

# Responsible Business Professionals



# Responsible Business Professionals:

*A Strategic Perspective  
of the Global Challenges*

Edited by

Rabi Narayan Kar, Kaisa Sorsa  
and Kusha Tiwari

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This book aims to develop and examine responsible business knowledge and proactive management competences for the growing bilateral trade between India and other countries in the global context. The economy of India is an untapped opportunity for developed world as its economy has fastest growing economy of the BRICS’ countries and has lot of scope for synergistic benefits which also has significant implications for the developed world. With the advent of MNEs, bilateral trade between India and countries from Europe and other parts of the world has increased manifold and which is very well documented in the literature. The Responsible Business Professionals (RBPs) of MNEs are also largely responsible for augmenting the trade engagements through their responsible stewardship. This book also aims to deepen the understanding of engagements and co-operation between India and European institutions and professionals in order to create spillover impact for the local and global business. Such a relevant and contextual

study may further expand the understanding of responsible business prospects of and challenges in sustainable growth within the perspectives of India's global trade engagements in general.

Another important aspect which has also been addressed while exploring further trade possibilities is the cross-cultural component affecting the expansion of businesses in the countries. We appreciate the institutional support and encouragement that the editors got in all the participating institutions that helped in understanding diverse responsible business practices in the two countries. The editors interacted and interviewed entrepreneurs and business professionals in the two countries to get deeper insights into the work ethics and innovative practices of business. These exposures also helped gather valuable inputs around the cross-cultural dimensions of the theme in the global context

As this book is the outcome of several discussions, exchanges, workshops, seminars and conference, we sincerely acknowledge the contributions of the Centre for International Mobility (CIMO), nowadays called The Finnish National Agency for Education, Finland for carrying out this experiment. We also sincerely acknowledge the support received from Turku University of Applied Sciences, South Eastern Finland University of Applied Sciences and Turku School of Economics, Pori Unit, University of Turku Finland, SLC University of Delhi and ICSSR India without whose support and encouragement, the book could not have seen the light of the day. We are grateful to all our colleagues, mentors, reviewers, friends who offered suggestions, support and the opportunity to discuss the progress, doubts and queries around this book project.

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We dedicate this book to our families, well-wishers and friends for their enduring patience, love and support through all these years of togetherness and specifically during the period of research and writing of this book.

—Editors



# CHAPTER ONE

## INTRODUCTION: RESPONSIBLE BUSINESS PROFESSIONALS

RABI NARAYAN KAR, KAISA SORSA  
AND KUSHA TIWARI

### **Theoretical Background**

This book, *Responsible business professionals: A strategic perspective of the global challenges* is a by-product of the international project “Responsible Business Professionals for Finland and India Trade” which aimed to deepen the understanding of engagements and cooperation between Indian and Finnish institutions and professionals in order to create spillover impacts for local and global business. This book project is an outcome of the long-term fruitful cooperation between the Shyam Lal College, University of Delhi, and Turku University of Applied Sciences and other participating universities from Finland.

Responsible business practices are a way of doing business in a manner that integrates responsibilities into all aspects of the enterprise by taking into account the benefits for all stakeholders. This framework of business is based on an edifice towards the creation of a responsible infrastructure for a business ecosystem. And this organizational infrastructure is incomplete without discussing business professionals/managers of enterprises where extant literature seems to be scant. Against this backdrop, the book *Responsible business professionals: A strategic perspective of the global challenges* deals with the thematic areas encompassing responsible business knowledge and proactive management competences for the growing bilateral trade between India and Finland, as well as other countries in the global context. The economy of India is an untapped opportunity for the developed world as it has been designated as the fastest growing economy of the BRICS countries and has a lot of scope for

synergistic benefits that also have significant implications for the developed world. This book also aims to deepen the understanding of engagement and cooperation between India and European institutions and professionals in order to create spillover impacts for local and global businesses. The responsible business professionals (RBPs) of multinational enterprises (MNEs) are also largely responsible for augmenting trade engagements through their responsible stewardship. Responsible business is the outcome of responsible career choices by the individual resulting from imbibing work ethics and social and environmental accountability from a very early stage of life. Thus, it is of the utmost importance that responsible career choices are defined as “careers in which people seek to have an impact on societal challenges such as environmental sustainability and social justice through their employment and role choices, strategic approaches to work and other actions” (Tams and Marshall 2011, 2). The notions of responsible business, social entrepreneurship, and sustainability create dynamic and responsible career choices for individuals who, by making these choices, become agents of change across contexts. There is rising academic interest in the analysis of responsible careers that reflect the individual’s conscientious commitment towards bettering society. Responsible careers have been called “boundaryless” due to “the rapid proliferation of emerging sectors, cross sector collaborations and innovative occupational communities” (Tams and Marshall 2011, 2). Responsible business practices by RBPs, contributing to social change, have immense scope for learning and adaptations that help resolve dichotomies such as how business as a strategic enterprise can be responsible, socially relevant and philanthropic. Responsible business practices get an impetus from effective skill management with equal emphasis on addressing the interests of diverse stakeholders, organizational priorities and value addition ability. The interdependencies in responsible business practices sensitize a larger mass of people involved—through organizations, relational commitments, and customer loyalties—to ideological commitments towards social and environmental issues as well as employee welfare. Thus, responsible developments in business have the capacity to adapt, modify and change the very DNA of larger organizational frameworks in the fields of commerce.

