THE NEW Capitalism

By Ann Florini and Bindu Sharma

Asia and the future of business, government and society

Capitalism as we have known it is not fit for the 21st century. What is to take its place?

To have a conversation, the appropriate language is needed. The language is just starting to emerge in both Asia and the West for one of the most important conversations the world is now having–the discussion about the future of business and capitalism. Thailand's King Bhumibol refers to the sufficiency economy. Harvard's Michael Porter speaks of shared value. Ellen MacArthur's eponymous foundation supports the transition to the circular economy. John Elkington proposes breakthrough capitalism. Bhutan's call to measure progress by gross national happiness (GNH), rather than the narrow metric of gross domestic product (GDP), is now attracting attention around the globe.

The explosion of terms, concepts and practices takes us far beyond the familiar corporate social responsibility. All are efforts to grapple with the same issue: capitalism as we have known it is not fit for the 21st century. What is to take its place?

The old equation

The ideology of free-market capitalism assumes a simple but powerful equation: Profit maximisation plus government regulation equals maximum social value. If people in the business sector strive to make as much profit as they legally can, and government regulates business activity as needed to protect the public interest, everyone ends up in the best of all possible worlds–wealth grows, jobs abound, and consumers get the best possible goods and services at the lowest possible prices. This is the idealised essence of the Western capitalist model. Like all ideals, it never really existed, but it came close enough to generate the extraordinary wealth of the Western world. But every part of the equation is now breaking down.

The West is where most of the conversation has been happening but Asia may be where the question of "what next" finds its most compelling answers.

Profit maximisation has degenerated into casino capitalism. Roger Martin's brilliant 2011 book *Fixing the Game* points out that the West went wrong when it adopted the belief that a corporation exists to maximise shareholder value. That misguided notion led firms far afield from their real value to society–the efficient design, production, and distribution of goods and services that people want to buy. The game of guiding "expectations" for quarterly earnings reports and trading stocks, options and complex derivatives, Martin shows, is the wrong game. He uses the metaphor of American football's Super Bowl, but the metaphor works as well (and more globally) for the World Cup–in the new casino capitalism, teams aim not to win the World Cup but to win a *bet* on the World Cup. And even firms that are not gambling in the casino (such as family or state-owned firms) still often see the siren call of profits as excusing them from taking any responsibility for social and environmental well-being beyond what government can make them do.

Government regulation is needed to set and enforce property rights (so that business can be transacted at all), enforce contracts, and make business—or someone —deal with the nastier side effects of business activities, such as pollution or exploitation. The thought leader behind the U.N.'s new Principles on Business and Human Rights, Harvard's John Ruggie, has long argued that free market capitalism is only socially bearable when it is "embedded" in a set of rules, norms, and social protections that buffer people from the disruptions of capitalism's drive for efficiency. As business has gone global, regulation and embeddedness need to operate at the same scale, but government is still national, with no prospective world government in sight. And within countries, many governments fail to regulate effectively in the public interest, due to lack of capacity, regulatory capture, the absence or breakdown of countervailing powers such as unions, and the effects of the past few decades' prevailing ideology that government is the problem and markets the solution.

And the "maximum social value" side of the equation is not what it used to be. Societies are no longer satisfied by businesses that provide desired goods and services in private markets at acceptable prices. Now, corporations must satisfy new standards for how they *conduct* their business, even when government fails to effectively regulate that conduct. As firms from Apple, Nike and Shell in the Western MNC world to Olympus, Sanlu and Satyam in Asia have found in recent years, business cannot so easily escape responsibility for the social and environmental side effects of their activities. In addition, society is increasingly turning to business models to find financially sustainable ways to provide public goods, from education to water to environmental protection.

The new equation

The single-minded pursuit of short-term profit maximisation now lies discredited with the advent and persistence of the Great Recession. Although this time it was a Western-based disaster, Asia has been an equal partner to the relentless pursuit of profit—the 1997 economic crisis served as a costly reminder of unbalanced and unstable growth via single-minded pursuit of profits without much thought to the wider economic, environmental, and social development process. Now, both Asia and the West are experimenting with new equations for capitalism.

