



Rajagopal

Sustainable Businesses in Developing Economies

Socio-Economic and
Governance Perspectives

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ISBN 978-3-030-51680-2 ISBN 978-3-030-51681-9 (eBook)
<https://doi.org/10.1007/978-3-030-51681-9>

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...to Arati, my wife who is central to my every endeavor

PREFACE

Contemporary marketing has evolved alongside the sustainability perspectives as a dynamic science and spanned across temporal and spatial dimensions involving society, public administration, and market players. In the process, global sustainable commitment and consumers' welfare formed the foundations of markets. The production and consumption patterns are associated with a wide range of sustainability issues throughout the lifecycle of product and services. The conventional industry practices in developing economies result into various social and ecological problems. Industries that pioneer sustainability consciousness in the society integrate strategies to manage the ecosystem through their business models. The integrated business models with sustainability commitment can be explained in terms of their value proposition, and value creation and delivery through effective corporate social responsibility. These perspectives need to be discussed in terms of cleaner production and consumption, and managing constituents of sustainable ecosystems through global-local business models. Though the literature proposes several conceptual solutions, there is a need to rethink on modular designs and product-service systems within global-local business dynamics.¹

¹ Bridgens, B., Hobson, K., Lilley, D., Lee, J., Scott, J. L., and Wilson, G. T. (2017). Closing the loop on e-waste: A multidisciplinary perspective. *Journal of Industrial Ecology*, 39 (1), 1–13.

Another significant development in the recent past is about the application of circular economy, which supports the global sustainability move and induces shifts in consumption patterns. The circular economy (CE) is modeled as an industry, which encourages recycling of wastes for producing industrial products, and adheres to the global sustainability commitments. However, conventional industrial system tends to collapse as the consumption level increases due to the scarcity of ecosystem-based resources. The circular economy has been implemented in industries such as steel, paper, polymers, and products such as mobile phones. In the various industrial sectors, the CE has shown positive impact on the resources management.² Therefore, holistic assessment of systemic influences of the circular economy is necessary from a global sustainability point of view and guide companies to develop sustainable business modeling. CE comprises of end-of-life (decline stage) management of a product, so that the product after its completion of functional life could regain commercial value and could be brought back into the supply chain process by various means rather than considered as a waste.³

Sustainability concerns, pro-environment knowledge, and the social dynamics of markets drive the consumption behavior of green products among consumers. As the management of green products are based on intangible factors, trust plays a central role in building cognitive ergonomics among the consumers. In addition, consumer knowledge and social consciousness build the foundation of green consumer behavior. Some previous studies reveal that the global sustainability drive has influenced consumers to change their behavior and purchase decisions through the consumption of eco-friendly alternatives.⁴ The green consumption behavior has emerged over time in food consumption and transport sustainability, and toward renewable energy usage. Public policies and social consciousness also contributed significantly in transforming the consumption behavior at macro level. Therefore, many consumers are

²Hanumante, N. C., Shastri, Y., and Hoadley, A. (2019). Assessment of circular economy for global sustainability using an integrated model. *Resources, Conservation and Recycling*, 151, Art. 104460.

³Govindan, K. and Soleimani, H. (2017). A review of reverse logistics and closed-loop supply chains: A Journal of Cleaner Production focus. *Journal of Cleaner Production*, 142, 371–384.

⁴Paco, A. and Rapose, M. (2009). Green segmentation: An application to the Portuguese consumer market. *Market. Intelligence and Planning*, 27 (3), 364–379.

interested in modifying their consumption behavior with less impact on natural resources, particularly fossil fuels,⁵ as the social dynamics is also contributing to the development of green energy. Consumers in the energy market today are committed with environmental protection through green electricity.⁶

Sustainable business widely depends on environment-friendly logistics and inventory management with low carbon emissions. The refrigerated transportation and inventory are more susceptible to environmental pollution than other ways of distribution sources. Freight transportation firms are facing mounting challenges of fuel consumption, and need to reduce the significant environmental imbalances that accrue from transport vehicles.⁷ However, most small and medium enterprises are observing a major fix between lowering the logistics- and inventory cost and stay price competitive in the market. The operations of freight transport industry in developing economies is highly competitive due to increased production and consumption coupled with government pressures to achieve sustainability. Therefore, eco-innovation has become the principal concern among the business corporations toward following the sustainable parameters to not only satisfy stakeholders' values such as reducing negative environmental externalities, but also toward reaching governments' green requirements and consumer demands.⁸

In the context of above discussion, most developing nations have promulgated comprehensive public policies to streamline corporate governance on implementation of sustainability-driven business model in all industries. Public policies are focusing on macro-economic disruption due

⁵Chen, M. F. (2016). Extending the theory of planned behavior model to explain people's energy savings and carbon reduction behavioral intentions to mitigate climate change in Taiwanemoral obligation matters. *Journal of Cleaner Production*, 112, 1746–1753.