In this context, such a relevant and contextual work may further expand the understanding of responsible business prospects and challenges in sustainable growth within the perspectives of India’s global trade engagements. India has had a dynamic business association with various countries with exports and imports of numerous products signifying extensive yearly profits for a long time now. Nevertheless, as Indian

corporations gradually expand overseas, the promising global context as a prospective market can attract major shares of these outward investments. There are many trade possibilities to be explored between India and other developed and developing nations as these countries can exploit each other's areas of competitive advantage. The association, however, has to be centred on policies that can help both sides overcome existing limitations while leveraging current potencies. While for India, teaming up with prospering global economies would generate access to greatly developed technology, for foreign companies, an alliance with India offers great prospects not only in terms of cost savings but also in terms of opening up possibilities for jointly developing products and technologies for a potentially large market for exports.

Responsibility in global business is no longer an endeavour of a few frontrunner enterprises. There are different categories of enterprises—small, medium, large and multinational enterprises—that engage in responsible business practices in a very specific and characteristic fashion “as a supplier-compliance process, a new green start-up, or as a small family firm deeply embedded in their local community” (Ryan et al. 2010). Though responsible practices and strategies may differ in types and categories of enterprises, the end result is the development of a responsible approach to business, which is a dynamic and continuing process. Responsible management practices involve three focussed groups of participants who, in turn, also become the transmitters of responsible practices—employees, customers, and society at large. Over time, responsible business practices tend to become more focussed on the external positive impacts of business wherein concerns of the environment, local community setup, and sustainability issues are addressed. The basic character of MNEs, specifically, has been oriented towards contributing to environmental and local sustainability. But what needs to be understood is the equal importance of internalizing the responsible approach in managing and training the human resources of the enterprises for mentoring RBPs. Thus, the organizational mission and processes reflect and address larger issues of responsible business practices that are ultimately targeted to contribute to holistic welfare. This calls for the reassessment of capabilities, processes, innovations, and leadership. The natural question that comes to mind is: do they fulfil the criteria that responsible business needs to be built on? In the last decade, we have witnessed the emergence of sustainability issues as one of the most paramount business concerns in an enterprise's value chain. Striving for social and environmental sustainability is an important task for governments and non-governmental organizations as well as business and

civil society actors. The transition towards sustainable business requires transition management, which is a multilevel mode of governance that helps societies to incrementally transform their activities in order to achieve the necessary sustainability levels. Responsible business practices are most visible in the organic agriculture sector around the world and specifically in India. In contemporary times, organic agricultural practices are thriving due to economic and social connections between farmers, community clusters, non-government organizations and governments leading to systemic innovations towards sustainability. These negotiations also pose pertinent questions: can environmentally responsible enterprises also be market friendly and profit driven? Do responsible business practices ensure the sustainability of the enterprise as well as social and environmental sustainability? These questions are addressed when developing responsible business setups and mentoring RBPs based on the premise that innovation is a key player in creating sustainable business practices. Empirical evidence, in the past as well as in the present, shows that responsible innovations in the business context are key to ensuring inclusive knowledge management that positively impacts the value chains, ensuring that all dimensions of business—market, society, stakeholders, professionals—are addressed. The entire discourse can generate responsible business only when the primary players—responsible business professionals—are encouraged and promoted through flexible, inclusive, pioneering management structures “which encourages participation and interaction with a range of stakeholders including employees, customers, and suppliers” (Ryan et al. 2010). RBPs with strong work ethics, social principles, and diverse experience, are able to connect with local communities from which the enterprises draw their workforce and are also prompt in tuning into the changing needs and preferences of the larger customer base. This is specifically true of RBPs in medium scale enterprises that may not have traditionally developed formal Corporate Social Responsibility (CSR) strategies and programmes but are contributing tremendously to responsible business practices. The dynamic contribution of RBPs in promoting sustained responsible business practices needs to be recognized and further encouraged for fertile dialogue, learning, and implementation.

Another important aspect to be looked into while exploring further trade possibilities between prospering global economies and India is the cross-cultural component affecting the expansion of businesses in these countries. Rapid economic growth and globalization have led to the expansion of overseas business alliances and the establishment of subsidiary units of MNEs in different countries. Such enterprises, when

they open operations overseas, hire employees from the host countries, creating a diverse workforce. This diverse workforce from different cultural backgrounds generates dynamic intercultural work interactions and learning. Thus, it becomes all the more pertinent that the RBPs and organizations operating in multicultural environments understand intercultural communication differences and manage cultural divergences so as to maximize responsiveness, growth and profit output. Research on the field of cross-cultural studies is evolving over time. Thus, the present book has also dealt with investigating several cross-cultural aspects that have implications for MNE operations across countries and continents.

