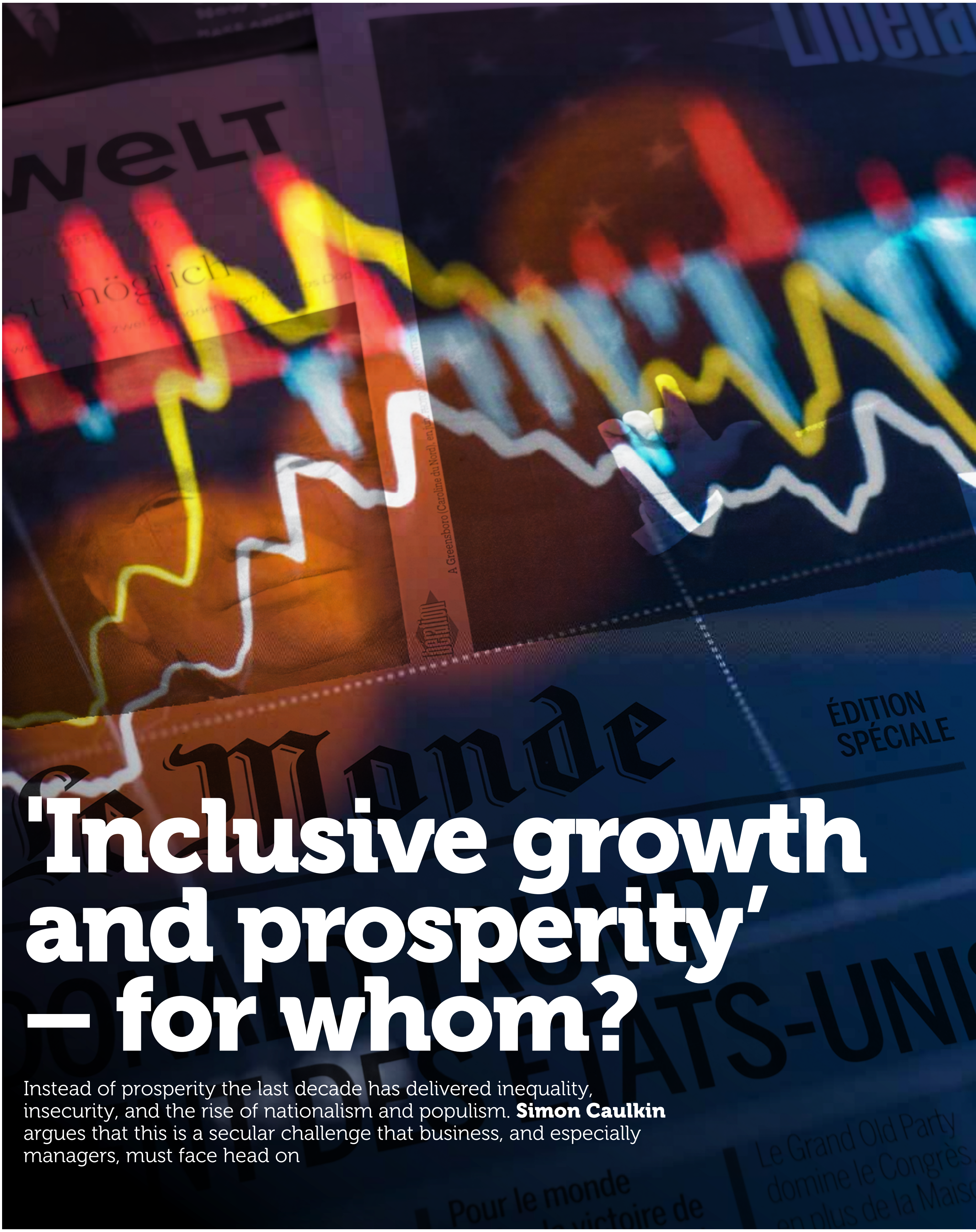

'Inclusive growth and prosperity' — for whom?

Instead of prosperity the last decade has delivered inequality, insecurity, and the rise of nationalism and populism. **Simon Caulkin** argues that this is a secular challenge that business, and especially managers, must face head on

Inclusive growth and prosperity, the theme for this year's Global Peter Drucker Forum in November, sounds like the ultimate motherhood and apple pie. Who could be against it, and where's the problem? We just reboot the processes that have fuelled 200 years of capitalist progress which has sucked billions of the world's population out of poverty and into the cycle of expanding economic and social wellbeing.

If only it were so simple. To make "the economy work for everyone", to quote UK premier Theresa May, will require everything but business as usual. As the technology scholar and historian Carlota Perez reminds us, to fulfil its potential, each major technological advance needs to take a different direction, based on a new synergy of technological, social and political choices.