⁶Strupeit, L. and Palm, A. (2016). Overcoming barriers to renewable energy diffusion: Business models for customer-sited solar photovoltaics in Japan, Germany and the United States. *Journal of Cleaner Production*, 123, 124–136.

⁷Bektas, T., Ehmke, J. F., Psaraftis, H. N., and Puchinger, J. (2019). The role or operational research in green freight transportation. *European Journal of Operations Research*, 274 (3), 807–823.

⁸Garcia- Graner, E. M., Piedra, M. L., and Galdeano, G. E. (2018). Eco- innovation measurement: A review of firm performance indicators. *Journal of Cleaner Production*, 191, 304–317.

to sustainability issues in developing economies.⁹ Therefore, large companies are developing alliances with local governments on public–private partnerships (PPP) in implementing sustainability norms and enhancing social value. The PPP initiatives in various geo-demographic sectors have generated social awareness among people and inculcated the environmentally conscious consumption in the society. Environmentally conscious consumption is one of the key concerns in the modern society, and it is increasingly affecting the urban consumers. However, consumers often overstate their willingness to purchase environmentally conscious products; the global purchasing of these products is relatively low. Most research studies on environmentally conscious consumption suggest that the purchase intention is driven by intrinsic factors such as demographics comprising income, education and social status, consumer cognition, and personality attributes.¹⁰ In addition, external factors and social influences also affect an individual’s environmental consumption behavior.

Most socially successful companies derive innovation ideas for sustainability projects from consumer driven resources. The customer-centric innovations are largely developed by the start-up enterprises by analyzing the customer needs within the niche market. Most of the innovations positioned in the premier niche markets are of high quality and high cost, while the innovations focused for the mass consumers in the local niche are of acceptable quality that deliver the value for money. The two factors- cost and marketability, drive the strategy of reverse innovation. Large companies roll over to the local markets to identify the customer-centric innovations developed by the local enterprises and tend to evaluate the economics of their business projects. The primary challenge to developing innovations for emerging markets and catering to the customers therein is delivering solutions of adequate quality at a competitive price.¹¹

Previous studies on social entrepreneurship have focused on the personality and background of the social entrepreneur and

⁹ Béal, V. (2015). Selective public policies: Sustainability and neoliberal urban restructuring. *Environment and Urbanization*, 27(1), 303–316.

¹⁰ Tsarenko, Y., Ferraro, C., Sands, S., and McLeod, C. (2013). Environmentally conscious consumption: The role of retailers and peers as external influences. *Journal of Retailing and Consumer Services*, 20 (3), 302–310.

¹¹ Rajagopal (2016). *Innovative Business Projects: Breaking Complexities, Building Performance (Vol.2)-Financials, New Insights, and Project Sustainability*. New York: Business Expert Press.

the entrepreneurial performance. The social entrepreneurs have unique characteristics including knowledge, cognitive capacities, and altruistic values. Social innovation is an interactive bottom-up collective learning process implemented through social enterprises. As a boundary-spanning activity across the public and private sectors, the interactive learning process and associated capability building for social innovation serves as a catalyst for wider social reform. Social innovations help value creation in emerging economies involving stakeholders and firms in the broader projects.¹²

This book categorically reviews the theories on sustainability, corporate social identity, and social values in context of the changing dynamics of sustainable business modeling practices. It also examines previous researches, and analyzes the strategic and tactical stewardship of firms for sustainable growth in global marketplace over time and space. In view of the above arguments, this book discusses the sustainable business ecosystems and business modeling, contributions of circular economy and production systems, green consumption behavior, cleaner energy perspectives, and sustainable logistics- and inventory management under the functional management section. In addition, discussions on public policy and business governance, conscious consumption and marketing strategies, innovation and technology, and social entrepreneurship constitute the business strategies section. Accordingly, this book is composed of nine chapters, each supported by applied examples and short cases.

