INCLUSIVE CAPITALISM
THE PATHWAY TO ACTION

Thoughts from the 2015 Conference on Inclusive Capitalism

London, 26 June 2015

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Edited by

Diana Fox Carney

COALITION FOR
INCLUSIVE
CAPITALISM

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Part II: Submissions from Conference Participants

In this part of the book we present the thoughts of those who attended the 2015 Conference on Inclusive Capitalism (together with a few selected guest authors).

Participants were asked to submit a few paragraphs outlining their response to one of the three following questions:

1. What does 'inclusive capitalism' mean to you?

2. What single action do you think would make the biggest difference to achieving a more inclusive capitalism?

3. What is the main barrier to achieving inclusive capitalism?

Importantly, submissions were prepared before the Conference took place and, as such, provide a baseline of thought upon which to build.

The answers cover a wide range of topics, as you will see when you read the following three sections. Nevertheless it is clear that there is a good deal of commonality of thought; certain words and themes echo throughout. This implies that we already share an understanding of what we are trying to achieve and how we might get there.

Happily, only a handful of people chose to highlight barriers to achieving inclusive capitalism, meaning that the submissions, together, are imbued with a sense of optimism and purpose. They represent the start of a practical agenda for action.

Authors' contributions are organised according to the question selected – where answers spanned more than one question I exercised my editorial discretion in determining how to place them. Where relevant I have grouped the responses according to theme within each section: apart from that, the order of submissions is quite random!

Thank you, again, to all who took the time to contribute.

Diana Fox Carney
Institute for Public Policy Research (IPPR)
Coalition for Inclusive Capitalism

Question 2: Achieving inclusive capitalism

This was the question chosen by the plurality of authors: encouragingly most people are willing and able to identify what they believe to be the most promising pathway to achieving inclusive capitalism. And, fortunately, as with the answers to question 1, there are clearly discernible themes. Moreover, many of the actions described relate directly to the meaning of inclusive capitalism outlined in the previous section. What becomes apparent is that we are able to identify both where we are headed and how we are to get there.

The scope of the submissions varies widely. Some authors adhere very tightly to the question and propose a single action that they believe would make the greatest difference (e.g. Lionel Barber calls for “meaningful reform of executive pay”, Johan Andresen calls on us to “halt corruption” while others calls for mandatory changes to boards to include workers (Frances O’Grady) and Millenials (Emerson Csorba)). Other submissions are much broader: they propose a package of measures or a general approach (such as embracing integrated thinking, defining a business purpose or investing for the long term).

It is impossible to summarise and categorise over fifty submissions in this short introduction, but the following are some of the key action areas that emerge.

- **Supporting people, pay and progression -** This is a clear priority for inclusive capitalism; it is in many ways the essence of inclusivity. Practical suggestions relate to pay (including paying a living wage – David Nish) and using existing data to better understand and address the reasons why some employees fail to progress (Charlie Mayfield). Roger Martin proposes restructuring work so that there is much more creativity and self-determination within jobs, and Katherine Garrett-Cox stresses the importance of education and in-work skill development.

  Other aspects of our foundational education system that could be changed to promote a more inclusive economic system include educating young people – within the school system – about the nature of global finance (Evelyn de Rothschild) as well as about the transformational power of technology (Vishal Sikka). Herman Daems, on the other hand, thinks we need to go much farther than this: that general education and training is insufficient and that we need to be much more deliberate in finding ways to turn “outsiders” into “insiders”, something that would certainly resonate with Gillian Tett, who urges the widest possible participation in markets.

- **Investing for the long term and active ownership** - These have been recurrent themes of the inclusive capitalism movement since the outset. This is not surprising, given the strong representation of investors at the Conference (and in this book); it is natural that authors should highlight the importance of behaviour change in their own industry. For some, such as Philipp Hildebrand, there are questions around fiduciary duty and whether this prevents or necessitates more 'inclusive investment'. This is an unresolved issue but the consensus seems to be shifting towards a belief that it is possible to both 'do well and do good'. Similarly, three authors in the collection – Elroy Dimson, Jagdeep Bachher and Dominic Barton – argue in favour of active ownership, rather than divestment as the most effective strategy for achieving change.

- **Promoting sustainability** - One reason why we need to invest for the long term and to be vocal owners is to promote the interests of the planet. Pascal Blanqué and Melody Barnes/Marland Buckner make explicit the link between people and the environment (ecosystem services and climate change) while Nick Robins outlines ways to ensure that the overall financial system promotes – and underwrites – sustainability. Mats Andersson points out that progress is being made, that "decarbonisation on a significant scale is feasible now". Jeroen van der Veer, on an extremely practical note, suggests that financial performance should dictate only 50% of remuneration, with the remaining 50% to be determined according to success around "people and planet" objectives.

- **Other changes to the way companies operate** - Proposals here include more integrated thinking and the incorporation of environmental, social and governance (ESG) measures into corporate practice (Lynn Forester de Rothschild, Bob Eccles and Jessica Fries), more "co-creation" (Jesper Nygård), increasing workforce diversity (the Lord Mayor of London), developing an "ownership culture" within companies (Joe Kaeser) and, critically, taking greater responsibility for entire supply chains (Paul Polman). Overall there is a need for business leaders to "reimagine their roles" to regain trust (Richard Edelman).

  Another essential – and highly visible – piece of the puzzle is that companies must pay their fair share of taxes, a point made by several authors including, emphatically, by Herman Daems, Simon Collins, Sharan Burrow and Yan Hao from China.

Reading the more than fifty submissions in this section, we are reminded how much there is to be done. But we also begin to appreciate how much we already know about what we **should** be doing.

Contributors in alphabetical order

(continued overleaf)

Sir Charlie Mayfield

Chairman, *John Lewis Partnership*
Chair, *UK Commission on Employment and Skills*

In the last year we've seen predictions of inexorable inequality on the one hand, and the eternal optimism of technology on the other. Between the two I've been reminded of what Field Marshall Montgomery once said, that 'things are never as good, or as bad, as the first reports of excited men'.

The reality is that capitalism will end up somewhere between these extremes, and what most economists agree is that productivity will determine where it falls and how inclusive it will be. But, while productivity is compelling conceptually, you have to get intensely practical to make it happen.

> Inclusive capitalism is about people getting in and on, in work.

Fortunately there are practical things that can advance productivity and extend inclusive capitalism. Inclusive capitalism is about people getting in and on, in work. That's something that is espoused freely by business leaders and advocates for the role of business in society. And of course for many it's true, but for some, it's more fairytale than reality. When it comes to pay and progression, averages really are awful. Recently we analysed the individual pay progression, over 7 years, for 90,000 Partners (as all our staff are known). We found that many progressed quickly. But a minority did not. We asked why? And because we now know the answers, we're tackling them, rigorously. Productivity will rise and so will pay.

> Data on pay and progression exist in every company, but are rarely visible at board level.

Campaigners against inequality have a point. In some areas pay is low and has stayed low. And yet it's an inescapable fact that productivity and pay go hand in hand. You have to tackle both. Data on pay and progression exist in every company, but are rarely visible at board level. That is in stark contrast with the time and attention devoted by Remuneration Committees to senior pay.

If inclusive capitalism is about the majority getting in and on in work, shouldn't we be applying data analytics, that are already commonplace within our companies, to establish whether we are making progress? It is perfectly possible to define goals for progression and pay for the majority of employees. Insight drives action, after all.

Lionel Barber

Editor
Financial Times

As editor of the *Financial Times*, I represent a global news organisation that is committed to competition, open markets and, yes, capitalism. For capitalism to thrive, it must enjoy broad popular support. Capitalism's benefits must not be confined to the privileged few.

The single biggest action to achieve a more inclusive capitalism would be meaningful reform of executive pay. Of course, company leaders deserve to be rewarded for stressful, high-profile work and the creation of shareholder value. But executive pay has not, overall, been matched by company performance, particularly in the US. This is no longer tolerable when middle income earners are being squeezed and life at the lower end of the labour market is precarious. Remuneration packages, including salaries and shares, need to be simpler, more modest and geared to long-term performance.

The world economy is awash with capital and labour. This creates serious challenges for a capitalism which aims to be inclusive, especially at a time of dramatic technological upheaval. The free movement of capital, goods and people has helped to raise living standards in the developing world. Technology has made people's lives easier and more productive in the advanced economies. But the powerful forces driving globalisation have heightened economic insecurity and increased inequality. The barriers to achieving a more inclusive capitalism remain formidable.

This is hardly the place to offer detailed policy prescriptions to achieve change. Arguably, capitalism would command greater support among the public if companies were seen to be paying a fairer share of tax on their profits rather than engaging in obscure transfer pricing in multiple jurisdictions and tax havens. The defence that companies are merely following the letter of the law is justified but hardly sufficient. Even in a globalised world, companies cannot pretend to be footloose entities with no roots in the community. Their responsibilities extend beyond the bottom line.

> “The single biggest action to achieve a more inclusive capitalism would be meaningful reform of executive pay.

A few symbolic moves would help to show that capitalism's leaders inhabit the same world as everyone else. Warren Buffett and Bill Gates have done so with their Giving Pledge regarding their current philanthropic contributions and the future disposal of most of their personal wealth to charitable causes. Company leaders in general need to think much more deeply about the effect of their own personal actions on capitalism's reputation. No system has brought as much prosperity to humankind over the last few centuries. Inclusive capitalism is not a act of generosity. It is a matter of profound self-interest.

Roger Martin

Academic Director

Martin Prosperity Institute, Rotman School of Management, University of Toronto

For the past quarter century, capitalism in the advanced economies has moved forward in an impressive but not inclusive fashion. The winners are clear. First, it is industries that trade outside of their own local area, such as pharmaceuticals or software. These innovate and upgrade in order to compete broadly and achieve large scale. They have prospered relative to dispersed industries, such as local banking or healthcare provision, that don't trade outside their own area. Second, it is workers who are asked to use their creativity to engage in independent judgment and decision-making at work. Such workers have high job security and have experienced healthy wage growth. This is in stark comparison to those who are asked to carry out routine-intensive, repetitive tasks who not only feel intense wage pressure but also have little or no job security.

