

# Three sustainable investment lessons from India

## Asia Pacific and Global Emerging Markets Sustainable Investment

August 2011

We are in the office of the CEO of an Indian bank, struggling to make ourselves heard. Just to the right of the sofa we are sitting on is a large statue of Lord Vishnu, enclosed in a glass case. Every ten seconds he comes alive, glows bright red and broadcasts a loud mantra across the room. *Om Namō Narayana*. We quickly learn to time our questions between chants. To our left is an equally large TV screen, where the Business Anchor of the hour is shouting at us above the flashing stock prices. The CEO seems unfazed. "Here, we do not work for pay."

On the book shelf below the flashing Vishnu a well thumbed copy of "The thousand names of Vishnu" sits next to a pristine "Managing Radical Change." It remains extremely proud that during Partition, it honoured all deposits on both sides of the dividing line, unlike some of its counterparts at the time. The CEO returns to his theme. "Our duty is banking. My mission is to create lots of vibrations, to touch the hearts and spread the smiles". We leave dazed and confused.

Indian companies have much to teach the rest of the world on the topic of sustainable finance. The subcontinent is home to some of the world's worst companies in terms of responsible business practices. Thankfully, it is also home to a large number of wonderful, world-leading companies, for whom sustainable business practices have always come naturally. This combination of best and worst throws up many lessons for investors willing to learn. Three in particular stand out.

Most important is the Indian concept of *dharma*, a word that has multiple, complex meanings but can be loosely translated as "duty". As Lord Krishna explains to the warrior prince Arjuna in the Bhagavad Gita, "let not the fruits of action be thy motive."

The global financial industry is sorely lacking in *dharma*. Perhaps more than any other 'profession', it has lost its sense of purpose. Arguably this has been the primary driver of the twin deficits of modern finance today. It has led to a dramatic collapse in the time horizon with which we allocate society's capital as we look to generate instant returns and instant rewards. It has also led to the steady erosion of ethics from the industry.

John Bogle tells the story of a greyhound who retires in his prime, having finally discovered that after all that running, the rabbit he was chasing wasn't even real. His point is that for many people working in financial markets, the rabbit they are chasing is not real either.

The concept of fiduciary duty does exist in finance but it is often defined simply as a duty to maximise short term returns for clients. Surely fiduciary duty is about something much broader, incorporating trust, fairness and purpose. Maybe Martin Luther King's street sweeper speech is more relevant today for finance professionals than for street sweepers: "If a man is called to be a street sweeper, he should sweep streets even as Michelangelo painted, or Beethoven composed music, or Shakespeare wrote poetry. He should sweep streets so well that all the hosts of heaven and earth will pause to say, here lived a great street sweeper who did his job well." How many of those working in finance think about their jobs in this way?

Until the finance industry rediscovers its own *dharma*, it will be very difficult to reverse investment time horizons or promote ethical behaviour. Unless time horizons and ethics are properly addressed, the current focus on environmental, social and governance (ESG) investing will come to little. For example, despite the good intentions and large number of signatories, the United Nations Principles for Responsible Investment (PRI) has so far had little impact on the way capital is allocated. India is a good example. Think of the worst five Indian companies in terms of corporate governance, environmental performance or relationships with local communities. Take a very quick look at the top of the shareholder register. You don't have to go far down the register to count the first ten PRI signatories. At a minimum, the PRI Principles need to do a better job of encouraging longer time horizons. Better still, they need to instill a stronger sense of purpose and genuine fiduciary duty amongst their signatories.

A second lesson to be learnt from Indian companies is that cutting social, environmental or governance corners costs shareholders in the long-run. Perhaps nowhere is this link clearer than in India. In part, this is due to the existence of both very good and very bad companies. In part it is due to the huge sustainability challenges facing every Indian company that cannot be ducked or bypassed. A cursory look at any daily newspaper tells the story. There are hunger strikes against corruption and graft, illegal sonography clinics to be shut and bombs in Assam. Child marriages and caste-related violence. Malnutrition. An obesity epidemic. The world's most expensive home. The Lokpal has become a Jokepal. Slum clearances and slum reprieves. Malaria, polio and cholera. Company officials are set alight.