### **The Architecture of the Book**

The coverage of this book surrounding the thematic areas discussed above can be broadly organized under three categories:

1. *Business ecosystem and RBPs*: The present global business environment calls for the adoption of creative, innovative and sustainable strategies and practices based on the edifice of responsible business practices. Responsible business practices are taken as the achievement of a set of goals related to forward-looking creative, innovative and sustainable business practices yet based on the fundamental principles of ethics and employee and consumer satisfaction. Responsible business practices are considered to be all pervasive and play crucial roles in guiding the organization towards integrating ethical ways of functioning and inclusive and holistic workplace policies for both the advancement of employees and contributions towards the achievement of sustainable development goals. In its 2015 global survey, BSR/GlobalScan found that an increasing number of companies perceive value in pursuing sustainable business practices and have started to integrate sustainability into their overall business strategies. Further, the transition from an industrial to a knowledge economy is driven by globalization, technological progress, deregulation and democratization (Halal and Taylor 1999) at a very fast pace. This has necessitated the emergence of a breed of creative and innovative managers who always look forward to navigating enterprises even in turbulent times. The competitive pressure may create a context in which discontinuities are very likely and managers may struggle to make sense of the rapidly changing world. Thus, the focus on RBPs may not be addressed properly

without an understanding of the global business context of trade engagements focusing on existing institutional mechanisms, regulations, and sustainability practices.

Kaisa Sorsa and Tarja Salmi-Tolonen in Chapter 2 elaborate on this further. In their chapter, they argue that sustainability is an ongoing process that calls for a breed of responsible managers with new mindsets and new methods to succeed. This is possible through transition management, a multilevel mode of governance to help societies incrementally transform their activities in order to achieve the necessary sustainability levels. This requires the assistance of “building blocks” towards transition management such as proactive law, a concept that encompasses enabling regulation and sustainability schemes, and proactive competences in the context of Finland and India.

Rabi Narayan Kar in Chapter 3 explores how RBPs from emerging economies are managing and engaging with diverse institutional mechanisms. Enterprises in emerging countries are thus experiencing an emerging breed of RBPs and managers from diverse backgrounds working in a multicultural transnational environment grappling with unknown institutional issues in unfamiliar surroundings and contexts. The chapter also throws light on institutional idiosyncrasies and other contextual factors surrounding emerging economies that enhance the expertise of managers and professionals in shaping and handling the emerging dynamics of doing business.

While India and the European Union (EU) have shared economic relations for a long time, the passage of time has seen these relations strengthen in manifold ways. In 2016, India emerged as the EU’s ninth-largest trading partner. In that context, the editors thought a chapter that deals with the trade and investment environment to develop the reader’s understanding in the business context of this book would be useful. In that direction, Niti Bhasin and Rinku Manocha in Chapter 4 examine the dynamics of India–EU trade and investment engagement. This chapter further helps in identifying the strategies and policy directions that could result in effective trade synergies by exploiting the competences of each side.

Anu Lähtenmäki-Uutela, Tuomas Paulin and Martti Nieminen in Chapter 5 explore the regulatory aspects of responsible business from the experiences of business contexts of India and Finland. Regulatory aspects create a strong foundational framework for responsible business practices. The authors deal with the similarities and differences in regulatory aspects

encompassing the business of both the countries that are expected to help the business professionals and managers to prepare for this.

2. *Developing responsible leadership and challenges:* Corporate leaders have pointed out that there is a dearth of professionals and managers who have the creative, critical and socially relevant mindsets required to transform business and society and to meet global challenges while being locally responsive. These professionals and managers are necessary to instil the idea of responsibility in the minds of managers and decision makers and impress the importance of responsible business practices on business processes. Responsible managers are thought to be constantly increasing their knowledge and skills through new experiences, personal insights and handlings, feedback and decision making. This helps them to have a creative knack of new awareness and to be able to rise to situations and position themselves to manage emerging risks and opportunities, besides correcting errors and mistakes. In the words of Ajay Kapur, managing director and CEO of Ambuja Cements, the company has consistently pursued “planning and performance on the triple bottom line (environmental, social and economic aspects). In fact, all our initiatives are governed by carbon mitigation, water conservation and augmentation, waste utilization, energy efficiency, community development, corporate governance, etc.” (Live Mint 18th Sept 2017). The increasing presence of MNEs in emerging economies has also opened up avenues for new experiments while contributing towards societal developments. In that context, responsible business practices could be well described in the success story of Indian Tobacco Company’s (ITC) e-Choupal model. The problems of Indian agriculture characterized by fragmented holdings, weak infrastructure and the involvement of numerous intermediaries, etc. gave rise to the e-Choupal solution developed by the RBPs through the use of ICT platforms. Under e-Choupal, ITC sets up a back-up physical digital support system at the village level through the engagement of a lead farmer. The lead farmer acts as the interface between the computer and farmers. This community-centric responsible model from ITC has added critical value to the existing supply chain by serving about four million farmers growing a range of crops in over forty thousand villages in India (Bowonder et al. 2007).