In combination, the very biggest winners are creative workers in traded industries. This fortunate 13.9% of the American workforce earns a 78.5% premium over the national average – a premium that has grown smartly from 74.0% in 2000. At the other end of the scale are routine workers in local industries. They make up by far the biggest category of U.S. employment at 44.8% of workers. Their wages are low and falling further behind: in 2000, they earned 31.7% less than the U.S. national average and by 2014 the gap had widened to 36.8%. Capitalism gives the former group a warm and lucrative embrace while the latter gets the cold shoulder.

> In order to produce a more broadly inclusive capitalism, we need to see a transformation in how work is structured and valued.

In order to produce a more broadly inclusive capitalism, we need to see a transformation in how work is structured and valued. The economy can't depend solely on the slow substitution of creative jobs for routine jobs. The creative content of routine jobs must be enhanced.

Currently, there is a self-fulfilling prophecy in the routine sector of the economy. If employers discourage or prohibit independent judgment and decision-making, jobs become and remain routine jobs where low pay is commensurate with the low ability of the employee to create value in these conditions. These low-paid, low-skill jobs then cannot attract the kind of applicant that would have the skills to upgrade the job, setting in motion a vicious cycle.

> “ . . . history shows that leading companies have won in their industries in part by encouraging independent judgment and decision-making from employees . . .

If instead, employers purposefully create workplace environments that promote employee judgment and decision-making, even seemingly routine jobs can and will become more creativity-intensive. This, in turn, will improve productivity and enable the employer to pay higher wages. Ultimately, it will attract better talent to these positions, creating a virtuous circle.

In this way, the creativity-intensity of routine jobs will increase and indeed hasten the replacement of routine jobs with creative jobs. While there are undoubtedly those who would argue that this is impossible – believing that routine jobs will always be routine jobs – history shows that leading companies have won in their industries in part by encouraging independent judgment and decision-making from employees who would be seen and treated as routine workers in competitor companies.

Take Toyota, Four Seasons, QuikTrip, Trader Joes, Whole Foods and Costco. These companies have made it a central feature of their strategies to provide workers with more decision-making authority and more opportunities to display independent judgment. They have also paid commensurately higher wages. The result is a virtuous circle of higher wages, higher sales, lower employee turnover, superior customer service, improved productivity, and striking competitive success. This is the fastest and most productive way forward for the U.S. economy: the transformation of a routine-intensive exclusionary economy into a more inclusive, creativity-intensive one.

Katherine Garrett-Cox CBE

Chief Executive

Alliance Trust plc

For me, inclusive capitalism is about promoting true prosperity – it's about everyday life, education, health and well-being, as well as delivering the promise of a better quality of life in the future.

I believe that we are facing a paradigm shift in how we define and measure success and prosperity, both at an individual and at a societal level. This is particularly true for the younger generation. In a Deloitte survey 92% of employees born after 1981 stated their belief that business success should be measured by more than profit.

We simply can't ignore the role that we, the leaders of business, play both in increasing national prosperity and in contributing to the personal development of those around us. I strongly believe that in order to make prosperity a reality for all, we need to move away from pure economic measures, towards a broader focus on education, health, social capital, entrepreneurship, innovation, personal freedom and overall well-being. This will yield a far more sustainable and fulfilling financial future.

For me, education is the fundamental building block of prosperity. A business is only as good as the people within it, so developing the workforce equates to building competitive advantage. An educated workforce is an empowered workforce. But I am also concerned with the broader population: high quality education that starts early enables individuals to develop and fulfil their potential. This results not only in individual success but also benefits businesses, future generations and society as a whole.

> Profit and purpose are a powerful combination: to earn the right to a more prosperous future, we must show that we are socially useful today.

At Alliance Trust, training and development have always been deeply embedded in our culture, but these priorities have been a particular and inspiring focus for me personally. It‘s critically important to equip our people with the skills that they need to thrive today, but also to anticipate the skills and capabilities that will be required tomorrow.

Innovation should be the beating heart of any company: it keeps you relevant, strong and competitive. We have set up and support an internal innovation forum, a group of some of our best and brightest talent, and we support young people to engage with a number of initiatives both inside and outside the company (notable amongst these is our digital strategy group that draws on the talent of our younger employees to develop exciting new ways to engage with our customers).

There is strong synergy between the internal and the external. At a societal level, we collaborate with local schools to support financial education and have set up our own online education hub. During the first year we attracted over 100,000 unique visitors to the site, evidence there is a growing need for support and advice. Our aim is to educate and inform people about saving and investing, such that we can empower individuals to plan for a more prosperous future.

We believe that this is a key way in which the financial services sector can be a genuine force for good. And we believe that by getting involved in these areas we are building a happier and more fulfilled workforce, where every member of the team wants to make a lasting impact - this is what inclusive capitalism is all about.

> We simply can't ignore the role that we, the leaders of business, play both in increasing national prosperity and in contributing to the personal development of those around us.

Profit and purpose are a powerful combination: to earn the right to a more prosperous future, we must show that we are socially useful today. The future is bright for those organisations that not only talk about change, but truly lead by example.

Raghuram Rajan

Governor
Reserve Bank of India

Democracy and free enterprise are usually found together – it is hard to think of any flourishing democracy that is not a market economy. Moreover, while a number of autocratic economies have embraced free enterprise, it seems to be only a matter of time before they are forced to become more democratic.

Yet it is not clear *a priori* why democracy and free enterprise should be mutually supportive. After all, democracy treats individuals as equal, with every adult getting an equal vote, whereas free enterprise empowers individuals based on how much economic value they create and how much property they own.

What then prevents the median voter in a democracy from voting to dispossess the rich and successful? And why do the latter not try to erode the political rights of the former?

One reason that the median voter rationally agrees to protect the property of the rich may be that she sees the rich as more efficient managers of that property. So, to the extent that the rich are self-made, and have come out winners in a competitive, fair, and transparent market, society may be better off allowing them to own and manage their wealth, and getting a reasonable share as taxes. The more, however, that the rich are seen as idle or crooked – as having simply inherited or, worse, gained their wealth nefariously – the more the median voter should be willing to vote for tough regulations and punitive taxes on them.

In some countries today, for example, property rights do not enjoy widespread popular support, because so many of the country's fabulously wealthy oligarchs are seen as having acquired their wealth through dubious means. They grew rich because they managed the system, not because they managed their businesses well. When the government goes after a rich oligarch, few voices are raised in protest. And, as the rich kowtow to the authorities to protect their wealth, a strong check on official arbitrariness disappears. Government is free to become more autocratic.

In contrast, under conditions of fair, transparent competition, the process of creative destruction tends to pull down badly managed or inherited wealth, replacing it with new and dynamic wealth. Instead of great inequality, built up over generations causing great popular resentment, there is greater mobility: everyone can dream that they, too, will become rich.

When such aspirations seem plausible, the system gains added democratic support. The rich, confident of popular legitimacy, can then use the independence that accompanies wealth to limit arbitrary government and protect democracy. Free enterprise and democracy sustain each other.

All this suggests that there are deeper reasons for why democratic systems support property rights and enterprise than the cynical argument that votes and legislators can be bought, and the capitalists have the money. The cynics can only be right for a while. Ultimately, a capitalist system that does not enjoy popular support loses any vestige of either democracy or free enterprise.

“To restore legitimacy and support for the system, industrial economies have to restore opportunity to the middle class, by working hard on improving education and helping create the support structures that allow people to train for, obtain, and hold on to good jobs.

There are two important challenges to the legitimacy of capitalism in the advanced countries today. First, the system no longer seems to provide equal opportunity to all. The recent crisis has raised questions about how at least one segment of business – the bankers – makes its money. The suggestion is that sharp or even illegal practices, and implicit government support, rather than customer value, have been the primary source of banker fortunes. At the same time, the prospect of riches seems to be slipping out of reach for many in the middle class, in part because a good education, which increasingly seems to be the passport to prosperity, is unaffordable. All this erodes support for the free-enterprise system.

A second big challenge, however, is the coming selective enforcement of property rights. In the prosperous 1960s, advanced economies bought social cohesion by making extravagant promises to their people on pensions and healthcare. Subsequent slower growth, exacerbated by the recent crisis, and followed by bank bailouts, have raised the level of public debt substantially. Adding up all government promises, they are unaffordable in a number of industrial countries. Because governments need to borrow, they will try to renegotiate their longer-term pension and healthcare commitments, even while continuing to service debt.

Again, the appearance that the claims of rich investors (who are typically more directly and heavily invested in bonds, as also earlier invested in bank claims) are being favored at the expense of those of the wider public (for whom pension and healthcare claims form a larger portion of their assets) cannot but erode support for property rights.

To restore legitimacy and support for the system, industrial economies have to restore opportunity to the middle class, by working hard on improving education and helping create the support structures that allow people to train for, obtain, and hold on to good jobs. They also have to explain why some government promises are more equal than others, and why it is not just the plutocrats who benefit. These are not easy tasks but they are essential if they want to remain functioning market democracies.

These comments are from the 2012 Wincott Lecture delivered by the author.

Will Hutton

Principal, *Hertford College Oxford*
Chair, *Big Innovation Centre*

I'm with Bill Clinton. 'Inclusive capitalism' and 'stakeholder capitalism' are interchangeable terms.

> “ . . . firms should incorporate around a declaration of business purpose – just as they used to until the late nineteenth century – and non-executive directors should hold directors to account for the delivery of the purpose.

Capitalism functions best when companies – driven forward by owners and managers – unite to achieve a great purpose, such as meeting a human need or solving a pervasive problem, and in so doing make money. This is in contrast to enterprises for which profit-seeking is the sole objective.

For purpose-driven companies, employees and the supply chain become part of the wider project. And customers come to trust the goods and services they buy because they are delivered by a company that is striving to serve this larger purpose. Innovation, business integrity and workforce commitment all follow. Purpose unites the entire network that creates the good or service.

There is no single magic bullet that will produce this result. However, there are certain preconditions: firms should incorporate around a declaration of business purpose – just as they used to until the late nineteenth century – and non-executive directors should hold directors to account for the delivery of the purpose.

The single biggest barrier to any of this happening is the attitude of owners, in particular global asset management groups that, by defining themselves as passive, index-tracking investors, abdicate their ownership responsibilities. By default they become complicit in the doctrine that the purpose of a company is short-term shareholder value maximisation. Financial considerations and extravagant reward become overwhelmingly important and capitalism ends up as an amoral force for bad that devours and delegitimises itself.