The chapters in this book are divided into three broad sections comprising The Founding Concepts, Functional Dynamics, and Moving Towards Shift. Chapter 1 introduces a framework of sustainable ecosystem for profit and not-for-profit businesses in the context of sustainable development goals. The principal discussion is on foundations of corporate sustainability, business ecosystem, sustainability commitments, sustainable business modeling, and corporate social responsibility. This chapter analyzes the current sustainable business models in the context of previous studies, and attempts to guide business leaders to create sustainable businesses. This chapter is broadly based on the triadic business management approach toward profiteering, corporate social responsibility, and

¹²Rao-Nicholson, R., Vorley, T., and Khan, Z. (2017). Social innovation in emerging economies: A national systems of innovation-based approach. *Technological Forecasting and Social Change*, 121, 228–237.

attaining sustainability goals. Chapter 2 explores the concept and philosophy of circular economy and its applications in business and sustainability. The micro and macro indicators that determine the process and leverage of circular economy in managing cleaner businesses have been discussed in this chapter. The chapter also discusses the innovations, which support improving the management of sustainability issues, and the social capital and values in implementing various sustainability perspectives within circular economy system. Chapter 3 critically examines the corporate business policies on consumer education toward green consumerism. The endogenous and exogenous factors affecting consumer behavior toward sustainable consumption and the role of retailing and branding in building the behavioral orientation toward sustainable products and services constitute the core discussions in this chapter. In addition, this chapter analyzes the effects of consumer awareness on their behavior in the context of family health, wellbeing and social values.

Chapter 4 deliberates on managing cleaner energy by discussion the energy business modeling, adaptation to innovations, and social management modeling for driving behavioral shifts to green energy consumption. This chapter discusses marketer's perspective in the implementation of a green marketing program for a renewable electricity retailing. In the above context, eco-innovations, adaptability of renewable energy, consumption economics, servitization perspectives, and public policies on sustainable energy distribution are discussed in this chapter. Chapter 5 categorically discusses the economics of transportation and logistics, regionalization of transportation services, managing innovation projects, and logistics and inventory planning. The chapter discusses barriers and collective improvement strategies in the management of sustainable logistics and inventory services, in the context of circular economy concepts. Specific development initiatives on emission control, shifts in transport economics, delivery technologies, green inventory management, and logistics modeling that supports sustainable logistics and inventory management, are also discussed in this chapter. Chapter 6 broadly focuses on the topics of social and political governance, emerging perspectives on business and economics, business diplomacy and governance, and public policy on sustainability by regions (Spain, Mexico, and Brazil). The chapter critically examines global policies and local laws on governance of sustainability projects in the developing economies, and suggests redesigning governance model for implementing sustainability policies. The public-private participation, and community moves in the direction

of developing sustainable business model are also discussed as core topics in this chapter. The chapter also highlights the factors that force the local civil governance system to realize that it is necessary to change the way they are operating, in order to include the sustainability aspects within the operations of the local governance. Chapter 7 examines contemporary trends consumption of sustainable products and services, social consciousness, concept mapping and semantics, and marketing strategy for sustainable products. In addition, shifts in decision processes among consumers and socially conscious corporations, social and family factors affecting consumer preferences, and conformity factors on sustainable consumption are also discussed in this chapter. This chapter also reviews the research studies based on norm activation theory and the theory of planned behavior that argue new perspectives about the environmentally conscious consumption behavior.

The ecological innovations strategies are discussed in the Chapter 8, which discusses complexities in eco-innovations, attributes of eco-innovations and management, social marketing, and branding eco-innovations. This chapter examines how ecological innovation can support sustainable manufacturing and society despite the traditionally low cooperation in developing economies. The role of frugalinnovations on sustainability needs, their branding and marketing strategies, and product value management are also addressed in this chapter. This chapter emphasizes on social marketing for sustainable products and services and contemporary strategies for branding eco-innovations. Chapter 9 discusses various aspects of social entrepreneurship, new trends in business modeling, and global-local effects of sustainable products and services. Discussions in the chapter focus contemporary explanations to social needs, social innovations, and organizational performance of social enterprises. The future business trends are also discussed in this chapter in the context of social entrepreneurship. This chapter discusses how contemporary social and technological developments would help the upcoming businesses in generating opportunities to combine resources, reach markets, and create community value.