In its 2015 global survey, BSR/GlobalScan found that an increasing number of companies perceive value in pursuing sustainable business practices and have started to integrate sustainability into overall business strategies. However, some companies still do not embrace it wholeheartedly or view it as a stand-alone initiative. Among the practices surveyed, respondents rated managing energy use and controlling green gas emissions as the highest priorities followed by saving water and the use of renewable energy alternatives. In addition to having a global focus, the survey questions relating to sustainable business practices tend to be more general rather than specific.

This book also has two chapters dealing with issues relating to responsible business leaders. In Chapter 6, Ari Lindeman examines responsible leadership from principles to business practices in the cases of Finland and India by taking a comparative view. His chapter explores responsible leadership outlooks from the point of view of the middle to upper level management in the case of family-owned firms. He identifies further challenges, which may aid managers in bringing in a more responsible work culture in their organizations. The main findings of this chapter are that there are differences in the responsible leadership outlook of Finnish and Indian managers. The empirical analysis reveals that interaction between managers and subordinates is directed at fostering an ethical culture as well as concern for organizational performance. The comparison of responsible leadership outlooks also brought up interesting challenges for future management development in the case of managers of both countries. The three-level analysis reveals that the focus of responsible leadership is more on the micro- and macro-levels. At the micro-level, Finnish managers focus more on team atmosphere and Indian managers more on the processes or standard operating procedures. On the meso-level, Finnish managers consider the character of the organization's culture with a view to achieving a more results-oriented culture. Indian managers would like to be identified as the promoter of the headquarters and host country culture. On the macro-level, the company's legitimacy is based mainly on the quality of its products and how the stakeholders and markets value its efforts towards sustainability and associated responsible practices.

In Chapter 7, Olena de Andres Gonzalez argues that the emergence of MNEs allows access to the skills of highly qualified foreign professionals/managers, manufacturing resources of the host country and the possibility of fostering collaborative innovations and solutions for sustainable development. On the one hand, it gives an opportunity to



obtain unexpected competitive advantages and to reach a new level in both production and marketing. On the other hand, interethnic barriers and cultural differences can adversely affect activities, not only at the level of team and employees but also at the leader level. This could lead to misunderstanding among the managers and hamper organizational synergy, thereby resulting in unforeseen expenses and significant problems. She also deliberates how competent managers should be able to maintain a balance between their own cultural values and the cultural values of foreign employees in order to obtain the advantages of management diversity. This learning could be used to create innovations and to provide solutions for sustainable development.

3. *Managing cross-cultural communication and management:* Globalization and internationalization of economic markets have led to severe competition, forcing companies to engage in exploring growth in new areas and markets. As a result of such business expansions, MNEs have set up bases in diverse cultural settings that create scenarios of cross-cultural interfaces, in turn giving rise to cross-cultural communication conflicts and challenges. In an MNE setup, the cultural diversity of the workforce results in communicational diversity that impacts organizational growth and management. Communication practices vary across different cultures and spaces, defining and separating ethnic identities all over the world. Cross-cultural communication plays an important role in negotiating cultural variations and national identities in multinational business organizations. In a multicultural MNE setting, the way in which employees communicate can set the tone and foundation for promoting a work environment that supports its operations and consumer requirements, while infusing unity and high employee morale. It is pertinent to identify the way people understand, converse and make decisions across diverse cross-cultural backgrounds so as to recognize managerial insinuations of cross-cultural management. Although it may be difficult to interpret certain statements and behaviours in a multicultural setting of those MNEs with subsidiaries in other countries, there must be considerable stress on acceptance and open-mindedness towards communicational diversity. Language and cultural misapprehensions, in such settings, can be evaded by expanding our understanding of other people and their cultures. This has given impetus to the importance of cross-cultural communication in shaping and developing RBPs/managers while doing business in complex territories with uncertain issues and

challenges. The global business context in the present times gives rise to enormous responsibility in culturally diverse contexts and the best practices for reporting, management, and assessment of sustainability in the supply chain.

In this context, Kusha Tiwari examines intercultural communications in multicultural settings for MNE operations from an Indian experience (Chapter 8). This chapter aims to explore certain important issues and challenges relating to cross-cultural communication and to find possibilities of exploring cultural misinterpretations in employee interactions in the cross-cultural settings of MNEs and subsidiaries. She also examines how these MNEs formulate strategies to assimilate the diverse cultural influences they encounter in the Indian cultural setup, simultaneously balancing the national cultural characteristics of both the host and the parent country for effective communication. The chapter further advises MNEs on coping with differences in values, strategies and practices between organization culture, national (home country) culture and host-country culture by constructing cultural profiles for their managers drawing from research, experiences of cultural adaptability, sensitivity and negotiation skills.

In Chapter 9, Victor Manuel Piedrafita Acin, Kaisa Sorsa, and Keijo Varis present an interesting cross-cultural route to explore sustainability in supply chains from an assessment of Finnish industrial companies. They conducted a comparative case study of CSR reports in five Finnish companies having business operations in India. The findings from the chapter seem to indicate that companies will tackle sustainability in supply chains in the next few years, once it is fully implemented into their core values, activities, and sustainability leaders push their suppliers to follow sustainable practices.

