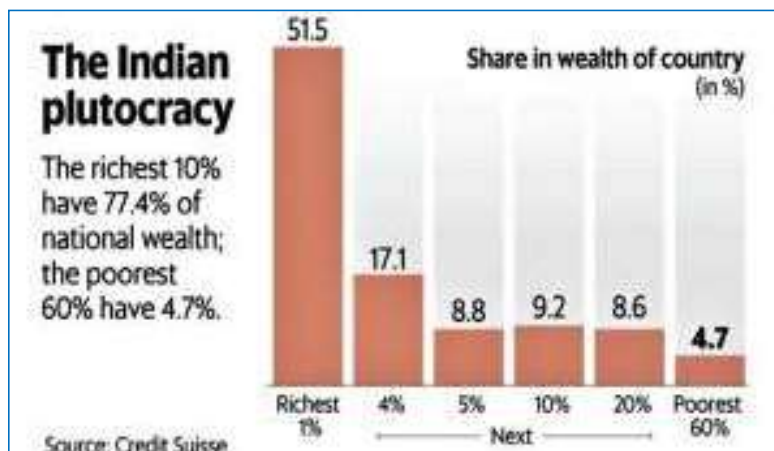


# Doing well by doing good

**Corporations need to transition from the antagonistic paradigm of society vs business to the synergistic paradigm of society and business, and eventually evolve to the enlightened paradigm of business for society**

**O**n 5 July 2019, Finance Minister Nirmala Sitharaman presented the Union budget. The highlight was the vision of the Modi government that India would be a \$5 trillion economy by 2025. That would place India in the third position among the world's largest economies in terms of nominal GDP. This was unimaginable a decade ago. From that position to becoming the world's second largest economy (in terms of purchasing power parity) after China by 2030 makes for a phenomenal economic success story. Within a decade, nearly 100 crore Indians will be a part of the middle class, out of the 420 crore people globally. The per capita income would increase from \$1,500 to nearly \$7,500 leading to a five-fold rise in the available disposable income and an enormous increase in their purchasing power. This could be the golden period for India Inc.

What can mar this dream run are India's social indicators and the extreme inequities between the haves and the have-nots that are glaringly emerging in the Indian 'plutocracy'. According to a Credit Suisse Global Wealth Report in 2018, the richest 1 per cent of Indians owned 51.5 per cent of the country's wealth, and the bottom 60 per cent owned just 4.7 per cent.



## Visualise some of these statistics

- According to the Legatum Prosperity Index 2016, India ranks 102 in education among 149 countries.
- With 40 crore youth, the largest in the world, between the ages of 10 and 24 years, only 2.3 per cent of the Indian workforce has undergone formal skill training, as compared to 52 per cent in the US and 96 per cent in South Korea.
- 10 of the world's 20 most polluted cities are in India causing ~620,000 premature deaths annually; 3.77 crore Indians are affected by water-borne diseases annually and ~15 lakh children die due to diarrhoea alone...
- 4.5 crore children under age five are stunted
- The average daily household income of a farmer in 17 states across India is ₹55 for a family of five
- Nearly 12 per cent of India's population – 15 crore people – still do not have access to basic drinking water. (Naturally, Modi 2.0 government has prioritised piped water supply across India by 2022.)

It is no surprise that with such glaring disparities, India ranks 142nd in the per capita nominal GDP, compared to sixth in the nominal GDP in 2018. In such a scenario, it is imperative for corporations to look at their existential purpose beyond making profits if they wish to see the economic dream come true.

## Historical context

Adam Smith (1723-1790), considered 'The Father of Economics', argued that societies function best when economic interests and ethical interests coalesce. His argument, eloquently made in the books *'The Theory of Moral Sentiments'* (1759) and *'An Enquiry into the Wealth of Nations'* (1776), established the notion that economic and ethical interests share a symbiotic relationship. A lot of prominence has been given to his latter publication, which characterises the emergence of a market economy. But perhaps, not the same level of importance has been given to the former. If the 19th century business leaders would

have integrated the ethical and economic ideals of Smith, the world would have been spared the discord and distress that emerged due to competing ideologies. Smith's ethical ideology was conveniently ignored, and capitalism grew with a skewed focus, ignoring the core human elements of business and society.