Richard Edelman

President and CEO

Edelman

There is a crisis of leadership in both private and public sectors. The Edelman Trust Barometer 2015 confirmed a long-term trend of dispersion of authority away from traditional leaders such as Chief Executive Officers and elected officials. In fact, CEOs and elected officials rank at the very bottom on a list of credible spokespeople, with half of the trust accorded to academics, technical experts or even a person like yourself. This continues a long downward slide for CEO trust that began with the implosion of dot-com companies in 2000 and accelerated with the systemic crisis of 2008-9.

CEOs have taken exactly the wrong lesson from the crisis of five years ago, putting their heads down, focusing relentlessly on achieving the numbers, communicating only to investors. Participation in non-essential activities, from charities to advocacy on Capitol Hill, has diminished. The result is a self-fulfilling prophecy, where all success is short-term, tactical and financial, when in fact the real objective should be the long-term strategic positioning of the corporation.

The best CEOs are taking a different view, a commitment to solving societal problems while achieving top results for their corporations. Companies such as GE, Walmart, Starbucks and PepsiCo have recognized the efficiencies in sustainable supply chains. But in each case, their CEOs, Jeff Immelt, Doug McMillan, Howard Schultz and Indra Nooyi have gone far beyond, calling for business to lead, to take on issues of food security, climate change and equitable economic development. They do this through their convening power and economic might.

> The best CEOs are taking a different view, a commitment to solving societal problems while achieving top results for their corporations.

My former professor at Harvard Business School, John Kotter, has observed that management is not leadership. Leaders bring hope, vision, and progress. "Leadership is about vision, about people buying in, about empowerment and above all, about producing useful change," he wrote. "It is about tomorrow's possibilities." For inclusive capitalism to succeed, we need leaders in business to reimagine their roles, to regain public trust through action.

Arthur C. Brooks

President
American Enterprise Institute

I can still remember my first glimpse of real poverty. One day as a young boy I was flipping through *National Geographic* and came across a heartbreaking photo of a malnourished African child. He had flies on his face and a distended belly. I had never seen poverty like that before. Certainly, by today's standards, my childhood neighborhood in Seattle was working class. But compared to the condition of that young boy – who appeared to be about my age – our Seattle neighborhood seemed like Beverly Hills.

That image has been imprinted on my mind ever since. For decades, I would pause and wonder what happened to that boy. What happens to desperately poor people like him?

Many years and several graduate degrees in economics later, I know the answer. Desolate poverty still exists in our world, of course, but it has fallen dramatically since I was a kid. To be specific, the percentage of the world living on a dollar a day has fallen by an astonishing eighty percent since 1970. Let's put this in perspective. When I was a kid, more than one in four people around the world lived on a dollar per day or less. Today, that fraction has fallen to just about one in twenty. Without a doubt, this is one of the greatest humanitarian victories in the history of mankind.

What brought this miracle about? It wasn't primarily US foreign aid, the brilliant insights of technicians at the International Monetary Fund, or expansive government redistribution. It was the five pillars of free enterprise: globalization, free trade, property rights, the rule of law, and entrepreneurship.

> “. . . I offer one recommendation. I challenge everyone to undertake an examination of conscience.

But paradoxically, while American values have done so much to combat poverty around the world, we Americans have less reason to celebrate. To be sure, poor Americans have made some advances since the 1970s. In absolute terms, of course, poor Americans have higher standards of living than poor people in the developing world. But when we benchmark our relative success in defeating poverty, our progress has been utterly substandard. While free enterprise has been lifting people up around the globe, the poverty rate in the United States remains virtually unchanged. Life in poverty here has become less miserable, but it has not become meaningfully more escapable.

Consider the current state of the American economy. On paper, it seems clear that the economy is recovering, slowly but surely, from the financial crisis and subsequent recession.

But we know that most of the recovery was driven by a surge in capital markets. And since the top ten percent of the income distribution owns four-fifths of all stocks and mutual funds, this 'recovery' almost exclusively benefited wealthy Americans. Meanwhile, the number of Americans on food stamps – a reasonably good rough metric for the proportion of the country at or around subsistence – has increased from 33 million to 47 million since 2009.

What's going on here? Has capitalism run its course? Has it morphed into simply being a tool for the wealthy to build their fortunes? Is it now incapable of lifting up the masses?

The amazing record of free enterprise plainly rejects this interpretation. Declining opportunity and stagnant mobility for our most vulnerable brothers and sisters do not reflect an excess of competitive capitalism, but rather a drought of free enterprise where it is needed most. Democratic capitalism done right is the greatest force for opportunity in the history of our species. Our calling is not to clamp down on it and minimize it, but rather to expand it, thereby making capitalism more inclusive and more available for those who are being left behind.

How can we accomplish this? How can we promote free enterprise for those who need it the most? As the president of a think tank, I can tell you firsthand that countless exceptional scholars within our movement are inventing and refining fantastic policy ideas to advance free enterprise and make it more inclusive. I lack the time and the space to list them all here. But, with humility, I offer one recommendation. I challenge everyone to undertake an examination of conscience. Every night, as you put aside your tasks and reflect back on the day, ask yourself: "Has all of my work today benefitted those with less power than me?"

If we advocates of free enterprise cannot honestly answer "yes," then we have a great deal of soul-searching to do. But if we can, then let us fight on all the more boldly. Many in the world are desperately hungry for the fruits of inclusive capitalism. They deserve lives rich with the meaning and deep satisfaction that only earned success can bring.

They need us to accept this challenge.

Simon Collins

UK Chairman and Senior Partner
KPMG LLP

Capitalism has triumphed in the intellectual and practical debate: every other system has been broadly discredited. Within a capitalist system, wealth is created, innovation is fuelled and everyone can benefit. Except that there is an increasingly uneasy feeling about just who is benefiting, in what proportion and at what cost to society.

Massive global shifts make this harder to analyse; the world's manufacturing and consumer base has shifted east, technology has replaced swathes of jobs and capital is much less important than ideas. Within developed countries, these trends are driving a need to shift economies towards new knowledge and skills, and to focus on productivity gains. All of this at a time when there is an ever-louder clamour for social justice.

As a generation of political, business and social leaders we need to defend capitalism – not by attempting to justify its less desirable outcomes, but by harnessing its unique abilities to drive greater overall benefit to society. To do that credibly requires a deliberate programme of change.

First, I believe, we have to demonstrate conduct that shows why business is good for the communities in which we operate. Obviously that means that we should not cause outright harm: we must put an end to environmental damage, egregious tax avoidance and mis-selling scandals. But we also need more positive action, particularly in the context of the big global trends outlined above. We need to create jobs with greater dignity and prospects for advancement. We need an approach to supply chain management and sourcing that weighs sustainability alongside cost. And we need to demonstrate a more inclusive approach to an increasingly diverse working population.

Good business is good for business. It results in the right relationship between business and society. That's what inclusive capitalism means to me.

A necessary enabler for this change is a drive by investors to reward good business. That is not achieved by a box-ticking focus on governance, nor by obsessing about quarterly financial metrics, but by a shift towards measuring longer-term business performance and wider social impact.

Governments must play their part too, through consistent rather than competitive behaviours around international tax, financial regulation and trade agreements.

We are all implicated and we must all act, deliberately and with urgency – because inclusive capitalism is, in the final instance, the only defensible form of capitalism.

David Nish

Chief Executive
Standard Life plc

For me, the key to making capitalism work for everyone lies in ensuring that people from all backgrounds have better and more equal chances to access sustainable employment and secure jobs that pay a living wage.

Evidence shows that paying a living wage is good for business as it increases employee engagement, retention and productivity. Being able to earn enough both to get by day-to-day and also, importantly, to save, invest and plan for the future, is crucial.

Beyond this, businesses need to adopt more sustainable approaches to building and developing their activities, placing a key focus on enabling their customers, employees and communities to advance their ambitions and contribute to building a stronger and more inclusive society.

Private and public sectors should work closely together to ensure that young people are helped to obtain the right skills to make a successful transition to work, and that groups that currently face additional barriers, such as the disabled or ethnic minorities, are able to overcome those barriers.

Once in sustainable, well-paid work, automatic enrolment in workplace pension schemes can help people to save from their first job through to later life. Paying a living wage is an absolute requirement for automatic enrolment in pension schemes to work. If people do not earn sufficient wages, they will opt out rather than remaining invested and continuously increase their savings.

> . . . paying a living wage is good for business as it increases employee engagement, retention and productivity.

Asset managers and pension funds then have a duty to invest the money from workplace schemes responsibly. Done right, this creates a virtuous circle in which investment supports society to deliver meaningful growth and jobs, which, in turn, generates more investment.

Dr. Vishal Sikka

CEO and Managing Director
Infosys

Technology as the enabler and amplifier of our uniquely human abilities

The single action that I believe will make capitalism more inclusive is to embrace, rather than fear, extreme advances in technology – in particular, advances in areas such as automation and artificial intelligence.

This might seem counterintuitive: I often hear questions about these advances creating a larger gap between skilled and unskilled workers or taking jobs away entirely. But the strength of inclusive capitalism is that it recognizes resources and potential beyond those that we traditionally consider (namely capital, raw materials and machines) to enable focus on the things that make us uniquely human.

Our most valuable future resource actually lies within us – our passion, creativity and imagination. Only when we open our minds into new areas will we solve the greatest challenges of our time, developing peaceful societies, improving the health of all, creating environments in which all children thrive, enabling stronger connections between us – which ultimately drive our feeling of being responsible for one another.

These notions, and the things we need to achieve them, are uniquely human capabilities. We can leave the mundane and routine tasks to artificial intelligence and automation, freeing us to pursue new ideas, new societies, new ways of connecting with each other – the important things, the things no computer program will ever achieve. Embracing technology is precisely what I believe will unleash this human potential.

> “Our most valuable future resource actually lies within us – our passion, creativity and imagination.

At the same time, I understand the fears. Digital technologies, such as artificial intelligence have their risks – privacy protection and cyber security are pressing issues that need to be tackled by the public and private sectors. And technology, if it is to become an amplifier of our human potential, needs to be accessible to everyone. This will only happen if all people are in a position to exploit and benefit from the incredible opportunities of technology.

I believe we can solve these issues – fear, access, knowledge – in two ways. The first is by focusing on lifelong learning, satisfying people's continual hunger to develop, rather than focusing only on formal education systems. Such systems barely scratch the surface of our potential to learn and often fail to encourage or foster that which makes us human, such as a desire to explore. Learning brings deep understanding, and with that we can see the potential in all of us, the potential to use technology as an amplifier.