Chapter 10 by Jagat Kanwar presents a comparative analysis of cultural-based orientation towards group processes between India and Finland. The empirical analysis reveals that a respondent's preference for group work is not associated with their respective country of origin. There were also no clear differences between the respondents regarding their perceptions towards time and flexibility in scheduling. From the findings from the chapter, it is quite apparent that the most significant difference between Indian and Finnish respondents is their attitude towards building relationships and trust. The findings suggest that Indian respondents exhibit more relationship orientation and require much more personal approaches to developing trust in comparison to Finnish respondents.

## Conclusion

The chapters in this book primarily deal with three aspects of RBPs: business ecosystems, developing responsible leadership, and managing cross-cultural communication and management. In these contexts and core discussion areas, this book represents an effort to generate academic discourses, develop an understanding and contribute to the literature on RBPs without deviating to focus on the CSR component for which there has been plenty of literature. CSR initiatives across multinationals have highlighted hierarchical divisions in business enterprises (large, medium and small) making this book more applicable to urban business. At the same time, the contributions in this book help expand the understanding of business commitments and cooperation between India and European institutions and professionals in order to create spillover impacts for the local and global markets, polity and environment. This book initiative is a significant intervention in underlining the ethical, moral, environmental, social and individual responsible practices that enhance the human accountability of business. Sustainability concerns are also addressed within the framework of this academic enterprise as one of the most significant business concerns in a company's value chain involving participation from governments, non-governmental organizations as well as business and civil society actors. This book encompasses the synthesis of many complementary features of RBPs and their tactical management endeavours that include interpersonal, intrapersonal, cultural, technological, relational and organizational angles. Thus, RBPs need to regularly update knowledge and skills and gain expertise to tackle risks, create opportunities, correct errors, manage the demand-supply equation and most importantly to contribute towards the responsible progress of business. Our contributors present their works based on the experience of the RBPs project, research literature and their own empirical analysis calling for the need for more insight into the responsible aspect of present-day business reality. Though the book has limited coverage due to many constraints, it is successful in raising issues and questions that broaden the context of present-day business operations towards better understanding by business professionals/managers in the contemporary knowledge era and opens avenues for further exploration.

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## CHAPTER TWO

# TOWARDS RESPONSIBLE BUSINESS: TRANSITION MANAGEMENT THROUGH ENABLING REGULATION, SUSTAINABILITY SCHEMES, QUALITY MANAGEMENT, AND PROACTIVE COMPETENCES

KAISA SORSA AND TARJA SALMI-TOLONEN

### **Abstract**

Striving for sustainability is an important task for governments and non-governmental organizations as well as business and civil society actors. It is an ongoing process that calls for a new mindset and new methods to succeed. Transition management is a multilevel mode of governance that helps societies incrementally transform their activities in order to achieve necessary sustainability levels. The process towards sustainability is accelerated with the aid of intermediaries. In this chapter, we discuss proactive law, a concept which encompasses enabling regulation and sustainability schemes, as well as proactive competences to provide feasible building blocks for transition management in this process. A special reference is made to the textile industry and to Finland–India trade.

### **1. Introduction**

The year, 2018, marked the publication of the Intergovernmental Panel on Climate Change Report on Global Warming of 1.5 °C, known as SR1.5. The report “assesses what a 1.5 °C warmer world would look like, and the different pathways by which global temperature rise could be limited to

1.5 °C.”<sup>1</sup> To reach this target new systemic solutions are needed to address current industrial production processes and to reduce consumption.

This level of systemic environmental change presents a number of real and significant risks to the economic longevity of a corporation. Remedies do not take effect overnight but incrementally and therefore transition management competences and intermediaries need to be in place to accelerate the changes.

The transition perspective recognizes the need to transform societal systems as the key mission of sustainable development (Grin et al. 2010). Societal systems are, however, embedded in societal structures which are constantly changing and require continuous efforts from multiple domains and actors. Therefore, shifting from current unsustainable development trajectories to more sustainable ones requires “a fundamental change in structures, culture and practices” (Rotmans and Loorbach 2010: 109). Transition management theory is a practice-oriented model that emphasizes the multi-domain and multi-actor characteristics of transition processes in different contexts. This theory aims to understand, analyse and explain the dynamics between actors and their activities in the process of sustainability transitions. Transition theory takes a governance approach to effect sustainability transition by constructing a management framework to propose and differentiate four levels of transition management activities, namely the strategic, tactical, operational, and evaluation levels. This paper employs transition management theory to help analyse the transition to sustainability within the textile industry.

We propose that the transition to achieving more sustainable business and sustainable development requires radical changes not only as far as government policies are concerned, but also to the systems of governance. According to Kemp et al. (2007), the need for change concerns not only national governments’ policies but also the governance of international and global systems. Therefore, we will discuss transition management from regulatory and management points of view focusing on the actors and their regulatory activities—proactive law and sustainability schemes.

