now be corporate responsibility (Business Roundtable 2019). The purpose of the organisation, as per this group, now includes imbibing sustainable processes that are inclusive, conscious and take care of communities and the environment.

Extending the definition of stakeholders of organisations, to include communities, is more than an ethical decision. The long-term success of a firm depends on the ability to create value for the extended stakeholder groups (Freeman 2015). From the 'Shareholder Primacy' theory of considering social and environmental responsible activities to be undesirable to the 'Stakeholder Theory' of adding maximum value to all stakeholders to ensure sustained business success has been a challenging journey. It is difficult to build a business case for sustainability even today.

Till Elkington introduced the term 'Triple Bottom Line' in 1994, and the social and environmental aspects of business were rarely talked about. Management gurus like Tom Peters or Peter Drucker to name a couple focussed on a variety of aspects of businesses and factors that would lead to long-term profitability with no reference to social, environmental or governance issues. The Triple Bottom Line reporting urged organisations to look at social and environmental values created or destroyed, over and above economic value creation, in a way that the business community understood for the first time (Elkington 1994). The transition towards 'sustainable capitalism' was to be one of the most challenging one that our species had ever witnessed, where a more inclusive, symbiotic way of operating took over from the existing exclusive and subversive one (Elkington 2004). Organisations started accounting for social and environmental impact along with profits. But this was not enough nor the right approach to achieve sustainable capitalism.

The Triple Bottom Line (3BL) reporting became a popular accounting tool as organisations started reporting increasingly on actions that they took on the People and Planet front. But the 3BL approach was intended to be more than just an accounting tool, in which detrimental impact of a business could be 'traded-off' with environmental and social initiatives. It was meant to provoke deeper rethinking on the tenets of capitalism and its future (Elkington 2018). 3BL triggered creation of many other reporting tools that look beyond profits, like the Global Reporting Initiative (GRI) and SROI (Social Return on Investment), to name the more commonly used frameworks globally. However, unless these reports provide information to aid management decisions to improve their social and environmental scores, just as they continuously strive to improve their profits, they will remain a balancing act—to write off the damages of operation. If the planet and its people are to be saved, the business world will need to build sustainability into its DNA, into its business model.

Rethinking business success as one that promotes inclusive and sustainable growth for all stakeholders is not a new idea. In India, The Tata Group has focussed on creating value for its employees and their communities, since the 1870s. 100 years later, Patagonia, an outdoor clothing and gear company, was founded on the principles of environmental sustainability. In 1985, it became the first business in the world, to commit 1% of its annual sales to the environment according to Forbes Magazine. The beginning of this century saw the rise of B Corporations (B Corp) who choose to strike a balance between profits and purpose. The B Corp organisations see themselves as a 'force for good' and are driven by a set of values which are captured in what they appropriately call, their 'Declaration of Independence'. Creation of products and services that benefit all and harm no one is a key tenet that they operate on. What distinguishes them from other organisations who report on economic, social and governance parameters or even those that contribute towards philanthropy, through Corporate Social Responsibility, is their core purpose.

'Purpose' is what differentiates long-term wins over quick but transient success and COVID-19, and before this, the 2008 financial market crash has shown that purpose-driven organisations survive catastrophes better than those who are not (McKinsey & Company 2020). Organisations are shifting their focus from merely 'What' to 'How'. B Corp Chief Executive Officers (CEOs) appear to be truly demonstrating an ability to rethink the future of capitalism and accept the role that the global economy ought to play, in making things better for all beings on earth.

The certification of B Corps started in 2007, and today, there are 3905 companies, spanning 150 industries, spread across 74 countries. While the absolute numbers are not very encouraging, what is encouraging is the reason why organisations are choosing to become B Corps. A primary reason is to demonstrate authentic actions towards a more equal and sustainable world, as compared to 'greenwashing' actions of a majority of firms (Kim et al. 2016). Many of the B Corps have come into being because their industry has traditionally been a carbon-intensive or non-inclusive one, and they wanted to lead change in their industry (Kim et al. 2016). These firms want to join the movement, to create a new set of rules for a new economy.

Stakeholders, especially consumers and investors, are pushing businesses to adopt sustainable business processes. Additionally, organisations that have embedded sustainability into its core and sustainable businesses that have been created solely for enriching lives and the planet have been able to do so because of their leaders. Co-founded by Sir Richard Branson, Founder, Virgin Group and Jochen Zeitz, former chairperson, PUMA, in 2013, the B Team is the corporate leadership response to the present unsustainable economic model. Heads of market leading organisations such as Vodafone, Unilever and Shell have adopted Responsible Tax Principles, among other B Team principles, which are helping them on their journey towards sustainability. The Tata Group and Patagonia, mentioned above, also owe their responsible business approach, to their founders and leaders. Jamsetji Tata started his business enterprise with a textile mill in central India in the 1870s. He is as much known for his philanthropy and humaneness as much as for creating one of the largest business conglomerates in the world today. His compassion for his fellow humans led to the creation of Tata Trusts, which has been funding charitable activities in the country, decades before Corporate Social Responsibility became a norm. Yvon Chouinard, Founder of Patagonia, is also an environmentalist and mountain climber. His strong belief in creating products that conserve nature's resources is demonstrated through his '1% for the planet' program as well as the firm's constant adoption of processes that reduce their carbon footprint, such as promoting reuse of old clothing over new. Both Tata's and Chouinard's personal beliefs have ensured that their organisations are authentic in their actions to make the world a better place.