In view of the above arguments, this book discusses the sustainable business ecosystems and business modeling, contributions of circular economy and production systems, green consumption behavior, cleaner energy perspectives, and sustainable logistics- and inventory management under the functional management section. In addition, discussions on public policy and business governance, conscious consumption and

marketing strategies, innovation and technology, and social entrepreneurship constitute the business strategies section. Accordingly, this book is composed of nine chapters, each supported by applied examples and short cases.

This book argues that most firms look for gaining competitive advantage in the marketplace by driving strategic moves, inculcating consumer consciousness on sustainability-linked marketing approaches. The trends in cleaner business decisions over the past generations determine the sustainable business models involving society, stakeholders, and consumers. Sometimes such profound changes are introduced in the niche markets, which creates chain effects in consumer awareness, consumption patterns, and yields macro effects in large markets. Often, sustainable choices of the companies lean toward developing competitive differentiations that enable consumers to realize the social values and loyalty shifts in the competitive marketplace. The book focuses on sustainability as the pivot of marketing and argues that commitments on sustainability in business leads to social impact, and emotionally helps companies in growing their image, brands, and socio-political reputations. The book discusses new strategies suitable for the companies to develop sustainable business in the emerging markets and to co-create strategies in association with the market players and consumers. This book significantly contributes to the existing literature, and serves as a learning post and a think tank for students, researchers, and business managers.

Some of my research papers on business modeling and customer centric marketing in the emerging markets have been published in the international refereed journals that had driven new insights on the subject. Accordingly, filtered and refined concepts and management practices have been presented in the book that are endorsed with applied illustrations and updated review of literature on managing business in the overseas destinations.

The principal audience of this book are working managers, and students of undergraduate and graduate management studies, research scholars, and academics in different business-related disciplines. This book has been developed also to serve as principal text to the undergraduate and graduate students who are pursuing studies in managing sustainable businesses, corporate governance, and social marketing. Besides serving as principal reading in undergraduate and graduate programs, this book would also inspire working managers, market analysts and business consultants to explore various solutions on international business

management. This book fits into the courses of Business Management, International Marketing, Business in Emerging Markets, Managing Sustainable Businesses, Social Business modeling and New Product Management in various universities and business schools.

I hope this book will contribute to the existing literature, and deliver new concepts to the students and researchers to pursue the subject further. By reading this book, working managers may also realize how to converge best practices with corporate strategies in managing business at the destination markets while students would learn the new dimensions of marketing strategies.

Mexico City, Mexico
July 2020

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ACKNOWLEDGMENTS

The thought process in evolving this book originated from the couple of research studies on sustainable consumption patterns in emerging markets, which I conducted in the recent past. These studies were developed on the principles of design-based research (DBR) with the qualitative methodology. The output of these research studies was discussed in the classroom of MBA program at EGADE Business School and Boston University during 2019–2020. The narrative outputs and storyboards on the sustainable practices have given many insights that emerged as a central theme of this book. I have also benefitted by the discussions of my colleagues within and outside the EGADE Business School and Boston University. I am thankful to Dr. Lou Chitkushev, Associate Dean and Dr. John Sullivan, Chair of Administrative Sciences Department, Metropolitan College of Boston University for giving me teaching assignments, which enabled me to apply the research output on sustainability-based business modeling in the classes. I would like to acknowledge the support of Dr. Osmar Zavaleta, National Research Director, and Dr. Raquel Castaño, Associate Dean, EGADE Business School, who have always encouraged me to take up new challenges in teaching graduate courses, develop new insights, and contribute to the existing literature prolifically. I also enjoyed discussions with the corporate managers on the subject, which helped in enriching the contents of this book.

I am thankful to various anonymous referees of our previous research works on globalization, consumer behavior, and marketing strategy that

helped in looking deeper into the conceptual gaps, and improving the quality with their valuable comments. Finally, I express my deep gratitude to Arati Rajagopal who has been instrumental in completing this book. I acknowledge her help in copy editing the first draft of the manuscript and for staying in touch until the final proofs were crosschecked and index was developed.