In order to enable responsible business, it is also important to investigate transition management from a company’s point of view. How can organizations prepare themselves to meet the ever-changing requirements

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<sup>1</sup> <https://research.un.org/en/climate-change/reports>

and duties imposed on them by national governments and/or the global markets? Companies with different backgrounds and levels of maturity may view responsible business in different ways. When doing business in the global context involving increased competition and sweeping regulatory change (EYGM 2014), companies need to adjust their practices to those of the others in the market.

This paper unfolds as follows: we will discuss proactive law that encompasses enabling regulation and sustainability schemes integrated into contracts as well as proactive competences and propose them to be feasible building blocks for transition management. Firstly, in sections 2 and 3, we set up the scene and context—the textile industry in transition, and two states: Finland and India. Secondly, in section 3, we discuss the concept of proactive law and sustainability schemes, and then in section 4 the proactive competences and maturity levels. Finally, section 5 includes a discussion and concluding remarks.

## **2. Textile Industry in Transition—With a Special Reference to Finland–India Trade**

The textile industry consists of establishments engaged in spinning natural and synthetic fibres into yarns and threads, which are woven or knitted into fabrics, and the fabrics are then dyed and finished. “The global consumption of textiles increases with an average annual growth rate of 3.6 percent, but the current growth path has come to its limits as the lack of arable land stagnates the production of cotton and synthetic textile materials have recently been put under inspection for micro-pollutants” (Seppälä et al. 2016).

The textile industry is facing huge environmental and resource challenges, as 63 percent of textile fibres are derived from petrochemicals (Lenzing 2017). Their production contributes to considerable carbon dioxide emissions (Shen et al. 2010). Furthermore, 37 percent of textile fibres are predominantly cotton, the cultivation and treatment processes of which require huge amounts of water (dyeing, finishing, printing, etc.). Textile reuse and recycling would reduce environmental impacts compared to incineration and landfilling. According to Sandin and Peters (2018), reuse is more ecological than recycling.

In terms of intensity, the textile and clothing trade is the world’s second-biggest economic activity and accounts for seven percent of world exports. Today the bulk of textiles and clothing are manufactured in Asia,

particularly in China and India. The textile sector is also an important part of the European manufacturing industry.<sup>2</sup>

There is considerable business potential for the transition to a circular economy (hereinafter CE) in the textile industry and for improving the sustainability of the textile market. A CE of textiles is an increasingly sought-after solution that calls for new business ecosystems and textile recycling technologies as well as opening up entirely new, innovation-based opportunities for Finnish and Indian industries and companies.

## 2.1. CSR in Finland

Several recycling technologies have been developed in Finland, embedded in an ecosystem working strongly towards a CE. The *Finnish Roadmap to the Circular Economy* sets a clear target for Finland to become one of the leading countries in CE by 2025 (Ellen MacArthur Foundation 2017). However, reclaiming textile waste is not well organized at present and, in addition, some synthetic materials are such that they cannot be reused. Therefore, presently, textile waste is mostly incinerated. In 2012, only 1.6 percent of the total 71.2 million kilograms of textile waste produced in Finland were recycled (Seppälä et al. 2016), which falls dramatically short of the common EU target set at 65 percent of municipal waste by 2030.

Finnish companies have been relatively progressive in CSR (corporate social responsibility) and some of them perceive it as a potential competitive advantage. In the 2007 comparative report by AccountAbility, Finland was in third place globally concerning responsible competitiveness.<sup>3</sup> The Finnish government emphasizes the voluntary aspect of CSR in its public policy and has been very keen on promoting Finland as a CSR frontrunner. Key pieces of legislation related to employment, accounting, social security as well as environmental protection form the baseline for corporate social responsibility. The Finnish government also promotes key international initiatives such as the OECD guidelines, UN Global Compact, and International Labour Organization (ILO) principles (Kourula 2010).

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<sup>2</sup> [https://ec.europa.eu/growth/sectors/fashion/textiles-clothing/eu\\_en](https://ec.europa.eu/growth/sectors/fashion/textiles-clothing/eu_en)

<sup>3</sup> <https://www.issuelab.org/resources/11227/11227.pdf>



## 2.2. CSR in India

India is the world's second-largest exporter of textiles and apparel, with a huge raw material and manufacturing base. The textile industry is a significant contributor to the economy, both in terms of its domestic share and exports. The sector is one of the largest sources of job creation in the country, employing about 45 million people directly.<sup>4</sup>

CSR in India is emerging; it is still in the initial stages but will grow in the forthcoming years. The practice of CSR remains in the philanthropic space but has progressed from institutional buildings (educational, research and cultural) to community development through various projects (Sabharwal and Narula 2015). The Companies Act of 2013 brought the idea of CSR to the forefront. Through its disclose-or-explain mandate, the Companies Act promotes better transparency and disclosure. Schedule VII of the Act lists the CSR activities and suggests that communities be the focal point. By discussing a company's relationship with its stakeholders and integrating CSR into its core operations, the draft provisions suggest that CSR needs to go beyond communities and beyond the concept of philanthropy. It will be interesting to observe the ways in which this will translate into action, and how the understanding of CSR is set to undergo a change.