The second is formal education, which must be transformed. There is little disagreement that we must change our education systems and challenge our assumptions around education, but there is much disagreement about how best to do this. I believe a simple but significant thing we can change in the education system is to include computer science as part of the core curriculum.

This would give everyone access to fundamental knowledge and skills, removing the elitism around technology and enabling us all to be part of the dialogue. It would reduce the fear of technology and of artificial intelligence taking over the world, and enable a more inclusive and open debate about how to solve challenges around privacy and other areas.

> Embracing technology is precisely what I believe will unleash this human potential.

These are not easy things to do, but we must do them. We must take away the fear of what is inevitable and create the right framework for us all to benefit. That starts with embracing extreme advances in technology and creating a level playing field around understanding the power of technology. I urge all of us – in business, politics and society – to play our part and ultimately help create a more inclusive capitalism.

Sir Evelyn de Rothschild

Chairman
E.L. Rothschild LLC

Since the financial crash, much ink has been expended in the debate over the future of capitalism – and rightly so. But the political and journalistic clamour will never be able to inspire the change that is required unless our next steps are underpinned by a firm grasp of the over-arching ethical problem.

At root, the crisis of the past 20 years reflects an ethical pathology, a failure to constrain appetite with moral consideration. The system is absolutely not beyond repair. But we must be much more deliberate and urgent in our action if we are to achieve meaningful change.

It is not enough, for instance, to train young recruits in the correct spirit; the much harder task is to persuade the current leaders of banks and other financial institutions to behave differently. Old dogs must unlearn their tricks.

It goes without saying (or should do) that the banks must act in accord with the law laid down by the government. But they should also heed the wise warning of the Bank of England Governor, Mark Carney, who has identified an "ethical drift" in the past, in which "personal accountability was lacking" and "a culture of impunity" engulfed the financial sector.

The Governor chose his words with care. Better regulation is part of the solution, but it will only lead to transformative change if it is enacted within the right culture. This means educating teenagers about the broader nature of global finance and the social context in which markets succeed or fail. In today's schools, such issues are often taught in the most cursory fashion. But they surely deserve as much classroom time as the political system and the environment.

Every child should have a grounding in the ethical content of financial risk, profit and loss as well as the potentially colossal moral consequences of decisions taken by men and women on one side of the world upon those on the other side. This is part of rounded citizenship in 2015.

It is also essential that those who join the financial sector not be driven exclusively by the desire to get rich quick. What has been conspicuously lacking in the financial world is a concern for the long term. The sense of collective pride in a company's strategic performance has been supplanted by an entirely tactical hunger for a slice of annual profit share.

Action that promotes a sense of participation and collective endeavour is critical. That said, it is no good yearning for the restoration of a half-imagined golden age. The technological revolution, the tide of globalisation and the massive expansion of worldwide opportunities for investment have spawned a totally new landscape.

What this new landscape lacks is an ethical framework that is fit for purpose in the 21st century. The shaping of this inclusive capitalism has only just begun.

Andrew N. Liveris

Chairman and CEO
The Dow Chemical Company

At a time when markets, consumers – and the world at large – seem to demand instant results, leaders must think and act at the 'speed of live'. But, in so doing, they also have a responsibility not to lose sight of the long term. They must keep both the next quarter and the next generation front of mind. Any successful strategy in this regard, any meaningful action, will emerge from a process of constant self-reflection, transformation, and innovation – guided by the 'north star' of long-term mission and vision.

At Dow, our 'north star' is to maximize long-term value for all of our stakeholders by developing sustainable solutions to address pressing global needs. Our company is 118 years young, and in that time we have learned that when we focus our people on delivering in the long run, we are able to overcome the short-term challenges that arise even as we continue to transform our company.

The balanced approach is not the easy approach. It is no simple feat for a pilot to keep one eye on the instruments and the other on the horizon. Yet this is the only way to fly.

This mindset has enabled Dow to increase returns on one- and two-year time horizons while making strategic investments that will deliver even greater profits 10 or 20 years from now. The business case is powerful and clear: when we apply our science and our scale to create breakthrough solutions our customers need, it has a real impact on our bottom line – today and tomorrow. In fact, investments in Dow's innovation engine enabled us to earn a record 635 US patent grants last year, and patent-advantaged sales represent more than 20 percent of our revenue today.

Dow's vision leads us to continue to deliver long-term value to society as a whole while earning the right to operate on this planet. Today, all companies must do well – and do good – simultaneously... the either/or option no longer applies. We have to deliver in both the short and long term, and to do that, each of us must sharpen our focus on our total value proposition, to all stakeholders, equally. We must integrate sustainability and its full definition into everything we do. Dow is now more than two decades into our sustainability journey. This year, we launched the next phase of our ambitious sustainability goals on the path to 2025. In essence, these targets will incorporate the value of nature and society into all of our economic decisions.

The pace of the world has never been faster, so our vision must extend ever farther. In this effort, each organization must define its own 'north star'. And together, as one global community, we must be guided by a common commitment to sustainability. This points the way for the necessary shift in mindset – the transformation the world is undertaking and that we are leading – toward a future of sustainable global growth. Globally, inclusive capitalism is a 'north star' that we all must achieve.

Donald MacDonald

Director of the Trustee Board
BT Pension Scheme
Chairman, *Institutional Investors Group on Climate Change*

Reform of the financial investment chain is essential if capitalism is to contribute to social progress and to help address both inequality and the great strategic issues of our century: rapid population growth, accelerating urbanisation and the food/water/energy nexus – all of which will be impacted by climate change.

A reasonable person might assume that the world's investment chain, the oil in the engine of capitalist growth, would be focused on addressing these challenges. But is it?

In recent years the world's top twenty banks have paid fines totalling $235 billion for bad behaviour and, post 2008, privately held bank debt has been socialised into sovereign and citizen debt. Despite great progress in responsible investment, financial services firms show little sign that their behaviour has truly reformed. In the public perception the world of financial services, and the investment chain of which it is part, show every sign of having been designed for the players rather than the clients. We are experiencing the principal/agent intermediation described by Adam Smith when he cautioned that "profusion must prevail".

Regulation is part of the answer, but this will most likely remain behind the curve in terms of coping with financial innovation by industry participants with vast resources at their disposal. The starting point must, then, be the application of personal integrity, responsibility and accountability.

> Despite great progress in responsible investment, financial services firms show little sign that their behaviour has truly reformed.

A financial services 'Hippocratic Oath' (backed up with robust penalties for misdemeanours) would place the interests of clients and stakeholders at its core. It should include a commitment to do 'no harm' and to tackle externalities, thereby helping to raise the bar and change the *raison d'être* of those working in the sector.

The purpose of the financial sector should not be the enrichment of its participants but the efficient and effective allocation of capital to meet the needs of clients and beneficiaries, and the economic health and well-being of the world and its citizens. Sadly, this is not what we see around us. It is time for a change.

Yan Hao

Chairman of Board, *Pacific Construction Group*

Vice Chairman, *China Private-owned Business Association*

Executive Vice Chairman, *China Private Economy Research Society*

We all know that the great disparity in wealth distribution in our societies is the main contributing factor to economic and social instability.

Globally, the problem of wealth disparity is worsening. The latest official statistics in China show that our current Gini coefficient stands at 0.469, significantly exceeding the 0.4 level which is held to be a critical indicator of excessive inequality. The richest one percent of families own a third of the national wealth while the bottom 25% own only 1%. Given China's large population size, a lot of people are implicated in this unequal division of economic benefit.

China adopted many of the tenets of capitalism as means to growth and development. Mr Deng Xiao Ping, the leader who brought economic reform to China and opened our markets, believed that China needed a small segment of the population to become wealthy to stimulate the economy.

This goal was achieved sometime ago now. Yet we are still pursuing a policy based on greater economic expansion and bigger profits – which entails taking on bigger risks – and only a handful of people are benefiting.

Inclusive capitalism provides everyone in the market economy with the opportunity to develop their sense of entrepreneurship and achieve better results. The following are two key actions that are essential to achieving this objective.

First, we need reform. To the Chinese, reform means realizing better lives for all. To achieve this goal, government economic policies and planning – including the administration of taxation, finance and social security – must equitably and efficiently manage the distribution of resources and wealth.

Second, top enterprises must play their part through innovative transformation and by making more social commitments towards the goal of inclusive growth. This does not mean that they should engage in charity but that they should behave as good corporate citizens: they should create more employment and pay better wages, they should contribute their fair share of taxes and put in place projects that benefit the community (such as supporting educational institutions and vocational programs to train more and better qualified workers).

Furthermore, publicly listed companies should avoid over-expansion for the sake of market image. They should focus, instead, on investment in secure assets that benefit all shareholders and sustain equitable growth.

Joe Kaeser

President and CEO
Siemens AG

In this age marked by a growing concentration of wealth and power, an erosion of trust in leaders and the organizations they lead, and a creeping dissolution of social cohesion, I believe the action that would make the most difference in achieving a more inclusive capitalism is for business leaders to develop an ownership culture in their organizations. By this I mean a culture in which employees are vested as owners of 'their' company and act accordingly. Why? Because owners are not complacent bystanders; they participate. They act responsibly, they innovate, they think long term, they strive to be the best, and they contribute to society. Ownership in this case makes capitalism inclusive as all employee shareholders profit from the long-term success of the company.

Why should business take the lead? Because business can usually act faster than government. Germany has a rich tradition of inclusive capitalism. In the 1880s, Chancellor Otto von Bismarck made Germany the world's first welfare state by developing a program that provided universal social insurance, including universal healthcare, compulsory education, paid sick leave, accident insurance, disability insurance, and a retirement pension. However, with all due respect for Bismarck's achievement, Werner von Siemens, the founder of our company, and his younger brother Carl had set up a permanent Workers' and Officials' Pension, Widows' and Orphans' Fund for employees more than a decade earlier, a benefit the company still finances and offers employees to this day.

As early as 1866, Werner von Siemens introduced a stock bonus program that gave employees a share of profits in addition to their regular wages. A century later, in 1969, employees in Germany had the opportunity for the first time to buy shares at the preferential price of DM 156, which was half the regular price. That year, 135,725 employee shares with a nominal value of DM 6.8 million were issued. The success of this program – 24 percent of employees in Germany took advantage of the offer – encouraged management to continue it. Today, 42 percent of Siemens employees are shareholders – that's 144,000. And we'd like to see this number increase by at least 50 percent to over 200,000 by 2020.

