

Inclusive Capitalism: Issue backgrounder and talk track

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Background

Capitalism appears to be undergoing a makeover, under a multitude of labels. Inclusive capitalism, evolutionary capitalism, conscious capitalism, cooperative capitalism, and collaborative capitalism are all terms public and private sector leaders are using to describe a desired evolution of the capitalist system that could deliver on more inclusive growth and prosperity. Increasing levels of inequality, youth unemployment, market volatility, and the threat of social instability all threaten to undermine the credibility of the system and the social contract between business and society. Inclusive capitalism offers a potential course correction and a path for the private sector to regain trust and to be seen as a contributor to the expansion of economic opportunity globally.

The meeting

The City of London and the E.L. Rothschild company have brought together high level public and private sector leaders to explore the private sector's role in setting capitalism on a more inclusive path. At last year's conference, the case was made that the private sector needs to step up. This year will focus, in part, on best practices. The conversation has started—that's an important first step, but gaining momentum and tracking results will be harder. The enthusiasm reflects broader social and economic demand for innovative approaches to inclusive growth; the conference will tap that and encourage business leaders to take the lead.

Issues to watch

Extending the business case for diversity and inclusion

At the beginning of 2015, former Bank of America investment management president Sally Krawcheck wrote that "inclusive capitalism" would be the year's big idea, based on gains made in workplace diversity and inclusion. In her view, inclusive capitalism brings the same benefits to capitalism as a whole as inclusive human resource policies bring to individual businesses—the market performs better, employees are more productive, diverse teams create higher quality outcomes, and a more inclusive workforce leads to innovation.

To the business case for addressing income inequality

Concern over income inequality has been driving much of the interest in inclusive capitalism. At last year's conference, IMF Managing Director Christine Lagarde commented that the wealth of the world's 85 richest people—all of whom could fit on a large bus—is equal to the wealth of the 3.5 billion people who comprise the bottom half of the global wealth distribution. The business case for addressing this disparity argues that higher wages lead to increased consumer spending and economic growth. The social case is equally compelling—failing to address inequality will likely yield increased social instability, lower productivity, more regulation, and high transaction costs in an environment characterized by a low level of trust. In the last few months alone, Wal-Mart, Target, McDonald's, and Aetna have responded to these concerns by unilaterally increasing wages.

Inclusive Capitalism as a governance issue

McKinsey Managing Director Dominic Barton and Unilever CEO Paul Polman are among those who say public corporations' focus on quarterly earnings reports encourages short-term thinking. Both leaders advocate re-wiring the ways corporations are governed, managed, and led as well as how businesses understand their value and role in society. In his 2011 *Harvard Business Review* article "Capitalism for the Long Term," Barton offered ways companies could do this. In addition to getting rid of the quarterly report, he also supports incentivizing board members to increase oversight and "act like owners" and creating incentives for long-term investment, such as giving two votes to every share owned longer than a year.

Polman was an early adopter of governance reforms, eliminating quarterly profit reporting at Unilever in 2009. Markets initially punished him for this, but he credited the changes for a 35% gain in the stock price over the following two years. His unwavering focus on the larger community of stakeholders and his sustained campaign for inclusive and sustainable business practices has earned him the ire of some shareholders, but it has also earned Unilever the third spot on LinkedIn's list of most in-demand employers, behind only Google and Apple.

Other governance innovations designed to encourage private companies to address social and environmental issues include B-Corp certification and a form of business known as a benefit corporation. B-Corp status is granted by the non-profit B Lab and confirms that a company operates sustainably and includes social issues as part of its core mission. The benefit corporation is a type of business registration available in 27 states. It creates a legal entity with protection from lawsuits by shareholders who claim that management neglects its fiduciary responsibility to maximize profits by also pursuing social or other goals in parallel.

Inclusive capitalism is part of a larger trend

The conference promotes a wide-ranging discussion of business ethics and the role of the private sector in restoring capitalism's reputation. But the movement to include the private sector in addressing global development issues is more broad-based than this. Impact investing, public-private partnerships, and B-corporations are all proliferating and many companies are integrating CSR programs into core business functions. The amount of assets managed with an impact investing mandate has increased by more than 20% in 2014, though this is still a small part (0.02%) of total assets under management according to the US National Advisory Board on Impact Investing (<http://www.nabimpactinvesting.org/>). Businesses increasingly recognize social concerns and consumers, clients and employees are increasingly demanding that they do so.

High profile companies are leading the charge

Educational disparities have been among of the drivers of increased inequality. The problem bothered Starbucks' CEO Howard Schulz and led him to partner with the University of Arizona to create a program to address it. Any Starbucks barista who had started a college degree program but had not finished could enroll and Starbucks would pay the full tuition. The barista would have to continue working at Starbucks while taking classes on-line, but was not required to work there after graduation

SMEs are using the demand for an inclusive approach as part of their business model

Fossil watch founder Tom Kartsotis used the name Shinola – known for quality—to bring a story about quality American manufacturing back to Detroit and looking to the labor pool in Detroit to add to their story. Shinola manufactures high-end watches in Detroit's landmark Argonaut Building (built by General Motors in 1928). They train local employees (sending them to Switzerland) in the craft of time-piece building, and are helping brand the revival of Detroit and

American manufacturing to grow their business. They have expanded into making paper products, leather, and bicycles and are opening retail shops across the US.

Not everyone is convinced

The topic of inclusive capitalism is receiving a lot of press, not all of it good. There is a bit of cynicism about business taking the lead in addressing a problem they are seen as having helped cause. Skeptics suggest the initiative itself looks exclusive and, while self-reflective, has yet to achieve more than a powerful PR campaign. Tracking results is hard but imperative is the concept is to have any long-term currency.

Suggested guidance for questions

- *What does Inclusive Capitalism mean for you?*
 - Restoring trust in business
 - Enlarging the communities that businesses serve
 - Bringing the power of the market and business planning to solve social issues
 - Addressing income inequality and restoring a resilient social contract between government, society, and the private sector

- *What single action do you think would make a difference to achieve a more inclusive capitalism?*
 - Effective partnerships: Government, NGOs or businesses alone are not going to be able to address the complexity of issues the “new economy” raises. Collaboration, effective partnerships, and innovative financing will all be needed to move the needle on social, environmental, and economic challenges.
 - Systematically reporting on the social impact of business. We measure and count programs, but we need to shift to reliable measurements of impact (positive and negative) and make them publically available to all stakeholders.
 - Businesses must be convinced that inclusion is not just good corporate citizenship, but also good business and essential to growth. We’ve come a long way on this with the discussion on diversity and inclusion in the workplace. Businesses need consistent and compelling confirmation that adopting a more inclusive and sustainable overall business strategy and seeking to simultaneously generate profits and positive social outcomes leads to better business performance. This is not always clear in the short-run.

- *What is the main barrier to achieving inclusive capitalism?*
 - Financial institutions and expectations are sticky. CEOs who promote the interests of the larger stakeholder community may appear focused on initiatives outside the core business. This leaves them vulnerable if financial results are underwhelming. Paul Polman has faced this criticism, even with higher profits, albeit lower sales. CEO Andrew Witty of GlaxoSmithKline has faced similar criticism.
 - All talk, no action. So far, it is hard to discern if the discussion of inclusion is really transformative or remains aspirational. Business attention to the issue may be rather staccato—revived by a major crisis or instability, but benignly ignored as growth returns. In 2013, Richard Branson introduced the “B-Team”—a group of business leaders focused on putting people and planet before profit—but it’s not clear what has been accomplished since the team was formed. The group’s website has not been updated since mid-2014.