CSR in India is undoubtedly getting more strategic in nature. Large numbers of companies are reporting the activities they are undertaking in this space. The CSR clause in the Indian Companies Bill, however, is unique, and the first for a big economy. It is a golden opportunity to set a new model for how businesses can make a real contribution to solving society's critical problems (Sabharwal and Narula 2015).

## 3. In Search of New Governance Instruments, Styles, and Intermediary Actors

Transition management and the role of intermediary actors has been discussed in various research papers since 2009 (Kivimaa et al. 2018). Intermediaries are agents or agencies that function as mediators to “work in-between, make connections, and enable a relationship between different persons or things” (Moss 2010). Kivimaa et al. (2018, 9–10) provide a definition of transition intermediaries and a typology of five intermediary types. Some intermediaries are specifically set up to facilitate transitions,

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<sup>4</sup> <https://www.ibef.org/exports/apparel-industry-india.aspx>

while others grow into the role during the process of socio-technical change. All types of intermediaries relevant to the textile industry will be discussed below in Section 3.1.4.

For future innovation governance, according to Kivimaa et al. (2018), systemic and niche intermediaries are the most crucial forms of intermediary actors in transitions, but they need to be complemented with a full ecology of intermediaries, including regime-based transition intermediaries, process intermediaries and user intermediaries. We will reflect on the role of intermediaries in the context of proactive law.

A new way of governance is needed, as the existing policy frameworks are piecemeal and policy areas are not suited to social complexity and long-term change. The new way of governance should be more open, adaptive, and oriented towards learning and experimenting (Kemp et al. 2007). Therefore, for instance in Finland, deregulation is a typical phenomenon when innovative solutions need to be piloted. Deregulation aims to open doors for learning and experimentation on the strategic fields of society as well as when there is the need for experiments between authorities from several sectors and civil society organizations (Finnish Government Action Plan 2018). Nevertheless, finding a balance and the optimal mix of steering and freedom is of critical importance.

Mäkinen and Kourula (2014) remark that although the boundaries of the governance of sustainability might be blurred between national and global levels, the national level is still important. Finland, a Nordic European welfare state, provides an interesting case of the political connectedness of CSR (Mäkinen and Kourula 2014). Mäkinen and Kourula (2014) argue that the globally emerging division of responsibility between firms and states (where the public tasks of society are increasingly on the side of corporations) is not new in Finland. In India, again CSR is an emerging activity, at the initial stages and will grow in the forthcoming years. On the other hand, companies willing to participate in global businesses have to find ways to demonstrate their responsibility and sustainability. This brings sustainability schemes and contracts into the spotlight.

It has been argued that deregulation opens doors for private actors to develop the governance instruments needed, for instance, in their governance of global business ecosystems. Moss (2009) claims that intermediaries originate specifically in response to new modes of regulation. This has been shown, for instance, in deregulating the coffee industry (see Sorsa et al. 2015).

### **3.1. Proactive Law is About Creating an Enabling Legal Environment for Organizational Actors**

The word “proactive” implies acting in anticipation, taking control, and self-initiation. These elements are all parts of proactive law, which differentiates two further aspects of proactivity: one being the promotive dimension—promoting what is desirable, encouraging good practices; and the other being the preventive dimension—preventing what is not desirable, keeping legal risks from materializing.

Proactive law and a proactive approach to law are two angles of proactivity in the legal context. The first one emphasizes the content of the legal instrument and the other one the user of the law. In 2009, the EU’s Economic and Social Committee, having heard some Nordic legal scholars and practitioners, published an opinion where they explained the proactive approach in a nutshell: “The Proactive Law approach looks for a mix of methods to reach the desired objectives: the focus is not just on legal rules and their formal enforcement” and further that “to secure the most appropriate mix of means to achieve them requires involving stakeholders early, aligning objectives, creating a shared vision, and building support and guidance for successful implementation from early on (Official Journal 2009, 26).”

Salmi-Tolonen (2011, 26) defines proactive law in a detailed way, not only describing it as a concept but also giving its domain, the forms it takes, its purpose and objectives: “A comprehensive concept concerning civil and commercial matters which refers to any regulation measure/activity undertaken by public or private actors, as well as its methods, instruments and results, whose purpose is by imposing duties, conferring rights and creating competences to enable and empower individuals concerned, or private or public bodies, in achieving their commonly defined goals. In practice, the forms this concept takes are rules, practices and/or processes.” Thus, this paradigm covers the whole life cycle of the law from law-making and implementation to monitoring and also the substantive point of view (Sorsa 2011, 31).

The term co-regulation indicates that it does not seek to determine the norms which must be observed by certain actors, nor even the content of those norms, but rather the manner in which certain norms succeed in determining the behaviour of actors. The idea of control of the superior, for instance, the state, is softened and regulation has more of a co-operative character. In co-regulation, the contents of the law are created

together with the private actors, which enables sector-specific knowledge to be taken into account.

### **3.2. Enabling Regulation and Intermediaries**

According to Sorsa's (2011, 31) descriptive and qualifying definition, proactive law is "enabling, empowering, user-friendly and dynamic law." This definition does not aim to define what kind of legal strategies or legal instruments should be used in order to make the law proactive, but rather to describe the quality of the outcome of the regulation procedure.