A millennium earlier, the issues of ethical behaviour and social responsibility in administration and management were discussed in ancient Greece. Socrates, Plato and Aristotle discussed the ethical rules that govern economic principles. These philosophers postulated that economics should sub-serve the principles of 'good life' and should help in establishing a peaceful society. They also described that management and administration of the state should aim at promoting the welfare of society. A millennium prior to that Chanakya underscored a similar objective in the Artha Shastra. The Shanti Parva and Vidura Neeti sections from the epic Mahabharata provide similar insights on the role of leadership and of trade organisations in contributing to social well-being. Thus, the message of symbiotic existence of business, trade, commerce and society has been reiterated millennium after millennium across continents.

### Contemporary ideas

In recent times, scholars like Edward Freeman, professor, Darden School of Business, University of Virginia (USA), have dedicated a lifetime of research to the role of corporations in creating multi-stakeholder value. During our interaction at Charlottesville, he observed, 'Capitalism is the greatest system of social cooperation ever invented. It's about how we co-operate to produce that which no one of us can produce alone. Profits are an outcome of this process. To say that profits are the purpose of business is like saying making red blood cells and breathing are the purpose of life...'

Unfortunately, businesses have reduced a complex human activity into a mathematical equation where the interests of several stakeholders are compromised to meet those of a single stakeholder – the shareholders/providers of capital, who happen to be the already wealthy. I believe that business is not a zero-sum game. It is possible to work towards solutions that lead to mutually beneficial outcomes for the business and its several stakeholders. There has been an increasing awareness of the social purpose of businesses globally that has given rise to newer organizational approaches. For example, Conscious Capitalism is a platform for businesses focussed on purpose and meaning beyond profit. B Corps is a certifying body for for-profit companies that meet its high standards for social and environmental responsibility. Responsible Investment Association is a member-

based organisation focussed on integrating environmental, social and governmental criteria into investing.

In their landmark paper on 'Creating Shared Value', published in the Harvard Business Review, 2011, Prof. Michael Porter and Mark Kramer suggested that addressing societal harms and constraints did not necessarily raise costs for firms, because they could innovate through the use of new technologies, operating methods and management approaches, thereby increasing their productivity and expanding their markets. This is because at the very basic level, the competitiveness of a company and the health of the communities around it are closely intertwined. Identifying and expanding the connections between societal and economic progress could be achieved by reconceiving products like GE's Ecomagination series and Vodafone's M-Pesa; redefining productivity in the value chain like Mark & Spencer's decision to stop shipping supplies from one hemisphere to another; and enabling local cluster development.

I belong to Gen Y, aka Millennials. By 2025, millennials will make up 75 per cent of the workforce. One would tend to believe that with an increasingly materialistic mindset that's pervading individuals and institutions, this generation would hardly bother to look beyond commercial success. However, several surveys and studies indicate the contrary. A 2016 Cone Communications study reveals that 75 per cent of millennials would take a pay cut to work for a socially responsible company; and 64 per cent won't take a job if a potential employer doesn't have strong corporate responsibility practices. According to another study by The Society for Human Resource Management, 94 per cent millennials want to use their skills to benefit a cause and 57 per cent wish that there were more company-wide service days. The increasing trend indicates that social impact is not only a want, but a need they're looking for in their potential employers. The new Mantra among prospective employees is – Does the company have a Double Bottom Line – Profits with Purpose or Money with Mission?