In the West, some of the experiments date back decades, with codes of corporate conduct that attempted to achieve on a voluntary basis what governments were failing to require legally. Driven primarily by the demands and effective pressure tactics of civil society organisations, codes have appeared everywhere: the Sullivan Principles to set standards for fair labour practices by western multinationals in the apartheid era of South Africa; the numerous codes to improve labour and environmental practices throughout the global supply chains of MNCs; the Equator Principles to set social and environmental standards for banks to use in determining which projects they will fund; the U.N.'s Principles on Business and Human Rights that provide guidance for firms as to how they should go about respecting human rights and avoiding complicity in violations of those rights; and many, many more.

Although for the most part firms have been pushed into adopting such codes and practices, some have put themselves out in front. Unilever's Sustainable Living Plan, adopted in 2010, has publicly established very ambitious goals for transforming the company's operations, based on the view that the profits of the future will not come from the practices of the past. Not incidentally, the company no longer provides quarterly earnings guidance, freeing itself from the worst of the casino-capitalist mentality. City Development Limited (CDL) of Singapore proudly notes its inclusion in several of the world's top sustainability benchmarks: FTSE4 Good Index Series (since 2002), the Global 100 Most Sustainable Corporations in the World (every year since 2010) and the Dow Jones Sustainability Indexes (World & Asia Pacific – since 2011).

The 1997 economic crisis served as a costly reminder of unbalanced and unstable growth via single-minded pursuit of profits without much thought to the wider economic, environmental, and social development process.

As the CDL example suggests, stock exchanges can be powerful mechanisms for holding business to higher standards of governance, operational accountability and disclosure, thus creating institutional structures for oversight that governments lack. In several Asian countries, stock exchanges are demanding such standards at the outset in their listing requirements by mandating disclosure on corporate governance, independent directors, and ESG reporting.

Collaborating for success

Individual businesses have found, however, that leadership is lonely and requires new kinds of partnerships. As they in the private sector try to grapple with taking on roles that traditionally had fallen to the public and people sectors, they find that they must work closely with those other sectors to figure out what to do and how to do it. Unilever has reached out to Oxfam to conduct public and critical assessments of such matters as Unilever's impacts on poverty in Indonesia and labour practices in Vietnam. Codes of conduct and other experiments in new business practices usually involve a plethora of stakeholders, from NGOs to community groups to local and national governments.

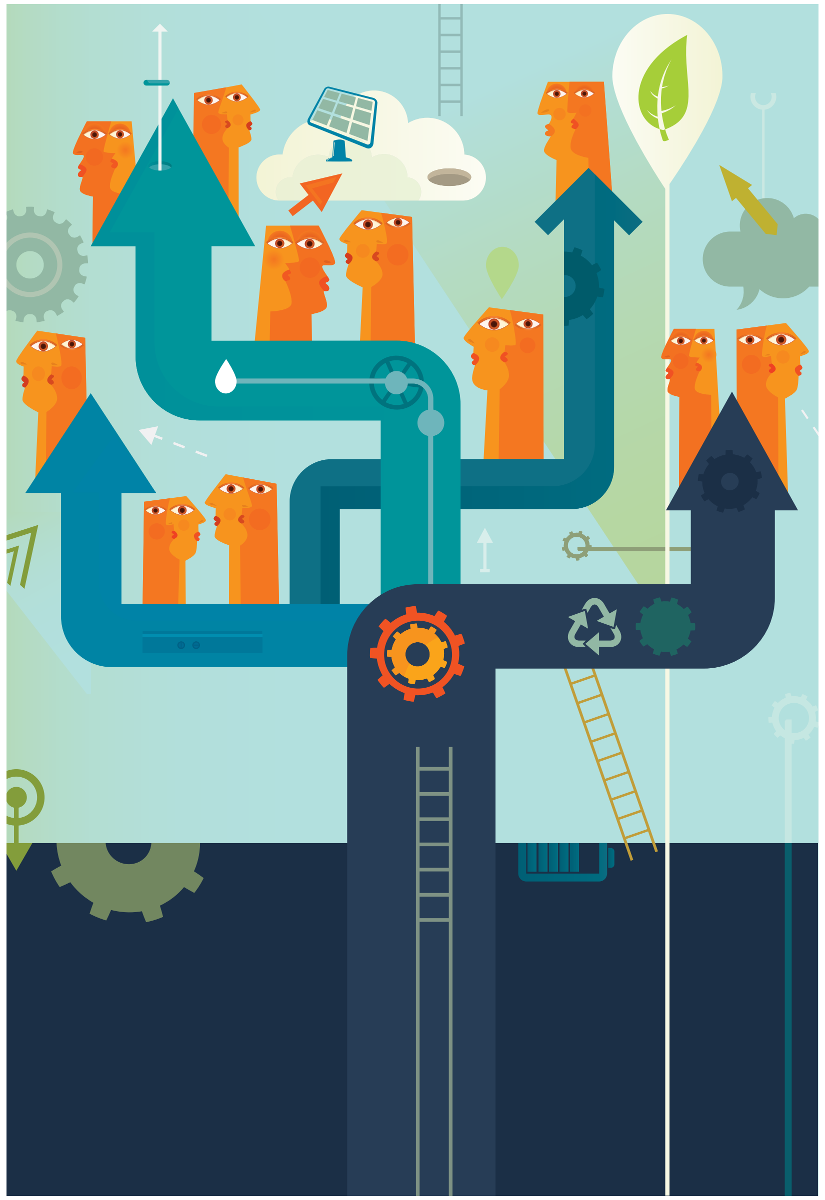
Such collaboration across the three sectors is essential. If we leave it to business to regulate and transform itself, market forces may drive even the best of intentions to socially sub-optimal outcomes. But we cannot rely solely on government, which often lacks the knowledge, institutional forms and capacity to respond quickly to complex challenges, even leaving aside the problems of corruption. Civil society organisations are the means by which voices are heard, but by itself the sector has too little power – it can only persuade or influence the other two sectors. Although the revolutions in communication technology and social media may be transforming civil society's capacity to influence and insert itself into the decision-making process, the sector is rarely properly organised to manage representation at the table. Only together can today's non-linear, dynamic, interactive and fast-paced challenges be met.