Nearly 10 years after the global financial crisis, much of the world remains mired in the last paradigm, which has delivered the opposite of inclusion – inequality, insecurity, and the feeling of being excluded from global and technological advance – and thence Trump, Brexit and the rise of nationalism and populism. This puts business and management squarely in the front line. Managers can no longer shrug off wider responsibilities in the cause of maximising returns within the law. Inclusive growth and prosperity have to be what business is for.

As Drucker insisted: "Free enterprise cannot be justified as being good for business. It can only be justified as being good for society". Corporate responsibility is to deliver growth and prosperity for everyone, period. And that changes almost everything.

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In previous growth cycles, jobs and wages were at the heart of what can now be seen as a virtuous circle in which wage growth led demand which fuelled investment, employment and higher productivity, feeding back into higher wages. Not only that: by redistributing the wealth created, employment was also a powerful vehicle of social mobility and inclusion.

But in the ideological shifts of the 1970s, this virtuous circle broke down. Economists promised that concentrating on the supply side and leaving the rest to the market would generate better economic outcomes. Economic policy shifted from full employment to inflation targeting; the pursuit of "flexibility", often through deliberate weakening of worker organisations, became the watchword for labour markets.

A new emphasis on shareholder value triggered a move from retention and reinvestment of earnings to cost-cutting and distribution in corporate allocation strategies; and these combined with technological advance to launch a wave of global outsourcing that activated a very different cycle, its consequences starkly evident in the crash of 2008 and the subsequent still incomplete economic recovery.

A decade on, we are left with a "human capacity-capability gap" that is structural, not cyclical. On one side seethes a sea of humanity that, as Stanford's Jeff Pfeffer reminded the 2016 Drucker Forum, more than anything in the world wants a regular job with a pay cheque. Yet good jobs are a minority: the world needs 1.9 billion more of them, according to Gallup. Good jobs are also a source of meaning and engagement which, as Richard Straub and Julia Kirby note in their opening HBR blog for the Forum, are essential to the good life – "and no elite minority should have a monopoly on that".

On the other side there is no lack of needs for this army to meet, while the range and sophistication of technological aids grow every day. In short, there is more than enough human and technological potential to power a new Golden Age of development based on the ICT-based revolution that began, just as the post-war virtuous circle was going into reverse, in the 1970s.

Yet that seems a long way off. In 2017 growth is stuttering. Productivity is static, innovation rates falling and new business formation modest. Average wages in the US have barely moved since the 1990s. In the US and UK, publicly-quoted companies are on the decline, their numbers having halved in the last 15 years.

Meanwhile, in the same economies the link between corporate growth and jobs has been severed, even, or especially, among tech start-ups. Michigan University's Gerald Davis spells it out: "The shifts from outsourcing to Uberization have been largely driven by the corporate imperative to create shareholder value, and under our current conditions, creating shareholder value and creating good jobs are largely incompatible. Corporations are "job creators" only as a last resort".

Small wonder that some leading economists hold that the era of growth is over and that we face a period of prolonged secular stagnation. Bluntly, on present trends, the pessimists will likely be right. But that is not inevitable. Technology is not destiny; nor is globalisation. Their direction is not random but shaped by decisions made by firms, governments and individuals.

In other words, there is a choice, and it is up to leaders of governments, corporations and civil institutions to shape it in ways that will benefit ordinary citizens as well as themselves – or, as we have seen, ordinary citizens will do it for them. As gatekeepers of the investment decisions that determine how the larger trends play out both macroeconomically and where it counts for individuals, in jobs and pay, managers bear the major responsibility here. They cannot rely on an "invisible hand" to bring about a new growth momentum or create demand for their offerings when (as must be close) consumers' ability to take on debt runs out. If the cost of shareholder (and executive) enrichment is the jobs of those who can no longer afford to buy the products created, the process becomes self-defeating. The engine of capitalism will grind itself to a halt.

Yet tantalisingly, the outlines of a new collective balance are discernible through the fog. New times will require big changes on all sides. For too long, acknowledges Salesforce chairman and CEO Marc Benioff, "we have done our work in isolation, unaware of the effects our innovations have on societies and environment as a whole." For Perez, "We are in a crucial moment in history similar to the 1930s, requiring thinking and measures as

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bold as those of Keynes, Roosevelt and Beveridge." Measures envisaged will have to go far beyond conventional supply-side adaptation, such as investment in education and infrastructures, to include the much-neglected demand side of the labour market equation and what drives it: the incentives which have fuelled short-termism, financialisation of the real economy and the race to the bottom in pay and conditions that have done so much to fuel insecurity and inequality.