### The CSR continuum

In contemporary times, corporate stances on social responsibility range from a 'forget-about-it', social obstruction approach at one extreme, to the proactive, outreaching corporate citizenship approach at the other end. There are some organisations which hold the view that social and environmental responsibilities are none of their concern and that they should be allowed to operate without any constraints or fetters from government regulations or overseeing. A shade better than these are the firms that admit that they have a social obligation to comply with the legal requirements, but nothing beyond it. Firms that are even more

socially sensitive, choose the social response approach whereby, in addition to adhering to the legal and regulatory requirements, they are willing to take some positive steps to address some social and environmental issues. Then, at the top of the level of social responsibility, there are companies that proactively look for opportunities to contribute to societal good. This social contribution approach elevates them to the status of corporate citizens.



A corporation's role as a socially responsible organisation is to be assessed with reference to the extent to which its values and practices align with the expectations of its diverse stakeholders. A corporation that works towards achieving win-win outcomes and co-creating mutual value with them can truly be called an Inclusive Business Organisation. Let's look at five interfaces and how inclusive companies would deal with them:

**Interface with Employees:** Trust begets confidence and loyalty. A company that is fair, cordial and ethical in its dealings with employees, that is keen on promoting their skills and progress, that shows interest in their and their families' welfare, that is even-handed and judicious in the application of its operating rules, that has a good image as one which fulfils its commitments, that is fair in competition and that is alive to the current technological advances, is bound to attract and retain a satisfied and committed workforce.

**Interface with Supply Chain:** Suppliers are vital to the success of a firm, for raw materials will determine the final product's quality and price. In turn the firm is a customer of the supplier and is, therefore, vital to the success and survival of the supplier. When the firm treats the supplier as a valued member of the stakeholder network, rather than simply as a source of raw materials, the supplier will respond when the firm is in need.

**Interface with Society and Natural Environment:** Companies depend on society for manpower, materials, services and markets. The community, in turn, looks up to the companies for jobs, products and a range of dealings and

services, with multiplier effects. A company that is socially involved extends financial support to local causes. Its concern for environmental conservation and protection gets reflected in its care in the use of natural resources, and its initiative in replacing them.

**Interface with Market:** Another factor that companies have to take note of is the growing influence of ethical consumerism. Some scholars have identified three categories of consumers who have a propensity to purchase ethically:

- The 'Global Watchdogs' constitute the hardliners who will purchase only on ethical criteria, and they campaign vigorously for ethical purchases.
- The 'Conscientious Consumers' buy ethically when they can but give weightage also to value for money and quality factors. They see reason in ethical buying but are not the campaigning type.
- The 'Brand Generators' is a category of consumers who engage in discussions about corporate ethics, but their purchase decisions are mainly influenced by brand names.

These three groups represent a growing trend in ethical buying and trigger a sharper corporate awakening, concerning ethical and social commitments.

**Interface with Government:** CSR does not imply that the government has abdicated its monitoring and regulating role. For instance, the regulatory labour laws must be observed. Cooperation with broad national policies and requests for voluntary compliance and active participation in legislative processes are equally important.

Thus, CSR is in many cases, an exercise in enlightened self-interest. An improved environment should yield cost savings and enhanced revenues. Reputation as a socially responsible concern should help the company expand its market reach and enlist sustained employee commitment and cooperation. The question of benefits will vary depending on the nature of industry, product, service and other factors.

Liberalisation, privatisation and globalisation has brought CSR to the public gaze. The public have extravagant expectations of corporate management. Large companies wield enormous power and must take note of the strategic importance of stakeholder relationships. The new roles, rights and responsibilities of business in society have expanded the scope of CSR which is now more comprehensive and focussed than the traditional, paternalistic philanthropy. There is a shift in focus from mere bribery and corruption issues to environmental preservation and protection, human rights, product responsibility, poverty alleviation, livelihood creation, and several social issues.

