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Essay

## Re-booting capitalism: the action agenda for business

By David Grayson with Melody McLaren

**There are roles for companies and government in devising the future of capitalism**

US intelligence describes the world today as “VUCA” – volatile, unpredictable, complex and ambiguous. Any reader reflecting on the big issues facing businesses, governments and civil society might be forgiven for wishing themselves back in a mythical earlier time when “life was simpler” and when we didn’t live in such interesting times.

Even a cursory Googling session will show the intensity of the debate raging about capitalism. You don’t need to be an Occupy protester or in the US Tea Party to be deeply troubled by current conditions.

Capitalism is living in interesting times. Politicians, academics and activists around the world are debating the merits of the capitalist system, how and if it could be improved and, for some, whether this economic system should continue to exist at all.

As an unrecovered political junkie, I am fascinated that right-wing Republicans should be the ones to pay for and air a 27-minute documentary against Mitt Romney, the Republican front-runner for the presidential nomination, railing against “Vulture Capitalism”<sup>1</sup>.

In one week in January, all three of the major UK political party leaders delivered speeches on responsible or moral capitalism<sup>2</sup>. The Financial Times ran a series on Capitalism in Crisis with a range of perspectives from, among others, John Kay, Robert Reich, Bill Clinton and Jeffrey Sachs<sup>3</sup>. Simul-

taneously, the Economist ran a cover story, lead editorial and supplement on the return of state capitalism, with a picture of Lenin on the magazine cover<sup>4</sup>.

As well as “moral” and “responsible” capitalism, others have spoken about “conscious capitalism”<sup>5</sup> and “long-term capitalism”<sup>6</sup>. Al Gore and his business

### *The perceived under-valuing of natural, human and social capital in markets has helped to precipitate a crisis*

partner David Blood issued a “Manifesto for Sustainable Capitalism” – and chose to do so in the pages of that bible of free-market economics, the Wall Street Journal<sup>7</sup>.

Seven years ago, sustainability campaigner Jonathon Porritt called for “capitalism as if the world matters” to ensure a sustainable future. He identified five types of “capital” – natural (environmental/ecological), human, social and manufactured, as well as financial – that need to be integrated into our accounting of resources from which we extract value<sup>8</sup>.

Arguably the over-valuing of financial and manufactured capital (either newly created or existing capital being circulated around the system), accompanied by the under-valuing of natural, social and human

capital, has led to what the Australian environmental campaigner Paul Gilding described in 2011 as the “Great Disruption” – in other words “when both Mother Nature and Father Greed have hit the wall at once”<sup>9</sup>.

### **Crisis of trust**

The perceived under-valuing of natural, human and social capital in markets has helped to precipitate a crisis of trust for both business and government.

In the 2012 Edelman Trust Barometer, “poor management”, “unethical business practices” and “shortcuts that lead to poor quality” were perceived as drivers of irresponsible business behaviour damaging trust in business, while failure to regulate business behaviour was damaging to trust in government. While government was expected to take action to protect consumers and society from irresponsible business behaviour, business needed to be seen to address these issues directly.

How did we get here? The erosion of trust in business, as well as governments, can be traced to a number of interdependent factors.

- Confusion over what capitalism now means, and how it manifests itself. Many argue that capitalism as a concept still works, but only with fair competition, truly voluntary exchanges, information symmetry and the absence of externalities. All too often one or more of these conditions do not exist, causing market failure.
- Loosening of regulation. The pendulum swing from the 1980s onwards against state controls saw politicians encouraged by powerful interests (commercial and intellectual) to instruct regulators to exercise a “light touch”.