Only together can today's non-linear, dynamic, interactive and fast-paced challenges be met.

Ideally, these are mutually collaborative partnerships between partners of equal standing, but partners' respective development is mixed in Asia. Civil society organisations are growing, but in certain constrained ways. Elsewhere, SOEs and family-owned businesses operating with differing priorities can also dominate the markets. This is a critical issue. These companies enjoy the freedom to determine their priorities without worrying about the demands of shareholders seeking short-term profits, but it is also more difficult for civil society actors to influence firms' policy. How do you get the attention of a state-owned enterprise or a family-owned business?

Values for the future

The explosion of experiments in new business and governance practices offers hope for a world trying to find ways to provide for the material well-being of a global population heading toward nine billion, while facing major shortfalls of readily available water, land, and energy, and dealing with the destabilising impacts of technologies from social media to 3D printing. Yet without a truly coherent global debate over the roles of business vis-à-vis government and society, this hopeful moment could simply result in a cacophony of uncoordinated efforts that fail to add up to anything that can truly address the world's great challenges. Beyond the new training and new mindsets needed for tri-sector collaboration, we also need a global debate about what values should underlie a reinvigorated and responsible capitalism of the future.



This is a debate to which Asia has much to contribute. For example, in Thailand, the 1997 financial crisis prompted the King to put forth the "sufficiency economy philosophy" emphasising the optimisation of profits, balancing the social, environmental and other stakeholder interests as against maximising profits at the expense of all. The sufficiency economy construct sets the bar for new thinking in redefining the relationship across sectors, with the government's goals going beyond GDP growth to pursue the reduction of poverty and social inequality, developing indicators to capture wellbeing and happiness. The increasingly obvious costs of China's mad dash for economic growth led President Hu Jintao to call in 2005 for a "harmonious society" that would incorporate social and environmental ends into the developmental strategy. Almost immediately, new guiding principles and regulations began to issue from China's governing institutions. Events soon crystallised public attention, in the form of the 2008 Sichuan earthquake and the Sanlu milk scandal, both of which put product quality and the ethical/moral compass of business in the spotlight.

> We also need a global debate about what values should underlie a reinvigorated and responsible capitalism of the future.