The case of Royal Dutch is an instance where irresponsible business practices took a great toll on the reputation of the company and stupendous efforts were put in to revive the same. Royal

Dutch/Shell's plan to dump the obsolete Brent Spar oilrig in the Atlantic Ocean triggered an international outcry and consumer boycott harming its reputation as an altruistic enterprise and resulting in substantial drop in sales. Shell had also to face public criticism for the harmful effects of its operations in Nigeria, on the environment. To salvage its reputation, Shell had to make stupendous efforts to transform itself and it took years for it to convincingly demonstrate its commitment to honour its social and ethical responsibilities.

### From CSR to Inclusive Business

In November 2013, when CSR was mandated by legislation, it was the beginning of bringing the social role of corporations in India centre stage. Five years later, in December 2018, the Ministry of Corporate Affairs, Government of India, published the National Guidelines on Responsible Business Conduct as a means of nudging businesses to contribute towards wider development goals while seeking to maximise their profits. These articulate a set of nine principles and are in alignment with the United Nations Guiding Principles on Business & Human Rights. These nine principles reflect the approach to 'Inclusive Business' in totality:

**Principle 1:** Businesses should conduct and govern themselves with integrity, and in a manner that is ethical, transparent, and accountable.

**Principle 2:** Businesses should provide goods and services in a manner that is sustainable and safe.

**Principle 3:** Businesses should respect and promote the well-being of all employees, including those in their value chains.

**Principle 4:** Businesses should respect the interests of and be responsive to all their stakeholders.

**Principle 5:** Businesses should respect and promote human rights.

**Principle 6:** Businesses should respect and make efforts to protect and restore the environment.

**Principle 7:** Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.

**Principle 8:** Businesses should promote inclusive growth and equitable development.

**Principle 9:** Businesses should engage with and provide value to their consumers in a responsible manner.

### Identifying the core purpose

In their seminal work 'Built To Last' at the Stanford Research Institute, Collins and Porras studied 18 visionary companies across the US, which fulfilled varied criteria such as being the industry leader, having multiple generations of chief executives, having been through multiple product life cycles and were founded before 1950. The companies in their study include 3M, Boeing, Ford, GE, Procter & Gamble, Sony, Walt Disney and many more. One of their key observations was, 'Contrary

to business school doctrine, we did not find 'maximising shareholder wealth' or 'profit maximisation' as the dominant driving force or primary objective through the history of most of the visionary companies. They have tended to pursue a cluster of objectives, of which making money is only one – and not necessarily the primary one. Indeed, for many of the visionary companies; business has historically been more than an economic activity, more than just a way to make money. Through the history of most of the visionary companies we saw a core ideology that transcended purely economic considerations.'

Every organisation has a vision and mission. Along with the what, when, where and how, it's time we identify the purpose or the 'why' of our organisation. Why do we exist? This question has been baffling seekers for millennia. Corporations need to look within and get answers to this question. For example, in the case of the Tata Group, India's largest and most globalised conglomerate, the founder – Jamsetji Tata defined the group's *raison d'être* when he said over 130 years ago, 'In a free enterprise, the community is not just another stakeholder, but is in fact the very purpose of its existence.' Despite undergoing a total transformation in its businesses, geographic presence and scale, the core of the group remains the same, even when it is celebrating its sesquicentennial anniversary. For this, four 'I's are vital. Businesses need to consistently *Introspect, Implement, Innovate and Impact*.

As I have underscored in my book 'Win-Win Corporations', if companies work towards delivering responsible, inclusive and sustainable commercial success, businesses and their leaders would emerge as a powerful force for social well-being and nation building. In such an ecosystem, the millennials, who are the movers and shakers of India's tomorrow, can make substantial contributions towards achieving tangible outputs, deliver visionary outcomes, and create long-lasting impact. To achieve this, corporations need to transition from the antagonistic paradigm of society vs business to the synergistic paradigm of society and business, and eventually evolve to the enlightened paradigm of business for society. Let's begin today...

♦ Dr. SHASHANK SHAH



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