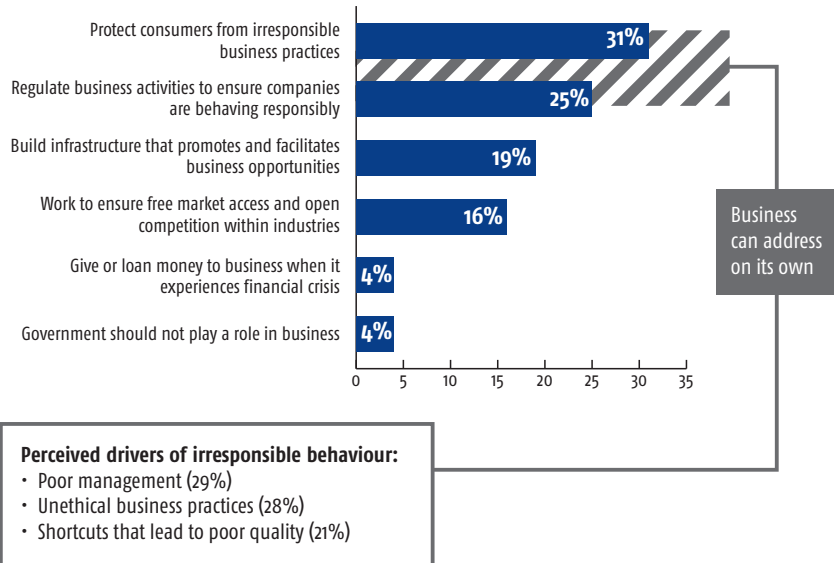
- The power of global connectivity. The uncharted territory of an internet-fuelled global connectivity has transformed how and where we work, created a generation of billionaire ICT entrepreneurs, dramatically expanded access to, and the volume of, information; greater freedom to travel, trade and talk more freely but also greater risk that handfuls of fanatics can terrorise, torture and torment the rest of us.
- Population growth – the reality of a population of more than seven billion (and maybe nine or 10 billion by 2050), alongside expectations for far higher quality of life.
- Unsustainable collective aspirations. There are no viable solutions for meeting the consumption wants and needs of today's generation without compromising the ability of future generations to meet theirs, too.
- Reduced deference to/trust in authority. There has been a healthy decline of unthinking deference, but as a result, a growing trust deficit in traditional institutions – governments, big business, organised religion etc – as the Edelman Trust Barometer has identified.
- No alternative ethical frameworks. For some at least, there has been a welcome abandonment of unquestioning adherence to religious or moral teachings, but there is also a collective failure to find robust alternative ethical frameworks to guide how we live our lives.

I reflect on the great waves of change that my mother, now in her 90th year, has already lived through. A child of the Great Depression and ensuing world war. A young adult of the post-war, “never again” welfare state who mid-life experienced the pendulum reaction against the overweening state that led to the Thatcher-Reagan liberalisation and privatisation, and the fall of Communism that ushered in the era of rushed globalisation where markets, science and society metamorphosed way ahead of governance and ethics could develop in response. Now, in her old age, she lives in an era when the many and not just the few will insist on helping to rethink capitalism and therefore globalisation and development too.

To be clear, capitalism is the default mode of human behaviour<sup>10</sup>. But there are many varieties of capitalism and these too are not immutable, or beyond human capacity to improve.

### Calls for greater protection and responsible behaviour

Thinks the most important role that government should play in business is:



Source: Edelman Trust Barometer 2012

“You cannot buck the markets,” Margaret Thatcher famously declared. But markets are the outcomes of vast numbers of human interactions and relationships – and like any other interactions or relationships, they are shaped by values, social conventions, laws (soft and hard), and human wants and needs.

### What could capitalism 2.0 look like?

It is evident from the current debates that capitalism cannot be transformed by any organisation acting unilaterally. Activists from governments, business, civil society, academic and religious institutions around the world must work together to achieve viable solutions.

Restoring trust in business and markets is a central priority and several initiatives have emerged to address this issue. Respected City financier and committed Christian Ken Costa has argued that “the market has managed to slip its moral moorings”<sup>11</sup>, “the capitalist system is fatally flawed and past its sell-by date” and “for markets to work freely, they need somehow to be nurtured and sustained by a moral spirit”<sup>12</sup>. Costa is leading the London Connection, a St Paul’s Institute initiative to try to re-connect finance and society<sup>13</sup>.

The Lord Mayor of London’s Restoring Trust initiative is supported by Cass Business School at City University London,

TheCityUK, Tomorrow’s Company and Berwin Leighton Paisner<sup>14</sup>. Mark Goyder, founder of Tomorrow’s Company, has called for an inclusive approach to business which transcends the “narrow concept of contracts and transactions” and instead “inspires people to produce extraordinary results by concentrating on the human beings whose needs lie behind every business relationship”<sup>15</sup>. These are just some of the initiatives aiming to humanise business and restore trust in its leadership.

As part of this collaborative ethos, leaders of business, as well as other institutions, must be humble and pragmatic

### Capitalism is the default mode of human behaviour

enough to recognise that each will have only a part of the picture and part of the answer.

Trust in business and trust in government have been intertwined historically, and therefore strategically aligned, sustained action by leaders in both sectors will be needed to restore confidence in their leadership, as the Edelman Trust Barometer concludes.