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PART I

The Founding Concepts



CHAPTER 1

Sustainability in Business

This chapter introduces a framework of sustainable ecosystem suitable to *for-profit* and *not-for-profit* businesses in the context of sustainable development goals (SDGs). Sustainability philosophy of corporations fosters innovations in social businesses and encourages codesigning of sustainable business model. A process of systemic thinking needed to develop socially sustainable business modeling has been discussed in this chapter. Discussion on corporate social responsibility as an effective tool in implementing the business models linked with sustainability goals is central to this chapter. The new paradigm suggested in this chapter contrasts with the linear approach commonly used in business and other disciplines. This chapter analyzes the current sustainable business models in the context of previous studies, and attempts to guide business leaders to create sustainable businesses. The chapter also discusses how a sustainable business model could provide profit-oriented business with a commitment to corporate social responsibility and sustainability.

Sustainability has emerged as a key concern for the companies, from the local origin firms to multinational corporations, to improve business processes, pursue growth, and determine effect social and economic value additions. Most companies are following pro-sustainability business philosophy to gain corporate citizenship reputation rather than focusing on their brand personality alone. Consequently, companies are taking actions to employ various sustainability measures to enhance the social, economic, and political dimensions of business such as reducing energy

usage (environmental factor) and reducing waste in operations (ecology, emissions, circular economy, and green business conditions) ahead of the concerns on corporate reputation management. Companies engaged in implementing sustainable measures in business are practicing on judicious use of water and managing green value chain throughout the process starting from manufacturing to the supply of products to the end-user. The underlying objectives of large companies are to leverage the sustainability effects on existing products not only to acquire new customers, but also to achieve higher prices and market share from the sustainability-led brands (Bonini and Gorner 2011).

FOUNDATIONS OF CORPORATE SUSTAINABILITY

Sustainability is a sociopolitical driver that governs the business philosophy to build green effects in manufacturing, marketing, supply chain, innovations, and technology management. Businesses embedded with sustainability concerns enhance customer engagements and customer value to support the corporate citizenship goals of a firm. However, environmentalists and social activists have often argued that the sustainability measures adopted by large manufacturing companies (industrial and consumer products) are not sufficient. Environmentally conscious companies run their businesses in a socially- and economically responsible fashion by engaging stakeholders and employees. Small and medium sized companies face resources limitation in developing and implementing a sustainable business model, though most entrepreneurial leaders know and feel the importance of making their businesses sustainable. To overcome obstacles in sustainable business models, companies need to consider a roadmap to circumvent them. Sustainability involves creating value for all stakeholders within the business ecosystem, and contemplating profits with value creation. Sustainability also requires a business to look at its entire value chain. Entrepreneurial and corporate leaders need to drive the sustainability initiatives and call for the employee and stakeholder involvement. Such integration of roles in the implementation of business models helps not only in creating social values to endorse corporate citizenship, but also in establishing clean production and corporate governance (Bhattacharya and Polman 2016).

Most companies pursue sustainability as a project to deliver corporate social responsibility. Sustainability projects add to the operational and

overhead costs of the company but deliver no immediate financial benefits. Consequently, though sustainability is a matter of public concern and is governed by public policies, companies often give low priority to social sustainability projects as they do not directly contribute to the profitability and market competitiveness. Companies with green business philosophies such as automobiles, energy, textile, and paper products have begun to transform the manufacturing process alongside the competitive landscape. These companies redesign products, technologies, processes, and business models through social enterprises to deliver the social value for their products and services (Nidumolu et al. 2009). Despite the success of some sustainable business models implemented by the manufacturing and operations companies, small, medium, and large-scale companies in regional settings are struggling with the challenge of integrating environmental plans into their core business strategies. Local companies develop low-cost sustainability projects with an objective with restricted outreach to stakeholders. Sustainability has emerged as a megatrend for businesses in the twenty-first century. Companies plan transformative changes in organization to create social values across the competitive marketplace (Lubin and Esty 2010).