The Siemens brothers took these actions not only to alleviate social inequality; they wanted to keep skilled workers loyal to the expanding company in the long term. They also hoped to immunize employees against 'the subversive theories of the socialists' and make them less willing to strike. Werner von Siemens said in retrospect: 'It wasn't just human concern, but essentially healthy egotism that motivated us.'

Ownership culture was the right approach then and it is the right approach today. And that's why it's central to Vision 2020, our long-term concept for the future of our company. As we go forward, we will develop new ways to make the culture of our company more responsive, more participatory, and more inclusive. We will continue to contribute to society by training and educating employees and by investing in local communities. We will lead the way, and we hope that government will follow.

Dr. Hans-Werner Cieslik

Executive Vice President & CFO
Robert Bosch Stiftung GmbH

To me, a perfect way to harness the dynamic strength of capitalism in an inclusive way is to transfer the controlling interest in a profitable company to a charitable foundation.

This results in two reinforcing and harmonious outcomes:

- The company's short-term profit focus is moderated, enabling it to enhance its ability to finance sustainable growth for shareholders (including the foundation) and stakeholders (such as employees) alike.
- Profits distributed accrue primarily to the foundation and can be used to pursue charitable objectives and serve the public good in accordance with the foundation's charter.

Under such a model the company can continue to be run as a for-profit business managed to the highest standards of the market, yet the profits accrue to a much broader range of recipients than would otherwise be the case. The outcome is far more inclusive.

The decision to establish such a charitable structure usually derives from a desire to see profits utilised for the public good.

“. . . a perfect way to harness the dynamic strength of capitalism in an inclusive way is to transfer the controlling interest in a profitable company to a charitable foundation.

A positive side-effect is that it helps ensure that the company will endure: in most jurisdictions foundations are not allowed to sell all, or a major part, of their assets, meaning that the company cannot be taken over or sold off. Another reason why such a transfer might take place is to avert succession issues.

Jesper Nygård

CEO

Realdania

Realdania is a modern philanthropic organisation based in Denmark. We are a member-based association created in autumn 2000 after the sale of a bank and a mortgage institute. We address complex societal challenges related to the built environment, by working with problem-driven and agenda-setting philanthropy. As philanthropists, I believe that we can play the role of a convener. We bring together the right partners – business, politicians, government institutions, associations and citizens - around the table. At the table, we try to work as a catalyst, an enzyme that releases and joins together the power of individual parties.

Our mission is to enhance the quality of life of everyone in Denmark through the built environment. As a self-endowed civil society actor, we are independent from party politics and free from corporate interests. This gives us the freedom to fulfil our mission in many ways. But we also recognise our own limitations: we have neither the reach of government nor the ability to scale the best solutions that the business sector has.

All three sectors undoubtedly create enormous value for society, but each has its own freedoms and limitations, strengths and weaknesses. That is why it makes sense to work together so that the strengths of one can negate the limitations of another. Business can solve several difficult problems at once but it will be more effective if it lets civil society shoulder some of the development risks. Government can deliver better, more cost effective services together with businesses, and civil society can ensure that its solutions achieve scale if it draws on the prowess of industry and the reach of government.

> “My belief is that co-creation built across actors and sectors – done in a responsible way – will create a fairer and more inclusive society.

Realdania’s work is based upon this belief and other such ideas, for example shared value and catalytic philanthropy. We believe that by facilitating cross-sector understanding between the individual sectors and by mobilizing shared interests to address common opportunities and challenges, we can forge a pathway to a more inclusive capitalism.

Our society is based on capitalism – the egalitarian Scandinavian way. The model is in itself inclusive. My belief is that co-creation built across actors and sectors – done in a responsible way – will create a fairer and more inclusive society. Our role as a member-based philanthropic association is to help identify the path and contribute to the effort with good practice and practical examples. This is something that we strive to do every day.

Paul Polman

CEO
Unilever

While there are encouraging signs that momentum is building, there are many things that still need to change if we are to move to a genuinely more inclusive form of capitalism. We need, for example, to root business models in a deeper sense of purpose, valuing social and natural capital and moving away from a narrow focus on short-termism and shareholder primacy. The concept of value creation needs to be rebalanced, with a greater emphasis being placed on labour and less on capital markets. All these would be powerful enablers to building the kind of inclusive capitalism that many of us seek.

But the single action that would yield the biggest difference would be if businesses were willing to take a greater share of the responsibility for what goes on within the total reach of their value chains. As some have argued, you can outsource the means of production but you can't outsource the burden of responsibility. Yet many today still choose to hide behind convoluted corporate structures, outmoded tax arrangements and intricate supply chains, hoping to avoid scrutiny and comforting themselves with a few token CSR activities. It's not enough merely to put your own house in order. Responsibilities flow upstream and downstream. Indeed it's only by taking co-responsibility for what goes on within the total value chain that trust in capitalism can be restored and the benefits of business can be spread more evenly. That means taking a share of the responsibility, for example, for the way raw materials are sourced and the livelihoods of those who supply them. It means taking responsibility for upholding – and indeed promoting – the dignity and human rights of workers at every stage of the production cycle. And it means taking responsibility for the way products are used and disposed of long after they've left the retailers' shelf.

> " . . . it's only by taking co-responsibility for what goes on within the total value chain that trust in capitalism can be restored and the benefits of business can be spread more evenly.

We can't expect capitalism to be inclusive if we don't accept an inclusive form of responsibility for what goes on in the name of capital. A one dollar t-shirt isn't a tribute to the power of 'the market', it's a perversion of the principles upon which any decent and sustainable society rests, and business is an intrinsic part of society.

It's time for business to extend the reach of its responsibilities, not narrow the grasp of its own self-interest. That is the path to inclusive capitalism.

Tony O. Elumelu CON

Chairman
Heirs Holdings

We all know and appreciate that inclusive capitalism seeks to address some of the all-too-apparent ill effects of the capitalist economic system, namely marked inequality, unacceptable levels of poverty and insufficient participation in economic growth or 'progress'. These ill effects invariably lead to perceived social injustice that, in turn, can trigger marked social instability and ultimately the collapse of civil and social order.

In Africa, whilst it would be naive to suggest that no progress has been made in recent times, especially over the past ten years, evidence from a number of countries suggests that state institutions still perform poorly and governance standards remain too weak. Such characteristics obviously increase the risk of social instability.

It is my belief that the philosophy of Africapitalism must be part of the solution to Africa's long history of economic and social inequality. Africapitalism espouses our own brand of inclusive capitalism, emphasizing the obligations of the private sector towards the socio-economic development of Africa and advocating greater coordination and collaboration by diverse economic actors – the state, civil society and self-interested market participants.

Underlying Africapitalism is the belief that more African businessmen and women must commit to making long-term investments in key sectors of the economy – such as power, financial services, high value agriculture – to solve fundamental problems relating to access. In so doing, more Africans will realize the opportunity to earn living wages, to access financial services and to enjoy the benefits of constant and reliable electricity (things that in other parts of the world have been taken for granted for decades or even centuries). The key objective is to secure the empowerment of millions of Africans and to create opportunity for the many rather than just the few.

> " Africapitalism emphasizes the obligations of the private sector towards the socio-economic development of Africa and advocates greater coordination and collaboration by diverse economic actors . . .

Another issue that must be addressed is the culture of dependency. Too many African countries are overly dependent for core government functions on Official Development Assistance (ODA) or on charitable giving by non-African philanthropists. The time for Africa to be self-reliant is long overdue; it is up to Africans to take the lead in addressing recurring challenges.

The old ways are not likely to produce new results. Collaboration is key to achieving the future Africa deserves. This collaboration must involve private sector actors, academia, African political leaders and global development partners. The attention of all these partners must be redirected to empowerment and to a wider dispersion of opportunity, thereby helping to unleash Africa's true economic potential.

> There is compelling need to generate social capital in a sustainable and self-reinforcing manner if market-based systems are to continue to flourish.

The purest form of economic empowerment is when individuals find their own voice and create their own opportunities by being entrepreneurial, nurturing an idea and starting and/or running a business. This is the best way to grow and share economic prosperity. Through the Tony Elumelu Entrepreneurship Programme, my Foundation has committed $100 million to supporting upcoming African entrepreneurs over the next 10 years.

By tapping into the natural ingenuity and inherent entrepreneurial spirit of the average African, my intent is to find and empower the next generation of Tony Elumelus. The jobs they create will be critical for the continent's future stability as estimates suggest that more than 120 million young Africans will enter the labour market by 2025.

Inclusive capitalism, like Africapitalism, is not easy to achieve. It requires us to commit to creating a better world and to setting aside old ways or models. Yet we believe the argument for this new approach is self-evident. There is compelling need to generate social capital in a sustainable and self-reinforcing manner if market-based systems are to continue to flourish.

More investors must commit to Africa for the long term. Policy-makers must actively support (and not impede) investments that create jobs and expand economic opportunity. The rest of us – business leaders, philanthropists, keen Africa observers and commentators – must embrace this new approach to sharing and spreading prosperity. We all benefit when a greater number do good by doing well.

Alderman Alan Yarrow

The Rt Hon The Lord Mayor

As an international Lord Mayor – born in Malaysia, educated in Singapore, and with forty years of global experience in capital markets and investment banking – I believe passionately that successful and innovative financial markets mean jobs and growth across the world. And I know that the flow of talent is as important as the flow of trade.

This is what the City of London has always stood for. It is why people from nearly 300 countries call this home. And it is this unique position – as a global leader, innovator and crucible for debate – that underpins this Conference on Inclusive Capitalism.

In recent times, the City brand – the beating heart of our economy, whose arteries pump prosperity throughout the world – has taken a real hammering. The hammering has been indiscriminate. The collateral damage has been great.

We cannot, and should not, stand idly by. As I have said many times, I condemn anyone who wilfully puts himself first and his client second, indulging individual greed at the expense of society and shareholders. It is good to see that bad apples are being removed from the barrel and that the system that allowed them to rot in place is being overhauled. The Fair and Effective Markets Review marks a new stage of that journey.

However, responsible behaviour is not the sole responsibility of the regulator. If we want to see clean and efficient markets, we need positive engagement by management. Regulators will always be behind the curve of innovation. That is not a criticism; it is the reality.

> “. . . responsible behaviour is not the sole responsibility of the regulator. If we want to see clean and efficient markets, we need positive engagement by management.

