

WESTERN CAPITALISM AT THE CROSSROADS

Finding a New Role for Business

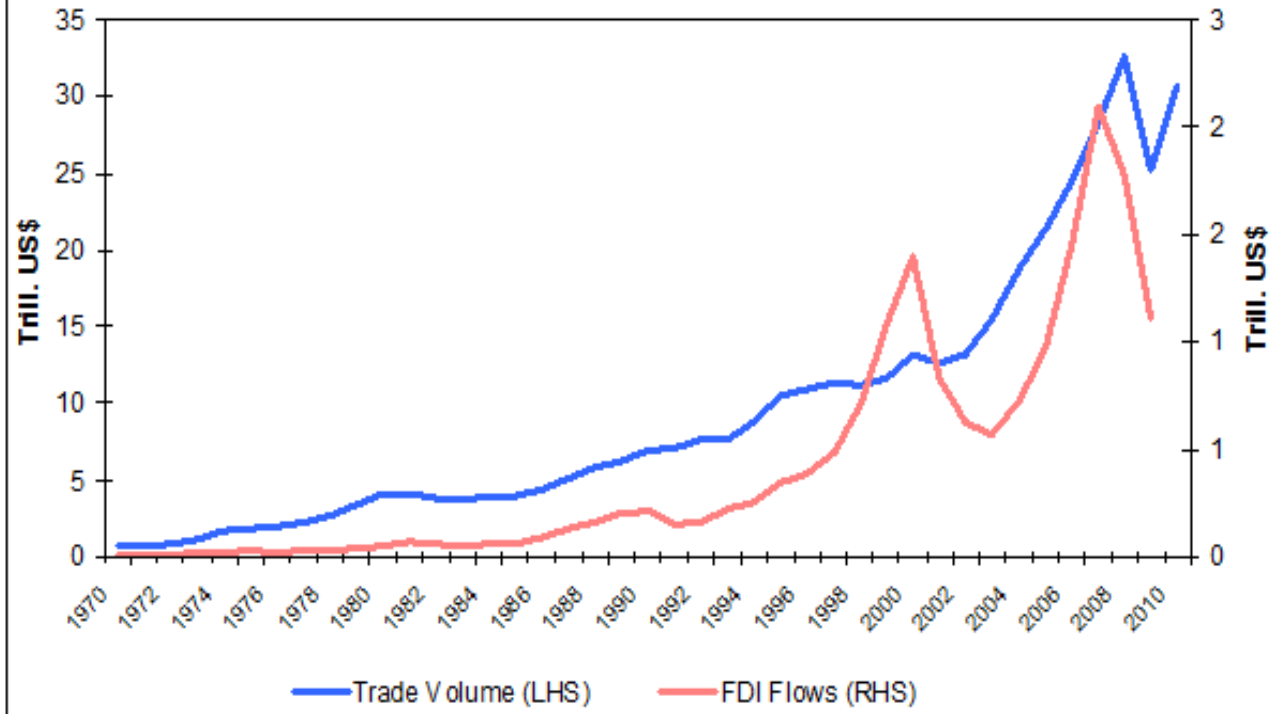
Presented by
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The global economy in crisis

- *Growing disenchantment with transnational and national institutions*
- *Emergent isolationist, nationalist and populist trends*
- *Ideological polarization and the end of political discourse*