Emerging companies design and implement sustainability programs as pragmatism, while the large and long-standing companies implement sustainability programs out of idealism. These companies have consistently generated significant growth rates and profit margins with the sustainability programs irrespective of their size and destination. Companies with sustainability objectives take a futuristic view and invest in social operating methods that lead to lower costs and higher yields. Companies tend to make local adjustments in sustainable social programs to generate savings in cost, which then identify local administrators for managing these projects. Sustainability projects are sometime co-funded by the companies and local governments to support operations with advanced technologies and to coevolve business models. Collectively, these companies with socially responsive organizations demonstrate trade-off between sustainability and financial performance. The pursuit of sustainability therefore, has emerged as a powerful path to grow business enterprises with social values (Haanaes et al. 2013). The concept of systems thinking, in which the business operates as a system in contrasts with the linear approach, commonly used in business and other disciplines to manage the business operations in a systematic way. This approach explains what

might cause an action or reaction but ignores any feedback effect between the subsequent action and its cause (Sun et al. 2018).

Sustainability-based business models have emerged rapidly with global and local companies. Such business propositions have been extensively supported by the public policies in developing countries. Consumer education on sustainable products has increased over time, and they are seeking out sustainable products by transforming the competitive scenarios across the destinations, which forces companies to change their products, processes, technologies, and business model (Goni et al. 2017). The trend of sustainability has encouraged both high- and low- investment companies. The dominant belief about creating and developing sustainable business model in the customer-centric and industrial-marketing companies is driven by the idea of solving environmental and economic issues and providing high social values. The response of public policies helps in developing sustainable business models through social guidelines to move their businesses toward green and circular economy (Evans et al. 2017).

Innovating the sustainable business model is about creating superior customer- and firm value by involving stakeholders and market players such as supply chain and packaging partners. Sustainable business model of a company addresses societal and environmental needs through integrated business operations. Ecosystems of different business models are specific to the purpose and the corporate goals of the companies. Some companies that grow with social innovation objectives have a greater number of qualitative designs encompassing social needs, stakeholder education, user value generation, and bridging the corporate social responsibilities. Social sustainability manifests itself in corporate culture, organizational behavior, and functional practices of companies. Sustainable business models are spread longitudinally; so, they are bound to face unforeseen risks which need to be managed in association with the stakeholders. However, companies must engage in mapping the performance of pilot business-experimentation models (Rajagopal 2020b).

A new commercial reality in today's global marketplace is the rapid shift in consumer behavior due to the emergence of dynamic disruption of innovation and technology in consumer products on a previously unimagined scale of magnitude. Environmental sustainability and consumption of green products has driven the world toward converging openness, transparency, and commonality. Sustainable business models are proactive to the systematic patterns of regulatory, social, or voluntary practices that

tend to generate social and commercial value on the business investments. Sustainable business models of textiles, energy, and telecommunication industries have played transformational role within and outside their industries (Schaltegger et al. 2016).

Companies functioning with sustainable innovative business model succeed in developing multi-stakeholder values, engagements, and operational alignments. Sustainability is a consistent philosophy among business organizations. However, their operational boundaries change across companies, stakeholders, and socioeconomic values. Companies employ different sustainable business model initiatives from *for-profit* and *non-profit* organizations by developing alignments among various players at normative, instrumental, and strategic dimensions in order to achieve sustainable value creation. However, during the implementation of sustainable business models, companies face complexity for alignment of value, diverging interests, investment risks, profitability, and corporate responsibilities. Multi-stakeholder engagement in implementing sustainable business plans enhances envisioned and perceived values in large companies. Most customer-centric firms are engaged in radical forms of reorganizing the business model to create perennial values, while conventional business models focus on satisfying customer needs and maximizing their returns. Sustainable business models integrate multiple dimensions of economic, social, and environmental value, and adapt to customer-centric strategies (Bocken et al. 2015). Sustainable business models include corporate strategies on development of new value propositions, delivery networks, and value augmentation approaches. Sustainable business models emphasize on stakeholder relationships through value creation for customers, suppliers, or other business partners (Boons and Lüdeke-Freund 2013).

BUSINESS ECOSYSTEM

Continuous disruptions caused by frugal and radical innovations in the consumer- and industrial markets and business processes pose challenges to the contemporary business ecosystems. Disruption of products and services are rapidly increasing in the emerging markets that affect the performance of companies in an industry. Business ecosystems are protected with public policies and robust strategies of companies within industries, which operate around various subsystems including sociopolitical, socio-technical, economic, and entrepreneurial. Such ecosystems