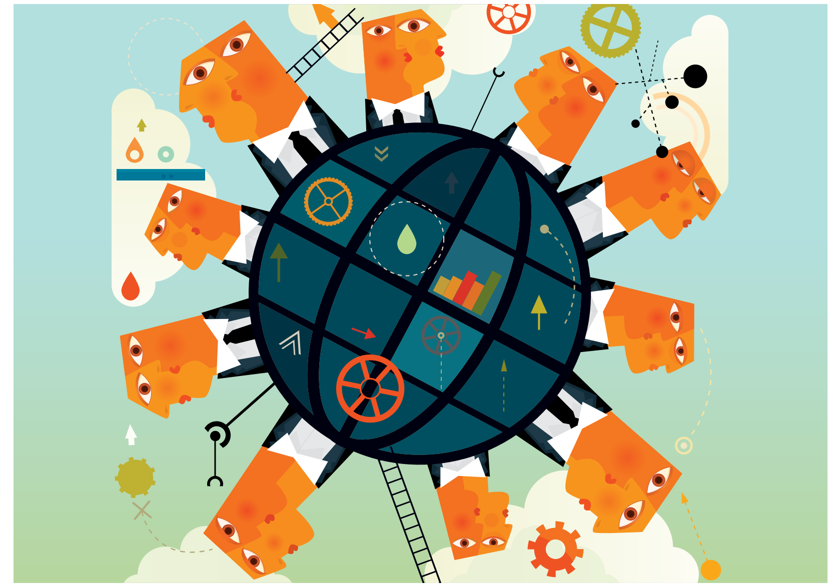
What next?

Globalisation, the intense competition for limited global resources and the continued financial crisis are moving the discourse on the "new capitalism" front and centre in all sectors–civil society, governments and the business community itself. The West is where most of the conversation has been happening, focused largely around ever-expanding ideas of corporate social responsibility. But Asia may be where the question of "what next" finds its most compelling answers.

Asia is no stranger to close collaboration between business and government. Japan, Korea, and the "tiger" economies (Hong Kong, South Korea, Singapore and Taiwan) enjoyed tremendous growth through such partnering. The early 1990s saw newly industrialising economies (Indonesia, Malaysia and Thailand) emerge, each with its own variant of cross-sector partnerships. State-owned enterprises and sovereign wealth funds remain notable features of the region.

But those earlier partnerships generally excluded the crucial third partner–civil society. And they aimed at addressing mostly local problems without much connection to the wider world, except insofar as that wider world provided useful trade and financing systems. Now, Asian businesses, governments, and civil society organisations have both motive and opportunity to think and act bigger.

Already, Asia abounds in successful experiments in "social enterprises" that combine profit-seeking with social/environmental goals, such as Grameen Bank and BRAC in Bangladesh, the Self-Employed Women's Association (SEWA) in India, and the Population and Community Development Association in Thailand. Many of Asia's social enterprises started as non-profit ventures and are now operating in the business space. These initiatives transcend current parochial business practices and have perhaps



established the ethos of responsible social enterprises still to come. Today's emergent social enterprise may become tomorrow's leading corporation, especially as governments develop the legal and regulatory systems that enable and perhaps even favor such practices.

Now may be the time to combine the thinking behind tri-sector collaboration and social enterprise with a global goal-setting process that is happening under the aegis of the U.N. In 2000, the world's governments collectively agreed upon a set of Millennium Development Goals, concrete targets in such areas as poverty reduction, health, and education to be achieved around the world by 2015. As we approach that deadline, the poverty goal (which specifically aimed to halve, between 1990 and 2015, the proportion of people whose income is less than the international absolute poverty line of US$1.25 a day) has already been achieved. That stunning accomplishment represents the kind of achievement any business, government, or NGO could be proud to help to bring about. (Other MDG targets, particularly on such issues as maternal health and child mortality, will not be met despite some progress.)

Because 2015 is nearly upon us, an international debate is raging about what goals should come next. A leading candidate is the elimination of extreme poverty by 2030, a very challenging goal, especially as it must be coupled with the need to make industrial systems and land use practices sustainable in a world already severely threatened by climate change and ecosystem collapse. There is wide agreement that whatever the goals are, they should be accompanied by concrete and specific implementation plans. Those plans can and must involve not only governments and the plethora of NGOs active in development. They can and must involve business and the new capitalism. We must incorporate the private sector's genius at efficient resource use and innovation to have any hope of achieving such goals. That requires a new and better kind of capitalism.

Ann Florini

is professor of Public Policy, School of Social Sciences, Singapore Management University; academic director of the SMU Masters in Tri-Sector Collaboration, and non-resident senior fellow, Brookings Institution

Bindu Sharma

heads the Asia office of the International Centre for Missing and Exploited Children, a global NGO headquartered in the U.S.; author of Contextualising CSR in Asia, a Lien Centre for Social Innovation, Singapore Management University publication; and on the Advisory Council of the International Centre for Not-for-Profit Law in Washington D.C.