It is for management to ensure that not just the principle, but also the ‘spirit’ of regulation is enforced and that professional standards are upheld, regardless of whether the regulator is watching. It’s up to management to set the tone and enforce discipline, because responsible business is in all our interests. And it’s up to management to look ahead – and invest in the workforce of tomorrow, as well as today.

At the 2014 Conference on Inclusive Capitalism my predecessor, Dame Fiona Woolf, asked "who will challenge traditional thinking, if our teams are full of people just like us?" It was an apt question. We need to get better at being more inclusive – in terms of gender, racial and socio-economic backgrounds, and in terms of abilities.

Disability is an under-acknowledged part of the diversity agenda. This is something about which my wife and I feel very strongly, as our eldest son is disabled. We have first-hand experience of the impact of disabilities on individuals and their families. We know the challenges of being perceived to be 'on the fringes' of society.

And yet this is a mainstream matter: in the UK a child is diagnosed as disabled every 10 minutes. The parents of disabled children are also three times more likely to suffer mental health issues than the population at large. It is then for us, as employers, to support employees; it is for us to understand additional needs, and to support those living with the realities of those needs.

When I was head of Kleinwort Benson, I wanted the best and the brightest, from every possible talent pool. Diversity fosters greater breadth of thought, increased innovation and extra resilience – all critical attributes in taking forward the inclusive capitalism agenda. We are all a part of society – and we want to include, and support, every part of it. That is why my own Mayoral theme is: *Creating Wealth, Giving Time, Supporting People*. And that is why I am proud to be a part of the inclusive capitalism movement.

Nat Ware

Founder and CEO
180 Degrees Consulting

It is commonly held that there is, necessarily, a trade-off between financial and social returns. Proving this false, through actions and results, is one of the most important steps that business leaders can take to create a more inclusive capitalism. There does not always – or even most of the time – need to be a trade-off between making money and doing good. The world is not a zero-sum game. Win-win solutions are possible.

> There does not always – or even most of the time – need to be a trade-off between making money and doing good. The world is not a zero-sum game.

In order to prove this, the social returns that accompany financial returns must be both measurable and substantial.

We must measure social risk and return with as much rigour as we do financial risk and return. Too often we measure social return on the basis of anecdotes or money spent rather than outputs or outcomes. Yet in the game of social impact, method trumps money. The volume of investment in social inputs is no more correlated with social outcomes than financial inputs are correlated with financial outcomes. Similar amounts of spending can have dramatically different social outcomes. Fortunately, recent technological developments (such as internet-connected sensors and mobile-enabled data acquisition) are enabling much more effective tracking of benefits.

> We must measure social risk and return with as much rigour as we do financial risk and return.

Just as we seek to maximize financial return, so we should seek to maximize social return. Too often the social and environmental goal of business is simply damage limitation – maximizing financial return while minimizing unnecessary harm – rather than actively seeking to maximize social and environmental benefits. Social return should not just be a check box, an afterthought, or an optional extra. It must be given due weight in decision-making.

We should also avoid 'playing it safe' when it comes to social return. The scale of the problems facing our world demands innovative solutions. The most pioneering of businesses will work to develop and implement new ways to align social and financial returns. The more that business leaders can prove that social and financial returns do not conflict but complement, the more that other leaders will follow suit. It is then that inclusive capitalism will become the norm.

Rowan Douglas

Chairman
Willis Research Network

Australian rugby legend Michael Hawker, who by that time was running the major underwriter IAG, once described insurance as the 'ultimate community product'. Over a decade later, as I sat in a converted Berlin gasometer supporting German G7 proposals to extend climate risk insurance to 400 million people by 2020, those words chimed loudly.

Insurance is the big new idea. It's been around for ages but we've forgotten all about it. That's about to change. In June 2015, the UN Secretary General, Ban Ki-moon opened the first ever UN Insurance Sector Summit in New York, in recognition of the central role that insurance will play in delivering climate security, long-term investment and sustainable development for all.

From weather risk to health, from the smallest micro-insurance customer to the largest corporate client, insurance creates an inspiring international support system. It provides a way to manage and share risk between populations at local and global scales, via public, private and mutual mechanisms, enabling us to care for one another and thereby underpin our human dignity.

Supporting and nurturing human dignity and meaningful human lives is at the heart of inclusive capitalism. The risk-sharing that insurance brings is essential to this. But, even more important perhaps, is the detailed and sophisticated understanding and management of climate and seismic risk that the insurance sector has developed over time.

We face unprecedented levels of natural disaster risk, mostly, but not entirely, due to our increasing exposure to climate-related extremes. This will increase. Much of this risk is not factored into either corporate or investment decision-making. For this current and future risk to be adequately managed – and for capital to flow in ways that will ensure resilience – it must first be adequately evaluated and accounted.

As a way of ensuring their own resilience to climate and disaster risks, re/insurers have developed sophisticated models for managing natural catastrophe risk. For almost a quarter of a century these have also been used by insurance regulators, auditors, credit rating agencies and investment analysts to ascertain and verify that insurers are secure and can keep their promises.

If these tools and protocols were shared throughout the economy, it is our belief that corporate and investment behaviour would change significantly and become much more risk-aware and supportive of a long-term, sustainable future for all.

Capitalism would become more inclusive, efficient and aligned with protecting the basic human rights of life, livelihood and shelter against the growing threats we face.

Professor Herman Daems

Chairman of the Board, *KU Leuven, the University of Leuven, Belgium*
Chairman, *BNP Paribas Fortis, Belgium*

Capitalism is not an ideology, at least not for me. I see capitalism as a system to create and distribute wealth.

Capitalism certainly does not work perfectly and it has many shortcomings. But economic history suggests that per capita income levels in countries where capitalism is the dominant economic system are higher, and grow faster over a longer period of time, than in countries that have tried other systems. Our aim should be to acknowledge the shortcomings of capitalism and to look for ways to improve it.

Capitalism has at least four major shortcomings.

- First, capitalism leads to inequalities. It is also not clear that under capitalism income equality and economic growth go hand in hand, although capitalism can certainly improve average income levels.

- Second, the capitalist system can be very unstable. The many financial crises over the past two centuries illustrate this instability.

- Third, left on its own, capitalism handles ecological issues and sustainability imperfectly. It is not a surprise that short-termism has become a characteristic of modern capitalism and that there are many appeals for sustainability.

- Fourth – which is the theme of this conference and this short statement – many individuals, families and communities do not participate in the capitalist system and are consequently excluded from the wealth creation process. This exclusion happens within countries, as poverty and unemployment levels show, and between countries, as demonstrated by huge global economic inequality.

> “ The capitalist system cannot hope to receive the support of society if governments do not intervene.

I believe such exclusion does not take place by design but is, rather, the consequence of how the capitalist system works. The call for measures to make capitalism more inclusive is therefore more than justified.

I see two big avenues for improvements: make capitalism more accessible and improve the role of governments with fairer tax systems.

1. **Make capitalism more accessible**

There are fundamental barriers that prevent individuals, families and communities in countries and across countries from participating in the capitalist system. This means that capitalism has insiders – those who participate in the wealth creation process – and outsiders, those who do not.

In order to be able to participate and to be an insider, at least five elements are needed.

- First, in order to understand the way the system functions, some basic talents are required. Though they may be basic, not everyone has these talents or is capable of acquiring them. As the capitalist system becomes more complex, so the talents required increase.
- Second, potential insiders need to have a marketable resource, be it labor, knowledge, or capital to participate in the system. Again, not everyone has such a marketable resource or can acquire one at zero or very low cost.
- Third, one needs capabilities, a combination of resources and skills, to contribute to the system and to earn the right to an income.
- Fourth, potential participants need to believe and trust in the fairness of the system in order to take part in the wealth creation process. Who wants to participate in a game if the game is seen as unfair or rigged?
- Finally, potential insiders need to be allowed to access the system. Discrimination and poor reputation can shut people out. It is often believed that education and life-long learning will be sufficient to overcome the barriers to participation in the capitalist system. I do not think these are sufficient. If capitalism is to become inclusive, much more will need to be done to help outsiders overcome the barriers to becoming insiders. As a starting point, the barriers need to be discussed.

2. **The role of government and the tax system**

I strongly believe that capitalism cannot function without government intervention. Such intervention is necessary for at least four reasons: to create more equality of incomes, wealth and opportunities; to deal with essential uncertainties through solidarity; to provide collective goods that cannot be provided by capitalism and the market system; and to stabilize the system.

The capitalist system cannot hope to receive the support of society if governments do not intervene. The problem with today's public intervention is that governments are not perceived as being up to the job. We need a new theory and a new practice of government intervention that focuses much more on fairness, democracy, effectiveness and efficiency. Governments today are seen as running behind managerially and technologically rather than being at the forefront of developments, where they belong.

> “We need a new theory and a new practice of government intervention that focuses much more on fairness, democracy, effectiveness and efficiency.

More effective government will need to go hand in hand with a fundamental revision of the tax system which is, worldwide, too complex and therefore facilitates evasion.

Governments should no longer aim to make policies through complex tax exemptions or stimuli. Taxes should be simple and collectable. This will make them fairer and more credible, thus increasing the willingness of citizens to contribute fairly to the collective effort. Unfortunately, fixing this problem is extremely challenging as it is likely to require worldwide collaboration so that tax evasion becomes less attractive and less worthwhile everywhere.

Emerson Csorba

Global Shaper, *World Economic Forum*
Co-Founder and Director,
Gen Y Inc.

In his 2014 speech at the Conference on Inclusive Capitalism, Bank of England Governor Mark Carney spoke about intergenerational equity, remarking that "Social welfare systems designed and enjoyed by previous generations may prove, absent reform, unaffordable for future ones."

There is indeed a sense among 'Generation Y' (those within the 20 to 35 age range, otherwise known as 'Millennials') that they will have to overcome significant obstacles in their lifetimes. Not only will they have to worry about social and economic mobility, but they will also inherit huge challenges around climate change, ageing populations and creaking healthcare systems.

Unlike previous generations, Millennials question traditional indicators of economic prosperity, such as GDP. They want a broader discussion about the purpose of wealth. Their view is that capitalism has lost its vision, that this has been devoured by individual self-interest and political liberalism. Terms such as 'growth' and 'progress' are bereft of moral significance; they have become ends in themselves.

Millennials aspire to change this. Despite the challenges, they remain optimistic.