Regulatory authorities at international, regional and national levels have understood that sustainable development can be achieved only by all actors collaborating towards the sustainability goals. Rigid public laws and regulations do not support cooperation, therefore new governance modes and instruments are called for. According to Meloni (2010, 240) "in the past 20 years, governments have come to understand that regulatory reform is both an end in itself and a means to the end of enabling markets and supporting competition and trade liberalization, while promoting economic, social and environmental welfare." The nature of the regulatory process has been dramatically changed in the complex world. The transition from a "command and control" model to the model of regulatory governance has been the key focus of public sector reform in a number of OECD countries.

#### **3.2.1. Regulatory Instruments Facilitating Transition Management**

Co-regulation is one way of promoting proactive law's regulative strategy. It is an example of a legal instrument, which clearly mandates private actors to develop rules for different purposes together with the government. The UK example of nuclear regulation also indicates that enabling regulation is feasible even concerning such a critical sector as nuclear power regulation. This kind of strategic approach presumes that the regulator has trust in citizens, the target of regulation. The regulatory culture in the Office for Nuclear Regulation (ONR) is constructive. We propose that this could be a valuable approach for the textile industry's transition to sustainability, for instance in the European Union (EU) member states.

Sorsa (2009) used the proactive law concept to emphasize that the content of law could be proactive, but not the only approach to law. After investigating self-regulation and private regulation schemes, she found

that self and private regulation are more dynamic and user-friendly than government-based laws and regulations. They are easier to adapt to the different business contexts than state made laws, as they are created by the users of the law themselves. She also argued that these instruments should be used more by, for instance, the Finnish government. The Finnish government aimed to improve the regulation systems during the decade from the year 2000.

Regulatory strategies, for instance, co-regulation, outcome-based regulation, management-based regulation (Coglianese and Lazer 2003) and performance-based regulation, indicate the proactivity of the law from the process (law-making, implementation, monitoring) and contents points of view. Co-regulation refers to the strategy, which combines both public and private actors into the whole life cycle of the law. Normally in co-regulation, there is a reference in the law to private standards and private actors who are mandated to issue the standards. From the context point of view, the states or intergovernmental organizations' role in co-regulation is to set outcome goals, for example, UN sustainable development goals.

### **3.2.2. Intermediaries Facilitating Transition Management in the Textile Industry**

EU legislation on fibre names and labelling aims to ensure consumer protection and provide the correct information to stakeholders: Textile Regulation (Regulation (EU) No. 1007/2011) on textile fibre names and related labelling and marking of fibre composition of textile products). According to the impact report, the Textile Regulation has had proper functioning in the internal market, giving accurate information to consumers, introducing more flexibility to adapt the legislation to technological changes, and simplifying the regulatory framework (COM(2014) 633 final).

Under the Textile Regulation, all textile products must carry a label indicating the fibre content including the fibre names, descriptions and particulars on the packaging, labels and markings, and in catalogues, trade and advertising literature. Another area of textile labelling consists of textile care labelling which is not compulsory. Care labelling, i.e. washing, dry cleaning instructions, etc. is recommended as a code of practice and has become an industry norm. The recognized and commonly-used

symbols are covered by I.S. EN ISO 3758:2012 Textiles—Care Labelling Code Using Symbols.<sup>5</sup>

Various sets of standards address everything from chemical use (waterproofing agents and flame retardants) to water processing procedures; from working conditions to animal welfare—an important consideration for companies that source raw materials such as wool, leather, and down.<sup>6</sup> Society is also gaining awareness of green consumerism and looking for eco products. Sustainability standards and certificates are also concerned with the safety of the consumer, the manufacturer, the society, and the environment at large. The standards are developed after cautious research, and certificates are issued upon the proper implementation of these standards (Amutha 2017).

*Systemic intermediaries* operate at a system level. They spell out, negotiate and define multiple interests across small industries and actors or across regimes to be more compatible with each other, advancing standardization and preventing strategic opportunism (Van Lente et al. 2003; Rohracher 2009).

The European Commission is engaged in dialogue with non-EU countries on policy and regulatory issues that affect the textiles and clothing industry. The legal framework for the textile industry in the EU is based on EU regulations and rules. The EU-India Directorate-General in the EU, in cooperation with European standardization organizations, supports and operates the Seconded European Standardization Expert for India (SESEI) project. Its objective is to raise awareness of the European standardization system, values, and assets in India.

*Regime-based transition intermediaries* are part of the established institutions in the prevailing socio-technical regime, but they are mandated to work towards transformative change. They may be government agencies, business networks or building professionals, which can take on roles of regime-based transition intermediaries and form networks with newly set up systemic or niche intermediaries (Kivimaa et al. 2018, 9).

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<sup>5</sup> <https://www.ccpic.ie/business/help-for-business/guidelines-for-business/textile-labelling-regulations/>

<sup>6</sup> <https://outdoorindustry.org/article/true-state-sustainability-outdoor-gear-apparel-supply-chain/>