Corporate governance can no longer be played as a private sport between directors and shareholders. It has macroeconomic consequences – and today it is clear that what is good for shareholders no longer works for the economy and wider society.

As many suspected, "corporate social responsibility" was a diversion that served to evade management's defining challenge: to plot a path to inclusive growth and prosperity, recreating a virtuous circle which builds on rather than fights the distinctive properties of markets and companies. Just as flawed economic theory has caused managers to damage their companies through the pursuit of shareholder value, these too are due for fundamental review.

Growth and development are powered by innovation and its diffusion, in which companies and markets play different but interdependent roles. Consider the semiconductor industry cycle. First, the leader, typically Intel, creates a new-generation microprocessor that gains a temporary market advantage for which it can charge high prices. As rivals catch up prices fall until the chip is a commodity. Thus, Intel's advantage is competed away by the wider market, handing the benefit to society as a new constellation of resources, and the cycle begins again.

This is business as a positive-sum game – value creation rather than appropriation – and reframes companies, in the late Sumantra Ghoshal's words, as "society's main engine of discovery and progress". In like vein, businesses can be seen as society's problem-solvers and growth as a measure of the rate new solutions to problems become available. The genius of capitalism, in this view, is not allocation or efficiency but creation and effectiveness – evolutionary processes in which companies that fail to innovate eventually succumb to the rising tide of the market.

Conversely, the secret of the "positive deviants" that stand out from rivals in many industries is their adoption of (in effect) innovation as a business model that keeps them constantly one step ahead of the market. Think Apple and Dyson in products and services, Toyota and Handelsbanken in management, W L Gore and Haier in both. The "hidden champions" of the German Mittelstand are another less conspicuous example.

As the gig economy demonstrates, technology makes labour a commodity that can be contracted

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for in the market as easily as any other. But we still need companies, precisely as temporary protection from market forces allowing them to carry out their proper, but inherently messy and uncertain, vocation of innovation and exploration. Innovation in the sense of new solutions to human needs clearly demands renewed focus on the customer of the kind we are already seeing in the design thinking movement and in the emerging theory of "jobs to be done". The first should help to sharpen the focus of innovation in existing markets; the latter may point the way to solutions that create whole new markets.

While the major responsibility for corporate renewal rests with management, other actors also have important parts to play. Dawning recognition that governance changes are needed to support a longer-term corporate orientation and discourage free-riding is welcome – consider, if proof were needed, the price Unilever has had to pay for the privilege of upholding its model of long-term growth and sustainability. Among a flurry of international initiatives, it is significant that some of the biggest global investors are joining governments and civil institutions in exhorting companies to look to the longer term. These need to lead to action, not just talk.

As part of the new synergy, reassessment of the role of the public sector in innovation is overdue. The creation of economic value is a collective process. No business can operate without basic legal, physical and education infrastructures provided by the state. But as UCL's Mariana Mazzucato has stressed, innovation also needs strong publicly-funded research programmes like DARPA and the US National Institutes of Health that have yielded a deep seam of technologies such as biotechnology, the internet, voice recognition and others that countless companies continue to mine. "The private sector does not 'create wealth' while taxpayer funded public services 'consume' it," notes Mazzucato. "Rather, economic output is co-produced by the interaction of public and private actors – and both are shaped by, and in turn help to shape, wider social and environmental conditions."

The final component of a broad new innovation wave is a direction for the collective forces of society and business to pull in. The current mode of deploying technology primarily to cut costs, or for the sake of it, does not fit the bill. Far from spreading prosperity, too much does the reverse, redistributing existing rather than creating new value, and sharing it in ways that are more unequal than before.

There is no shortage of compelling alternatives for clusters of research, technologies and industries to cohere around. Obvious examples are the biosciences and genomics to underpin healthier lifestyles, green growth and new approaches to disease and ageing populations.

What all such "meta" orientations have in common is their potential to align business and society by turning urgent human problems into meaningful economic opportunity. This perfectly chimes with Peter Drucker's 1984 definition of the corporation's real social responsibility: "The proper social responsibility of business," he wrote, "is to tame the dragon, that is, to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth".

As a statement of management's own "job to be done", that could not be bettered.

ABOUT THE AUTHOR

Simon Caulkin is a writer and editor and for 16 years was management columnist of the Observer, *a leading UK Sunday newspaper. He has contributed to the* Economist, *the* Financial Times *and many other national and international business magazines and newspapers. From 1986 to 1989 he was Editor of the UK business monthly* Management Today.