

Sustainability Outlook

October, 2012

Sustainability Reporting

Extended Producer Responsibility

Financing Sustainable Infrastructure

Green Leap needed to shape global leadership



Moving from operating defensively,
to capturing advantage

GREEN-LEAP NEEDED TO SHAPE GLOBAL LEADERSHIP



Sustainability Outlook spoke to Prof. Stuart Hart, Professor of Management at the Johnson School of Management at Cornell University on the future and development of sustainability paradigm in India.

Your work on the implications of environment and poverty for business strategy is well known. Could you elaborate on the Sustainable Value Framework that you have developed?

The core idea behind the development of the Sustainable Value Framework was that it would be especially relevant for corporates and existing enterprises that have an on-going core business. The idea was to provide a road map so that corporations could have a common language, an overall framework for mapping what they are doing and what they would like to do from the stand point of sustainability. Sustainability is such a big idea. There are so many dimensions such that it becomes a confused topic inside corporations - you have different people talking about different aspects, people doing eco-efficiency in factories, break-through technology and innovation, R&D, social initiatives on the ground with communities, so it becomes confusing to know what exactly comes under the ambit of sustainability. The idea behind the framework then was a way to talk about this in an organized way so that they know what their overall level of initiative is. This would then perhaps help identify the areas where they have less initiative. For most companies there's

typically a lot of initiative and action in the eco-efficiency area, CSR and stakeholder engagement but this is at the bottom of the sustainable value framework. Most corporates have a lot going on in terms of legitimization of existing policies but there's considerably less effort and investment focus in leap frog, next generation technology and clean-tech. It is here that the sustainable value framework comes in handy as a tool for strategic planning.

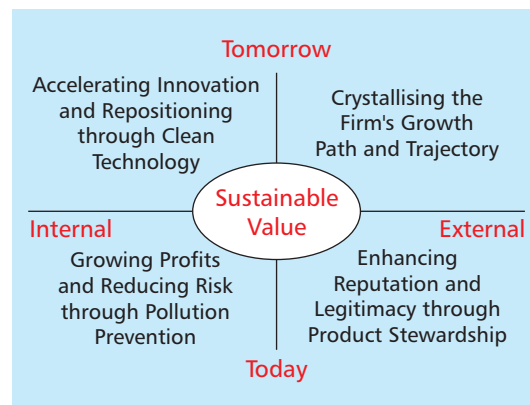
You mention that all businesses have their own definition of sustainability - in some cases it's about CSR, for some the focus is on energy efficiency; if you could give a simple definition of sustainability for businesses, what would it be?

I actually think that's a trick question, the search for a simple definition- because you can't have one. And it sort of says that in the framework. I can provide a high level definition but it would be operationally meaningless. The idea that a sustainable company is one that prospers while addressing social and environmental problems is again meaningless from an operational point of view. What I try to do in the framework is double click on that very general notion so that it gives more additional strategic and operational guidance to what different strategies look like. So eco-efficiency is different from corporate social responsibility, which is completely different from next generation leap frog, which again is very different from the fourth strategy which is to do with the base of the pyramid. And it is these differences of approach to the same idea that corporates need to understand. Those are four very distinct strategies all related to the challenge of sustainability and it makes sense for every corporate to take all of them into consideration.

Where do you think Indian industries stand where sustainability is concerned?

Of course this is a very general question, and I don't have any systematic data to give a

“There are four very distinct strategies related to the challenge of sustainability”



“In India, vast majority of companies are still thinking of sustainability in general eco-efficiency and CSR terms”

factually grounded reply. But the over-all impression, and I repeat this is just my impression, I got in the process of speaking to a lot of companies, is that when it comes to sustainability in India, the vast majority of companies are thinking about it in very general eco-efficiency and CSR terms. There is a strong desire for the typical Indian corporate to not jump ahead fast; to really want to see value demonstrated before they climb on board. This is also true of all big corporations, not just unique to India. But then there are these small companies who are really stepping out in this whole domain. In some ways they have really set the mark.

There are more and more of these kinds of start-ups in the distributive energy space, in the water space, and so on. These entrepreneurial start-up companies are very exciting in terms of sustainability. They are pioneers who will move in and take this game forward. Needless to say, these are much smaller firms as compared to the Tatas, Mahindras and the ITCs.

The situation is not atypical to India but the condition is different because India is such a large country. At the Indian Institute of Sustainable Enterprises our entire focus is on entrepreneurs and corporate intrapreneurs. We are slowly gravitating towards the intrapreneurial corporations.

What are the similarities and differences in the way Indian businesses approach sustainability vis-à-vis global companies?