For instance, the 2010 report *Confident. Connected. Open to Change* by the Pew Research Centre found that: "Among Millennials who say they don't earn enough money; 88% think they will be able to earn enough in the future." They believe they can serve as change makers within organisations: "Even though Millennials want to push business and government to do more, there is a strong belief in the power of these systems to make a positive impact", writes Noa Gafni, a Global Shaper and University of Cambridge Fellow of Social Innovation, in a 2014 World Economic Forum article entitled *Three ways young people are changing the world.*

The same optimism is evident amongst entrepreneurs: many Millennials are confident about the possibility of one day creating their own companies, developing businesses that achieve social purposes while also creating profit.

In view of the deep challenges we face around intergenerational equity, as well as the fact that Millennials are set to comprise over 50% of the global workforce by 2020, it is time for businesses to rethink their engagement with this group. One way to do this is through establishing Emerging Leader or Gen Y Boards or, better still, including a Millennial leader on the main Board.

Organisations that re-imagine their workplaces and purposefully engage their employees across all age ranges will positively impact the bottom line. More fundamentally, they will be better equipped to critically examine – and provide compelling solutions for – the most pressing issues of our time. Such is the means to achieving a vision for inclusive capitalism.

Gillian Tett

US Managing Editor
Financial Times

Ask a financier today in the City of London or Wall Street to name the founding father of modern capitalism, and they will probably invoke the words "Adam Smith." After all, three long centuries ago, Smith laid out a vision of the political economy where the 'invisible hand' of supply and demand drove economic growth - and where free enterprise was the driving force for vibrant capitalism.

> " . . . markets work best when as wide as possible a group of people are involved.

But these days, a certain irony hangs over Smith. In the places where free market capitalism is most frequently venerated – namely Wall Street and the City – many of the core ideas behind Smith's vision are frequently ignored. And unless these are restored, it will be hard for bankers (or anyone else) to create an effective capitalist system, let alone one that is 'inclusive'.

So what are the elements from Smith's 18th century writings that need to be relearnt? Essentially there are four. Firstly, markets work best when as wide as possible a group of people are involved. This sounds obvious, but it is astonishing how often it has been ignored in modern finance. Most notably, if you look at the areas of finance that have produced scandals in recent years – such as credit derivatives, LIBOR and so on – these are invariably dominated by a limited clubby circle of actors (most notably large banks) which is anything but 'inclusive'.

Secondly, markets work best when prices are transparent to a wide circle of buyers and sellers, be that 18th century butchers or 21st century bankers. Again, this seems an entirely obvious point, and in some corners of finance this principle is respected. But in the parts of the banking world where a clubby mentality has ruled, prices have a nasty habit of seeming to be opaque; at least to 'outsiders'. Little wonder that mistrust and scandal have been pervasive.

Thirdly, managers must have a personal stake in private enterprise – and a true responsibility if something goes wrong. Smith took this concept for granted when he wrote about free markets since he lived in an 18th century world dominated by small family-owned firms, where management and ownership naturally overlapped. But modern 'owners' of banks, namely shareholders, often have little idea what is happening inside companies – and the managers running the companies often limited skin in the game. Little wonder, perhaps, that irresponsibility has often prevailed.

Fourth, Smith did not consider the economy or market to be a self-contained phenomenom, separate from other areas of human existence; on the contrary, he assumed that humans lived interconnected lives, where money was embedded in morality and social relations. Again, this point sounds obvious, but it is often ignored in the modern financial world, where bankers devise mathematical models of the markets that appear detached from real humans – and operate in a intellectual and social ghetto that is often disconnected from wider society.

> “. . . in the parts of the banking world where a clubby mentality has ruled, prices have a nasty habit of seeming to be opaque. . . Little wonder that mistrust and scandal have been pervasive.

What is really needed in finance today, in other words, is a joined-up vision of the world, that restores capitalism to the original vision of Smith. This requires a big change in mindset. It will not be easy. But it is essential if we are to build a sense of inclusive capitalism that truly works.

Robert G. Eccles

Professor of Management Practice
Harvard Business School

There are no silver bullets for achieving inclusive capitalism. However, integrated reporting can play a major role in bringing it about if it achieves large-scale adoption by companies and large-scale use by investors.

In ‘The International <IR> Framework’, published in December 2013, the International Integrated Reporting Council (IIRC) defines an integrated report as “a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.”

The <IR> Framework directs attention to how companies are using and impacting the ‘six capitals’: financial, manufactured, intellectual, human, social and relationship, and natural. Traditional financial reporting was designed to capture how companies use and impact financial and manufactured capital. It virtually ignores the other four capitals that companies draw on, and impact upon, in executing their strategies.

> “ . . . companies and investors need to stop the senseless finger pointing they are engaged in.

Through regulation, legislation, and an increasingly active and sophisticated set of stakeholders representing a broad range of interests of civil society, companies are increasingly being held to account for how they use and affect, both positively and negatively, all of the capitals they use. Integrated reporting and integrated thinking are processes that enable management to both better understand the interdependencies across these six capitals and to communicate a holistic view of performance to shareholders and other significant audiences. The <IR> Framework provides guidance for preparing an integrated report, while organizations such as the CDP, the Global Reporting Initiative, and the Sustainability Accounting Standards Board can provide guidance on identifying and reporting on the material issues that belong in an integrated report.

While interest in and knowledge about integrated reporting is growing, it has yet to achieve the kind of momentum necessary to make a significant contribution to inclusive capitalism. In my most recent book, *The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality* (with Michael P. Krzus and Sydney Ribot) I discuss what must be done to change this. Here let me make two simple points. The first is that companies and investors need to stop the senseless finger pointing they are engaged in. Companies claim that investors aren't interested in integrated reporting (and so why should they bother?) and investors claim that the quality of information in integrated reports isn't useful for decision-making. Both sides of this dialogue must work together to improve it.

This will only happen, and this is my second point, if some prominent CEOs and CIOs step up and show leadership. What I see is most companies and investors waiting for others to 'make the business case' for integrated reporting. However, how can the efficacy of something be demonstrated if nobody ever does it? Leadership is about recognizing good ideas whose time has come, and being willing to take the risks and receive the benefits of going first.

“ | Inclusive capitalism needs leaders . . .

Inclusive capitalism needs leaders in both the corporate and investment community. As already noted, integrated reporting is not a silver bullet but it's a great place to start.

Lynn Forester de Rothschild

Chairman and Co-founder,
Coalition for Inclusive Capitalism
CEO, *E.L. Rothschild LLC*

Investment decisions shape our world. Global share trading in 2014 was worth $81 trillion, more than 40 times the output of the British economy. But sometimes the outcomes of investment decisions and the type of corporate behavior that they engender seem unfair and bad for society.

I strongly believe that this does not have to be the case, that capital can have a positive impact on the world and that by integrating environmental, social and governance (ESG) metrics into their decision-making, investors can both do well and do good. People are instinctively attracted to the goals of ESG principles. Everyone would love it if we could stop climate change, or if workers were treated well, or if companies would stop destabilizing financial markets for the sake of short-term profit. But, say sceptics, won't incorporating ESG practices into business models lead to poorer financial returns?

In fact the opposite is true. A report from Oxford University analyzed over 200 studies: 80% of them show that prudent ESG practices have a positive influence on investment performance. Such companies attract dedicated investors that help management make clear-sighted decisions for the long term. Investing in dirty fossil fuel assets that are likely to be subject to future regulation, and thus lose their profitability, may yield returns today but few tomorrow. Workers who are treated well are more productive. In other words, integrating ESG yardsticks into investment decisions makes sense from a business perspective.

> Investing in dirty fossil fuel assets may yield returns today but few tomorrow. Workers who are treated well are more productive. In other words, integrating ESG yardsticks into investment decisions makes sense from a business perspective.

Some major players in the investor community agree. Sovereign wealth funds in Norway and New Zealand, as well as pension funds such as Calpers in the US and ATP in Denmark, integrate ESG into their investment decisions. But on the whole, marrying financial and ESG measurements is resisted. Many managers point to their fiduciary duty, their obligation to protect their clients' interests. Under existing laws, they say, fiduciary duty is a barrier to using any metric other than financial returns in their investment analysis. But, in parts, the law says otherwise. The UK Law Commission, for example, has stated that "there is no impediment to trustees taking account of environmental, social or governance factors where they are, or may be, financially material".

Clarifying the law around fiduciary duty would help investors. The law needs to reflect the fact that high employee turnover or a lack of corporate skill development, unsustainable supply chains or the catastrophic impact from climate-related or other environmental disasters are not just ethically objectionable, but bad business. This would make the integration of ESG considerations into investment decisions not just permissible, but a requirement.

Investors have to break bad habits, too. Many investors avoid asking difficult questions of companies in which they invest because this is complicated and because they are influenced by the short-termist behavior of others. Big institutions should take the lead here asking questions that go straight to risk and value: "What is your product life-cycle? What resource constraints affect your business? Is the regulatory environment expected to tighten?" Doing so will encourage others to follow.

In order to embed ESG factors into everyday investment decisions, the financial community desperately needs reliable measurement tools. A few metrics already exist but, as yet, there are no universal standards equivalent to the International Financial Reporting Standards used by accountants in many countries. If firms across the world work together, it will be easier to codify and roll out universal standards for ESG measurement. If common metrics were to be adopted by the five major stock exchanges in the world, more than 50% of the world's listed corporations would be forced to disclose material ESG information to their investors.

> In order to embed ESG factors into everyday investment decisions, the financial community desperately needs reliable measurement tools.

Inclusive capitalism is not conventional wisdom. But, as history has shown so often, conventional wisdom is often wrong. In many walks of life, including investing, we have a selection bias such that our understanding of the world is influenced by the practices that we see. But what we see might be obscuring a better path – a path where success is measured not only by financial returns, but also by the returns we create for our customers, employees and communities.

An earlier version of this piece appeared in The Wall Street Journal, June 25 2015.

Philipp M. Hildebrand

Vice Chairman
BlackRock Inc.

Can asset managers, through their shareholdings, make a difference in aligning business behaviour more closely with good outcomes for society? They probably can – but should they? It is not a simple question. Asset managers are fiduciaries to their clients, the asset owners, and as such they are under obligation to deliver the best financial performance possible. Until recently, this meant incorporating only financial and governance considerations into investment decisions.

> Until recently, this meant incorporating only financial and governance considerations into investment decisions.