2020 saw the increase of climate risk and carbon disclosures by a larger percentage than ever before (Harvard Business Review 2021). Larry Fink, CEO, BlackRock, one of the largest investment management firms in the world, has been pushing companies that his firm invests in, to disclose environmental impact. In an official letter to the stakeholder community at the beginning of the year, he emphasised on the importance of climate-related disclosures and how the firm's future investments will be governed by this. Increasing activism from shareholders, push from Investment Firms such as BlackRock are not the only reasons for the increase in disclosures and reporting from the industry. An increase in 1.2% in stock price of the disclosing company has been observed post-announcement of disclosure (Harvard Business Review 2021).

With organisational leaders coming together to create sustainable value chains, investment getting increasingly available to enable green transitions and the number of organisations choosing to disclose its social and environmental impact and create strategies to minimise damage, the path towards a more balanced prosperity seems clear. The following chapters will illustrate how the world is progressing down that path.

1.2 An Overview of the Book Chapters

India took a lead in making Corporate Social Responsibility (CSR) an institutionalised practice, when an amendment to the Companies Act, 2013, mandated CSR spending by companies with certain inclusion criteria. The result of mandating CSR on Indian companies has been varied. Chapter 2 presents a study on CSR reporting pattern, of 30 Indian companies, listed on the Bombay Stock Exchange, studied over a period of four years. The chapter throws light on which areas within the given CSR focus areas are disclosed more and which have not been disclosed. An industry-wise analysis is also presented which shows trends in how CSR reporting varies across sectors. The chapter shows that post-mandating of CSR, substantial increase in CSR reporting has been observed by Indian businesses. While reporting and disclosures are an important step in the sustainability journey, the success of CSR as an agent of change needs to be understood through detailed research on how the on-ground implementors, such as Non-Profit Organisations and other Civil Society Organisations are utilising funds allocated through CSR. Chapter 3 is a study of how corporate funding and corporate culture have impacted the functioning of implementing organisations. Is working with corporates, making implementing organisations more professional and efficient? How does the implementing agency ensure that it sticks to its goals and purpose, without getting influenced by what their funder is asking of them? Various aspects of this relationship are discussed, and the overall impact on the implementing agency, which were used to functioning in a 'fund utilisation' mode of operating as compared to the 'outcome based' approach that corporates seek, is presented.

In countries where CSR is not mandated, its adoption can depend on a variety of factors. Chapter 4 presents a model in which the authors show how neo-institutional mechanisms—normative, coercive and mimetic, influence CSR development. CSR development is further explained through three stages of cultural reluctance, grasp and embedment. The case of the ready-made garment industry of Bangladesh is used to demonstrate how the CSR development model works. The ready-made garment sector of Bangladesh had been evoking the anger of human rights activists for long. The Rana Plaza incident of 2013, where a number of garment units were gutted in fire in a town in Bangladesh, leading to loss of lives and livelihoods, spurred a series of changes in legislation (International Labour Organisation 2013). Chapter 4 studies how these changes affected CSR in the garment industry of the country.

Along with human rights violations, the garment industry is also accused of being one of the largest environmental violators, being the second largest consumer of the world's freshwater and responsible for 10% of all anthropogenic carbon emissions (World Economic Forum 2020). Chapter 5 explores how Marshallian framework of Cluster Economics enables sustainable processes in the garment industry. A key challenge faced by small and medium enterprises is the availability of funds for implementation of sustainable practices. Case studies of small and medium size garment manufacturers in the National Capital Region of New Delhi are presented, and the impact of cluster formation and pooling of CSR funds of such organisations are discussed. The chapter proposes a three-pronged, multi-stakeholder approach at three levels—the Government, the Firm and the Cluster or Industry Association, to enable large-scale sustainability initiatives in the sector.

A key environmental impact of the garment industry, especially fast fashion, is the generation of waste. Approximately 1 truckload of discarded garments is sent to the landfill every second (Bick et al. 2018). Fuelled by consumer activism and a call taken by some industry leaders, like Chouinard of Patagonia, fashion industry has been making steady progress towards circularity, moving away from a linear model to one of reduce, reuse and recycle. Chapter 6 brings out the opportunities that exist in extracting value out of waste, through recycling, reuse and recovery. It shows how a good waste management system can incentivise creation of new sustainable businesses. Case studies of three organisations are presented, to demonstrate how waste can be a resource. Aspects of changing consumer behaviour towards waste reduction and segregation are incorporated into the cases. The chapter shows how a multi-stakeholder approach, with private players, the government and the aware consumer can benefit the environment as well as businesses, providing a win–win solution for all.