Bad corporate governance has brought large Indian companies such as Satyam Computers to their knees. Allegations of corruption, bribery and improper practices have seen the share prices of many property and infrastructure companies plummeting. Poor community relations have delayed multi-billion dollar projects for years. The reverse is also true. The three clear winners in the IT industry stand out from their peers for the spirit in which they embrace good corporate governance practices. In almost every sector of the market, the companies that have delivered the best long-term returns are the companies who have taken their environmental, social and governance responsibilities most to heart.

A third lesson India's best companies can teach the rest of us is the need to reset the investment compass. As Sunita Narain, the head of Delhi's Centre for Science and Environment, notes, "India and China have no alternative but to reinvent the development trajectory."

In China the Government has led the way, creating from a standing start solar and wind industries that now lead the world. In India, leadership has come not from the Government, but from India's best companies who understand the need to reposition their businesses for a different development path.

It was the Godrej Group, not Electrolux, which recently launched the world's cheapest fridge, costing less than US\$100. Powered off a battery more commonly found in laptops, running costs are less than two rupees per month. It is estimated that up to one third of all food in India is lost due to spoilage, while almost 400 million Indians do not have access to electricity.

The world's most affordable clean water solution has been launched not by Nestle, Danone or Coca Cola, but by an Indian fertilizer company, Tata Chemical. The Swach, which does not need electricity or running water, can provide safe water to a family of five for an estimated one rupee per day. According to the Company's estimates, 500,000 children under the age of five years die each year due to waterborne diseases, while 75% of India's rural population still doesn't have access to safe drinking water. The Tata Group has been particularly prolific in terms of innovation. Tata Steel has

just developed the world's lowest cost house, a prefabricated, flat pack solution costing around US\$700 and made from biodegradable materials such as coconut fibre and jute. It can be put up in one week and designed to last a maximum of twenty years. It comes with a solar energy option.

It was India's Dabur, not Aveda or Estee Lauder, that pioneered the use of natural, herbal, ayurveda-based ingredients in personal care products back in the 1960s. Another Indian company, Vortex Engineering, has recently created the world's lowest cost banking ATM. Over 50% of Indians lack access to financial services. They also lack reliable electricity. The ATM designed by Vortex is well placed to bridge this gap. The capital cost of the machine is less than one tenth the cost of a typical ATM, while it is designed to be "off-grid", powered by solar energy. There are plenty of other examples in rainwater harvesting, distributed solar electrification, transport and mobile communications. In almost every sector, Indian companies are blazing a trail with affordable, low energy, development friendly products and solutions.

There is, of course, no such thing as the perfect company, in India or elsewhere. India is, however, blessed with a critical mass of home-grown companies who have a keen sense of purpose or *dharma*, who realise the importance of managing their environmental, social and governance responsibilities well and who also understand the need to ensure their businesses are well placed for a shift towards more sustainable, balanced development. It is these companies that have most to teach us if only we, as an industry, can find a way of listening.

It is 35 degrees outside and we are freezing. The CFO's ancient air conditioner is in danger of icing up. "How do you attract and retain talented employees?" We shiver while we wait for the usual answer about stock options and bonuses, but it doesn't come. "Most importantly, we must ensure a good fit in terms of culture. Then we provide them with meaningful and challenging jobs. Finally, we give them as much training as possible. We don't believe in lock-ins and non-competes. We want our employees to want to come in each day and work for us." We express our doubts that this approach will work in twenty-first century India. The CFO responds. "Perhaps in fifty years time someone from your Company will come and meet someone from my Company and then you can see whether what we are trying to do has worked!" We leave feeling slightly grubby but inspired.

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