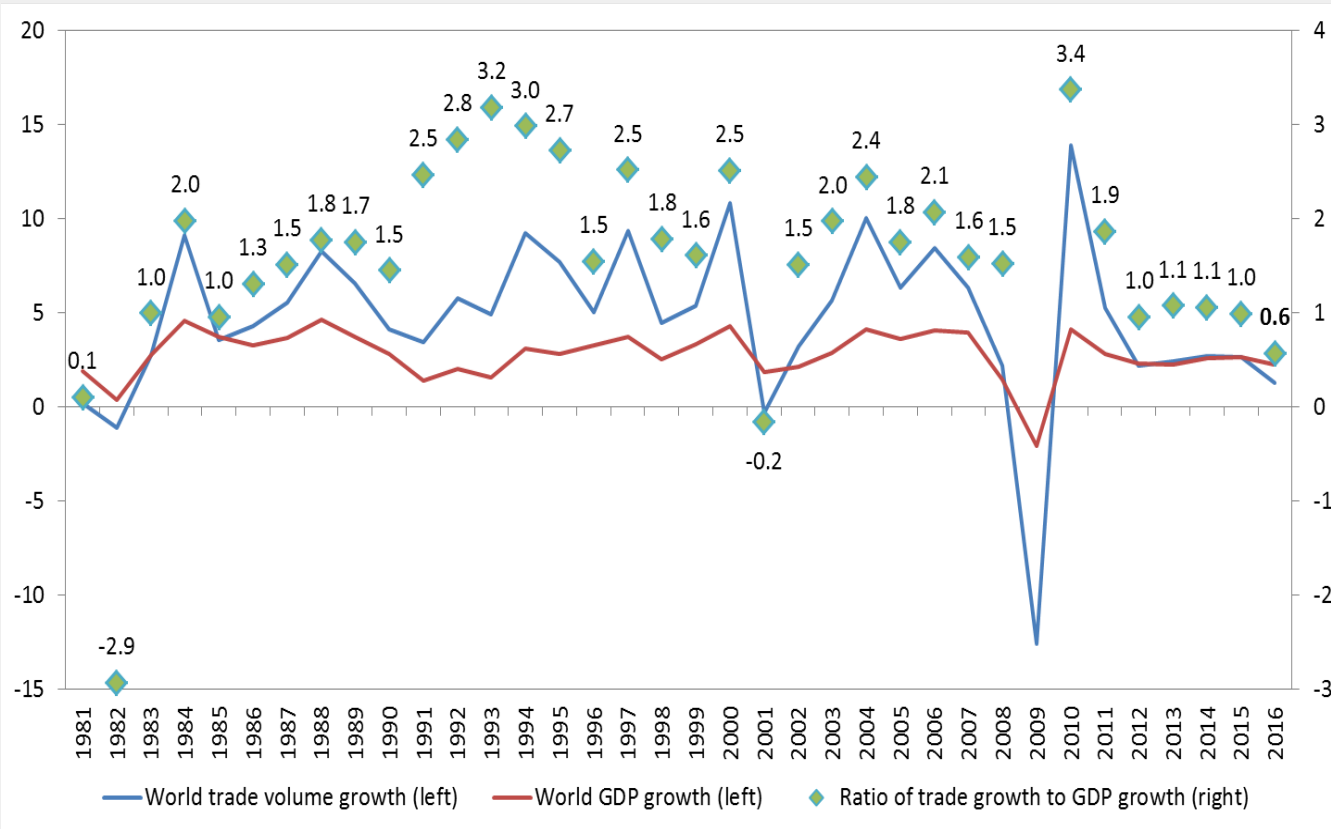
Trends in international trade

Trade Volumes and FDI Flows Worldwide



Looking ahead

- *“Growth in the volume of world merchandise trade is expected to rebound this year... **but only if the global economy recovers as expected and governments pursue the right policy mix...**”*
- *“The **unpredictable direction of the global economy** in the near term and the lack of clarity about government action on monetary, fiscal and trade policies raises the risk that trade activity will be stifled.”*



Non-inclusive growth and the case for Inclusive Capitalism

- *Increasing inequality in the face of phenomenal growth*
- *Income inequality by the numbers*
 - Oxfam: The world's richest 1% now have more wealth than the rest of the world's population combined
 - The richest 8 individuals own more wealth than half of the world's population*
 - If current economic trends continue, two-thirds of the world's individuals will be on track to be poorer than their parents
 - In recent years, the increases in wealth of the 40 richest families in the Philippines accounted for nearly all of the increases in GDP

Income inequality ... (continuation)

Convergence in reverse

- *Between 2005 and 2014, the real incomes of over 60% of the world's population were flat or falling*
- *In 1960, people living in the world's richest country (New Zealand) were 56 times richer than those living in the world's poorest (Lesotho); in 2000, the figure was 311**

Contributory factors

- *Ineffectual government agencies and institutions*
- *Corruption in public office*
- *Political dynamics in modernizing societies in which traditional politicians hold on to power by keeping their constituencies in perpetual economic bondage **
- *Anti-poor tax laws*

Complicity of business – Because of their single-minded pursuit of the economic interest for their owners to the ***exclusion*** of all others, businesses have been ***primarily*** responsible for the widespread worsening of income distribution and unequal access to economic opportunities

Inclusive Capitalism - making
the “strategic shift” to bring
society and business together

Rethinking the goal of profit maximization

Unwanted trade-offs arising from shareholder wealth maximization

- *Value creation for the owners of capital **at the expense** of the economic interest of all other stakeholders in the firm and the rest of society*
- *“Shorttermism” – focus on immediate financial results **at the price** of the long-term viability of the enterprise*
- *Focus on the financial interest of shareholders **at the cost** of non-accountability (to society) of both stockholders (“principals”) and their hired managers (“agents”) for the outcomes of their choices*

An alternative view:

*The specialized function of the firm in modern society is to create economic value and to appropriate the value created to **ALL** groups that contribute to the process of value creation*

The crux of the matter:

How business firms can co-align the financial interest of their owners and those of the other groups that have a stake in the business

Going beyond stakeholders: “**Bottom-of-the-Pyramid**” strategies

- *Underlying logic: the sustainability of a business can only be achieved in a sustainable setting; a community characterized by widespread poverty and great income inequality is NOT sustainable; therefore, addressing the social and economic needs of society is in the strategic (i.e., long-run) interest of business.**
- *Formulating and implementing inclusive business models*
 - *What are Inclusive Business Models?*
 - *How are they implemented?*

Illustrative examples:

- **Coca-Cola's 5X20 initiative** to train and assist 5 million women income earners from poor communities all over the globe by year 2020
- **Vodafone's** promoting the use of mobile technology to facilitate financial transactions among poor entrepreneurs in rural Africa
- **Smart Communications' SWEEP** (Smart Wireless Engineering Education Program) initiative involving 32,000 faculty and students in 68 schools
- **Cipla Inc.** - One of India's top global pharmaceuticals companies, cited for its pursuing a business model for delivering HIV antiretroviral drugs to the poorest regions at exceptionally low prices

Social entrepreneurship

- ***Merck & Co.** teams up with the Bill and Melinda Gates Foundation and the African Comprehensive Aids Partnership in the fight against a scourge that affects 27% of Botswana's population**
- ***Fabindia**, India's largest private platform for products that are made from traditional techniques, skills and hand-based processes, organized >40,000 weavers of handcrafted textile into a reliable supply chain, becoming a self-sustaining community-owned business*
- ***Starbucks** – protecting the ecosystem through its farm support center in Rwanda, teach farmers how to improve crops responsibly*

Inclusivity is also achieved by engaging in business ventures that yield high net positive external effects. Illustrative examples:

- *“Ecomagination,” **GE**’s renewable energy business strategy.**
- *Companies (including oil firms such as **Shell, Exxon**) investing heavily in renewable sources of energy*
- ***McDonalds** going into healthy foods to lure back customers*

A special case: “Collaborative Inclusivity”

By pooling their complementary resources and firm-specific competencies together and sharing their individual supply chains to form expanded value networks, business organizations can, by their collective action, play an important role in helping solve the social and economic problems faced by their communities, and at the same time enable them to achieve their long-term business objectives