Being an academic, I'm about systematic studies and since those are not in place, I can't make any definitive statements. If I were to summarize the similarities and differences, I would say that in many respects India is very similar to any other large global country. You find a large mass of established corporations that are hesitant to jump in with both feet into this whole innovation space and are more interested in reporting, doing eco-efficiency initiatives and community engagement or CSR and that's where most Indian corporates are. I don't think that's especially unique to India, it doesn't surprise me and that's not news, because that's where most corporates are generally – in the US or in China. But having said that there's this subset of Indian entrepreneurial activities and that's what makes it so special – there are way many more initiatives than you find typically in the US. Both in terms of the small companies and in the start-up world, there are many more exciting ventures in India than elsewhere.

Considering India is a developing nation which is trying to get on the low carbon growth path, what do you think are the key issues that India as an emerging market needs to focus on as regards to sustainability?

At the core I'm a strategy guy. If I look at the lower part of the sustainability value framework, what I call the 'greening agenda' or even around CSR, product stewardship, take-back, reuse, recycling, those are quite highly developed in Europe, USA and Japan. In that sense, it's hard for me to see how Indian corporates could overtake the Europeans, the Japanese and Americans in that space, in their own game of continuous development of existing products. But at the same time that's what most Indian corporates are doing. I don't really see how doing only that produces world class leadership. Instead I think there's an enormous opportunity for Indian corporates, given the challenges that India as a country faces given the inequity in the country. In this sphere then, there's a chance for entrepreneurial and intrapreneurial companies to develop entirely new strategies for the world and become world class in that way. And that is what Indian Institute of Sustainable Enterprises is about.



SXC.XU Photostream

“We are trying to create an innovation ecosystem around the green leap space at the institute”

“Future lies in steering Indian corporates in the green leap space”

Let's talk more about the Institute then. What are your main goals and who are you trying to target and where are you at?

The goal of the Institute is quite focused - it's very audacious but it's focused. It's not a small goal. The goal is to massively accelerate both the number of new intrapreneurial and entrepreneurial ventures in this space at the intersection of clean-tech and BOP, the 'green-leap' space and dramatically increase the likelihood that they are successful. We are looking to create an innovation eco-system around that goal and that includes an education capability development platform. We have a flagship program that we launched in August which won't be a degree course but a certificate program. The focus is about launching new ventures and not just getting a piece of paper to get a degree, getting trained, getting an MBA and getting a job in existing companies. The focus is to generate new companies, new initiatives, new ideas and entrepreneurial ventures. The flagship program is the end game and the point of the program is to get new ventures launched. So there's the education capability development program but then there is an executive development program as well. There is a new venture fund, a financing vehicle called Papillon. In addition we are looking to create a technology bank- in our view there are a lot of existing shelf technologies in the clean-tech space sitting in universities and corporations. Though many of these are distributive and disruptive technologies, they have not been commercialized. We are looking to bring those technologies into the bank and to allow that technology to collide with intrapreneurial and entrepreneurial ventures so that we can go out on the ground. A lot of the education and capability training is about co-creating and inventing technologies rather than just creating cheap products to sell to the poor. So it's a methodology for co-creating new business models and innovative new enterprises. We are shaping this co-creation framework along with clean technology, new forms of financing and embedding these through social networks. In the social network space, we're looking to build clusters with ventures and NGOs along the lines of generation and distributive ventures of renewable energy, water treatment, etc. These are all different cluster networks that we are building up. The problem is that as an entrepreneur you cannot really work by yourself, you need to be embedded in a bigger eco-system with partners and collaborators. That's what we are trying to do in the Institute, to create an innovation eco-system around the green-leap space.

You mentioned a financing facility. Tell us more about that.

The idea is to start with high potential models that are quite well-developed in that space. The Papillon people are looking at 2-3 much larger deals – typically late stage, high profile ventures that the company can help to take to scale and then to focus on early stage companies.

What would you say is the way forward for Indian companies to be more sustainable?

There's this sharp focus beyond greening space in the sustainable value framework. So the challenge and the opportunity for Indian corporates is to focus more on that space as opposed to following the more conventional strategy of CSR and eco-efficiency. I know that it can sometimes feel uncomfortable because the Indian corporates wants to wait until the value proposition has been proven before they jump in. But my argument would be if that's your attitude then you're probably going to be on the sidelines permanently. The question is which entrepreneurial ventures and which corporates are going to stake out that territory. There's a growing appetite for launching these kinds of initiatives in the US, in Europe and in Japan because just trying to persist with existing strategies in established markets doesn't have a long term growth future. We're actually getting a lot of uptake on the strategy being evangelized by the Institute from US, European and increasingly Japanese corporations. It's comparatively a difficult proposition to bring in the India corporate sector beyond the small numbers of players that I have been describing. So I would say the big challenge is to steer the next tier of the Indian corporate into this space because that's where the future really lies.

Professor Stuart Hart is the Samuel C. Johnson Chair of Sustainability Global enterprises and Professor of Management at the Johnson School of Management at Cornell University. He is the founder of 'Enterprise for a Sustainable World'. He holds an M.A from Yale and a Ph.D from the University of Michigan.