Waste management is an important step in creating safe, resilient and sustainable urban spaces. Chapter 7 brings out economic, social and environmental aspects of sustainable cities, through case studies of three Asian countries and an in-depth analysis of the smart cities programme in India. A study of the New Town Smart City in Kolkata, West Bengal, is presented, illustrating how a multi-stakeholder approach and long-term commitment by visionary leaders can help build a self-sustaining urban space that is healthy and vibrant. The case study demonstrates how innovative use of solar energy is a financially viable way of creating sustainable micro urban spaces.

The success of the models mentioned in Chaps. 6 and 7 depends substantially on the individual consumers' awareness and thereby an ability to commit to a responsible way of life. Similarly, consumer demand for more sustainable products and services is critical to spur a new generation of sustainable businesses and motivate existing businesses to move towards more sustainable processes. The pandemic has further accelerated changes in consumer behaviour, who had increasingly started demanding more accountable, humane and environmental conscious products and services, even before 2020. Chapter 8 studies this change in consumer behaviour and its impact on organisations. Seventy-five consumers share their views on how their consumption pattern has changed over the past couple of years. These changes are mapped on to observed changes in sustainable practices of organisations. A case study of a leading global hotel chain and its sustainability practice is also present to corroborate the findings from the study.

Responsible consumption behaviour, or awareness of how one's actions impact the earth and its inhabitants, can be inculcated through the education system. Chapter 9 presents a nine-factor framework (9FF) for creating a sustainable education system. The framework uses a systems approach, taking into account multiple variables and stakeholders, to propose a system that is robust and relevant over a large set of conditions. Education lays the foundation for human behaviour and any societal change and needs to begin with changes in the education system. This paper attempts to propose a foundation for entrenching sustainability into our society.

Various aspects of sustainability have been presented so far—from understanding how legislation enables implementation of sustainable practices, how urban spaces can be created to be resilient and healthy, opportunities that exist for new sustainable businesses, to what lays the foundation for responsible behaviour. The future business world is increasingly looking at sustainability as the way forward. Chapter 10 brings together two emerging trends in the business world—sustainability and digitization. The pandemic has further accelerated digitization and as the previous chapters point out, the need for responsible production. This chapter shows how they work hand in hand. A 2 by 2 matrix is proposed, which maps organisations along 'creating positive impact' and 'avoiding negative impact' axes. The chapter shows that now more than ever before, CSR is being used to take genuine steps to improve people and planet health, rather than minimise damage caused due to operations.

The book starts with the impact of CSR on sustainability and data is presented to show how it is being used effectively by ground-level implementors, to create lasting change. The need for the corporate world to come together and help people in need has never been felt more strongly than during the pandemic. Chapter 11 presents data on how CSR funds have been utilised to bridge the gap in medical equipment, medicines, oxygen and so on. Legislative amendments have been made to allow organisations to divert their CSR funds towards COVID-19 relief operations. A developing country like India with limited medical infrastructure sorely needed corporate funds to cope with the pandemic.

1.3 Conclusion

India has the third largest number of billionaires in the world and also some of the poorest (Forbes 2021). Poverty arising out of conflicts, climate change and lack of economic models that lead to overall prosperity of communities and nations, is still the norm than the exception. Shareholder capitalism seems to dominate global business as evident from the growing income disparity, especially in developing countries. As an added blow to stakeholder capitalism, Danone's SA's CEO and Chairperson Emmanuel Faber, a leading voice for sustainability in the global business world, were asked to step down, as I write this. Is the world moving back from its commitment to make it a better world for future generations?

The following chapters prove that that is not the case. The move towards sustainability is now more commonly accepted, and the business case for it is evident. Opportunities exist for the business world, to earn profits and create widespread and long-term prosperity rather than concentrated wealth in the hands of a few. And when people unite, this is entirely possible, as can be seen from multiple examples from public health, where tropical diseases have been successfully wiped out from the face of the earth or heinous human rights violations faced with stiff opposition. The Montreal Protocol signed by Heads of States in 1987 laid out a plan for stopping production of ozone depleting substances, halocarbons. Today, the ozone hole has been healed to a large extent, thanks to the concerted effort of the business world looking for alternatives to halocarbons that were traditionally used for cooling. Implementation of the Montreal Protocol establishes the power of collective action.

COVID-19 has proved to be a turning point in the history of humanity. It has shown us the need for symbiotic living with nature, as the link between pandemics and biodiversity destruction is now well documented (World Wildlife Fund 2020). For the first time, the global community came together as one, contributing money, expertise and equipment, to fight the common enemy. The pandemic saw companies diverting their production lines to build ventilators, while others made large monetary contributions to provide relief. But more importantly, individuals changed the way they look upon their planet and the people around them. Patients coming out of a hospital in Maharashtra, India, have been planting trees because the value of oxygen has never been clearer. Never before, has it been more evident, that our actions can destroy and at the same time heal the earth and all who live in it.

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