What sort of actions can business and government take to “re-boot” capitalism so as to restore its legitimacy in modern

society? And how might such actions be supported by business schools with responsibility for researching, teaching and

### *Government can create an "enabling environment" for sustainable capitalism*

providing practical guidance for business practice?

Government can create an "enabling environment" for sustainable capitalism through regulation and incentives. How might this be done?

#### **Reconnect**

Working in concert with government, companies can take actions to reconnect stakeholders through dialogue:

- with investors to promote the company's long-term purpose and values;
- with employees to agree long-term organisational and individual aspirations;
- with customers to engage them in supporting shared values;
- with suppliers and other partners to engage them in co-creating long-term shared value.

In his March 2011 call for a radical re-appraisal of capitalism, B&Q chief executive Ian Cheshire opened a high-profile dialogue with his fellow business leaders, as well as other stakeholders, to rethink the ways companies operate to conserve natural resources<sup>16</sup>.

#### **Re-purpose**

Government and companies can re-purpose business to achieve societal, as well as commercial, goals and to internalise costs currently classified as "externalities", by:

- incorporating environmental, social and governance (ESG) objectives into organisational mission and strategy;
- creating accountability at all organisational levels for achieving ESG, as well as commercial, goals and specifically ensuring effective board oversight and governance of their commitment;
- investing resources in achieving ESG goals; and
- integrating ESG impacts into corporate accounting and communications.

In May 2011, sports clothing company Puma published the "first ever attempt to measure, value and report the environ-



There's a place at the table for government and business

mental externalities caused by a major corporation and its entire supply chain"<sup>17</sup>.

#### **Reset**

Government and companies can reset time frames, incorporating a long-term mindset into operations and communicating this to stakeholders, by:

- issuing long-term earnings guidance to investment managers;
- setting employee and organisation long-term value-creation targets;
- integrating long-term value creation targets into executive pay and compensation;
- structuring shareholder compensation to incentivise long-term investors.

Speaking at the second Annual Pears Business Schools Partnership lecture at Cranfield School of Management in January 2012, GlaxoSmithKline chief executive Sir Andrew Witty called for business leaders to take the "long view" of their companies<sup>18</sup>. This long-term perspective is exemplified by GSK's investment in more than 200

employee volunteers despatched to work for six months in NGOs around the world. Although expensive, the programme ensures this cadre of middle and senior managers have a deep understanding of how civil society operates and challenges them "to be thoughtful about how they can drive the behaviour of the organisation to be in step with society".

#### **Rebalance**

Government and companies can rebalance power across stakeholder groups, by:

- increasing relative power of employees eg through ownership and representation on pay committees;
- increasing relative power of non-executive directors as stewards of responsible business behaviour and long-term value creation;
- increasing relative power of long-term shareholders over short-term shareholders;
- recognising and rewarding creators of long-term value, regardless of position in organisational hierarchy.



DAVID GALLER/REUTERS/GETTY IMAGES

were the same in each year – namely improving operational effectiveness, reducing or minimising risk and engaging the firm's current and future workforce – the 2009 data also included new references to the perceived benefits of addressing macro-level sustainability issues and found increased support for the benefits of espousing responsible leadership, and business opportunities arising from proactive stakeholder engagement. The implication is that leading businesses are recognising the circular effect of working within and relying upon, ecological and social systems. As ecosystems and/or social systems' fortunes rise or fall, so do the fortunes of business rise or fall. They have a shared destiny.

Free-marketeers might remind themselves that Adam Smith wanted an invisible but also a moral hand. Responsible business is not anti-market; it is the best way to guarantee social consent for and enthusiastic embrace of the market.

Above all, if capitalism is to regain greater legitimacy and popular acceptance, and become more resilient, capitalists ourselves have to be more involved not just in rethinking but also in reshaping capitalism. ■

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As part of the operating principles established by its founder, the John Lewis Partnership is owned in trust for its employee members, who "share the responsibilities of ownership as well as its rewards"

### *Adam Smith wanted an invisible hand but also a moral hand*

– profit, knowledge and power<sup>19</sup>. The partnership paid out staff bonuses and continued to prosper during the recession<sup>20</sup>, drawing political and media attention to its alternative business model.

#### **What's in it for business?**

Our business case research with Business in the Community (2011)<sup>21</sup> – which compares business benefits of corporate responsibility reported in 2003 and 2009 – shows that as companies have become more adept at managing their business operations sustainably, the range of business benefits has increased.

While the top three perceived benefits

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