But asset owners' attitudes are changing rapidly. Increasingly, they want to optimize the societal impact of their investments as well, and asset managers are responding to this demand. For example, they are offering exclusion, or 'screened' portfolios that avoid certain kinds of investments as well as environmental, social, and governance (ESG) offerings that consist of baskets of securities which specifically focus on these considerations.

BlackRock is taking up this challenge both in its portfolio construction and in corporate governance activities.

> . . . we believe that good ESG scores are often a signal of management quality, particularly over the long term.

BlackRock Impact was launched to provide innovative offerings that incorporate societal outcomes with financial returns. It places a strong emphasis on measurement and transparency. Its aim is to offer a range of solutions that incorporate many of the goals of inclusive capitalism, drawing on a variety of actively managed public and private strategies as well as partnerships with index providers for passive offerings.

Alongside, we will continue to integrate ESG considerations into the corporate governance efforts we carry out on behalf of our clients. Indeed, we believe that good ESG scores are often a signal of management quality, particularly over the long term.

Jessica Fries

Executive Chairman

The Prince of Wales's Accounting for Sustainability Project (A4S)

At the heart of inclusive capitalism is the need to extend the boundaries of thinking beyond the confines of the company, to recognise and incorporate the needs and limits of society and the environment into decisions taken. Time after time, companies within our CFO Leadership Network demonstrate that, by adopting an integrated approach to decision-making, they achieve better results – better for their bottom line, for the communities in which they operate, for their customers, employees and suppliers, for the environment and for society as a whole.

A particularly good example, which has remained with me, is South West Water's Upstream Thinking project – an inclusive approach to decision-making that won the Finance for the Future Award a few years ago. As Susan Davy, SWW's Finance Director, said at the time, "Our operating costs were increasing and, as well as improving the standard technology, we also decided to work 'upstream' with local landowners and land users to encourage better upstream management [of the land] to reduce downstream costs [of water treatment]. This offers a much better long term payback than the more conventional methods".

The company found that, by building a partnership outside the traditional boundaries of the business, and adopting an approach that integrated environmental and social considerations rather than relying on engineering solutions alone, it was able to achieve a benefit to cost ratio of 65:1.

> “ The first step is, as leaders, to embrace integrated thinking and give the necessary signals in every conversation . . . that there is no compromise.

And yet the integrated thinking that is fundamental to delivering these improved outcomes is still far from the norm. It is all too easy to leave it to a team of experts to manage relationships with communities and the environment, reinforcing silos and failing to capitalise on the opportunities that exist with true integration.

Through A4S's work, we are transforming financial decision-making techniques to enable an integrated approach to become standard. The first step is, as leaders, to embrace integrated thinking and give the necessary signals in every conversation – whether with the Board, with investors, with policy makers or with employees – that there is no compromise. Economic success is dependent on the health and stability of our communities and the natural environment; an integrated strategy is a successful one.

Nick Robins

Co-Director

UNEP Inquiry into a Sustainable Financial System

Financial markets lie at the heart of capitalism – funding, valuing, exchanging and governing the assets that generate wealth. Yet the things that would make this wealth creation process truly inclusive are still not part of the routine decision-making process in banks, stock markets, institutional investors and insurers. According to the Inclusive Wealth report produced by the UN University and UNEP, stocks of human capital and produced capital continue to rise. But the stocks of 'natural capital' on which economic progress depends – biodiversity, clean air, fertile soils, freshwater - are falling in 116 out of 140 countries. Unchecked climate change will reverse decades of economic advance unless structural action is taken to correct a series of market and policy failures. And all of this is against the backdrop of rising pressure on natural capital through economic and population growth.

Building a sustainable financial system is a core part of the transition that's required. Across the world, financiers, central bankers and regulators are starting to incorporate sustainability factors into the way that risks are evaluated, capital is allocated and performance is measured. To date, however, most of these promising innovations look only at today's standards and do not assess the future shock of declining natural capital and rising social expectations.

As a result, the one action that would advance this process most powerfully would be the introduction of 'sustainability stress tests'. Building on existing assessment tools, sustainability stress tests would evaluate the implications of key environmental scenarios on the financial as well as environmental performance of individual assets, financial institutions, and ultimately, financial systems as a whole. This would achieve a twin benefit: overcoming the short-termism that reigns in financial markets and bringing recognition of the still unvalued natural sources of wealth creation. The aim would be to drive preventive action to reduce pressure on natural capital and thereby protect assets from potential stranding as the transition progresses. Critical issues for stress-testing would include local air pollution, energy and carbon risks, water and food security, natural disasters and climate change.

The key to success would be the combination of market practice and public rule-making, with policymakers setting out the key expectations and market practitioners developing the detailed implementation plans. One model for this is the Enhanced Disclosure Task Force that worked with the Financial Stability Board to open up the opaque world of reporting from banks. A similar process could be established for sustainability stress tests – with financial regulators taking responsibility for drawing together results to better understand the resilience of the system as a whole, both a country and at a global level.

Mats Andersson

CEO

Fjärde AP-fonden/Fourth Swedish National Pension Fund (AP4)

Capital ownership is now largely dominated by very large institutional investors that act as the agents of savers. Most of these savers have a very long-term investment horizon and it is therefore the fiduciary duty of institutional investors, as managers of those savings, to take a long-term approach.

In order to secure and increase their clients' wealth over the long term, it is the duty of investors to help companies become successful and deliver long-term returns. The finance community, and pension fund managers in particular, need to take corporate governance and sustainability issues very seriously, as both are necessary conditions for healthy returns. These are two of the cornerstones on which we at AP4 have built our business.

Too often investors' concern about their own careers, and their intensive use of benchmarked solutions, hamper their ability to take proper account of market developments and long-term issues, such as climate change. If all long-term asset owners were to start being vocal on governance and sustainability issues, we would take a significant step towards creating a more inclusive and prosperous capitalism.

To promote these practices in the critical area of climate change, AP4 has launched – together with the United Nations Environment Programme and its Finance Initiative (UNEP FI), CDP (formerly the Carbon Disclosure Project) and Amundi – the Portfolio Decarbonization Coalition (PDC). The goal of this coalition is to gather investors' commitments to decarbonize their portfolios up to a cumulative total of $100bn of assets before the Paris Conference on Climate Change at the end of 2015.

> “If all long-term asset owners were to start being vocal on governance and sustainability issues, we would take a significant step . . .

Concerned investors have so far committed $45bn for 'decarbonization'. This can take many different forms, for example divestment from carbon intensive investment, engagement with companies on carbon issues, targeted exclusion and renewable energy investment. In making such a commitment, the investors involved are not only doing good, by engaging companies on a key issue, but they also aim to do well, by reducing their exposure to a risk for which they are not rewarded.

The purpose of the PDC is to share best practice among those asset owners that are already taking action around the world. It sends a clear and loud message to the entire community of asset owners: decarbonization on a significant scale is feasible now. In taking action, members of the PDC are showing that sustainability and sustainable returns go hand in hand, thereby shining a spotlight on the great potential for a more inclusive capitalism.

Paul Dickinson

Executive Chairman
CDP

There can be no more urgent objective than making capitalism more inclusive. We need a society that takes into account the social and environmental dimensions of business, because business cannot function without the preservation of either.

Climate change represents a terrifying threat to our way of life. We can already see the damage it is causing to communities through weather extremes such as flooding, drought and more powerful storms, all of which are consistent with a warming world. We have to act now, at global scale, to change the course of our history.

The good news is that we can afford to make this change. Research from investment firm Mercer shows that reducing emissions in line with limiting temperatures to below 2°C would not have negative return implications for long-term diversified investors at a total portfolio level. These findings counter the commonly-held view that a rapid transition towards a low-carbon economy would come at a great cost to investors. Especially when compared with higher emissions scenarios, the Mercer findings show that it is in investors' own interest to engage for a 2°C outcome. Indeed, we cannot afford not to make this change if we wish to protect long-term returns beyond 2050.

The really good news is that momentum is building. Each year more investors, companies and cities work with CDP to better understand and manage the impacts that a changing environment is having on their operations. In 2014 over 5,000 of the world's largest companies reported their climate, water and deforestation-risk information through CDP. Already by looking beyond financial data – which has for so long been considered the default yardstick for how well managed a business is – these companies are helping to shape a new kind of capitalism.

We all know that what gets measured, gets managed. CDP provides a mechanism to help non-state actors show they can be inclusive capitalists and confidently assert that they will indeed do this.

CDP is committed to working with the global efforts of the inclusive capitalism community to restore our economies as engines of broadly shared prosperity. We must always remember that the global economy is a 100% owned subsidiary of the global environment.

There are material balance sheet issues at the parent company that need resolving, with a first step being securing clarity in accounting. This is where CDP can help. We are proven, trusted, ready, willing and able to ensure we only generate wealth worth having.

As President Bill Clinton observed: "The Carbon Disclosure Project [now CDP] is vital, and we have got to get everyone involved, and there is nothing to be afraid of. You have got to keep score."

Dr. Matthew Kiernan

Chief Executive

Inflection Point Capital Management

In my opinion, the one measure that would have the greatest positive impact on promoting inclusive capitalism is the conscious and systematic leverage of the unrivalled power of the capital markets towards that objective. This statement flows from three interrelated assumptions:

- In practice, large, multinational corporations are in the best position to promote inclusive capitalism, through measures which can be put in place throughout their supply and value chains.
- Corporate boards and senior executives' priorities are strongly influenced by those expressed by their shareholders and investors.
- If investors make it clear that companies' actions encouraging inclusive capitalism constitute an important consideration in their decisions to invest, corporate leaderships will respond accordingly. At Inflection Point Capital Management (IPCM), we term such investment strategies 'Impact Investing 2.0'.

But why should investors adopt such a position in the first place? In our view at IPCM, the answer includes but transcends 'responsible investment' considerations: quite simply, we believe that companies embracing inclusive capitalism are simply better-managed, more far-sighted companies in general, and therefore more likely to be financial out-performers in the long run.

Wall Street has long argued that 'management quality' is the single greatest determinate of companies' financial performance, and we concur. Sadly, however, Wall Street analysts only rarely articulate a systematic set of criteria by which they might actually judge that management quality. At IPCM, we are quite clear on this point: for us, the promotion of inclusive capitalism throughout a company's value chain is a compelling indicator of a company that fully understands not only the moral but also the competitive imperatives of 21st century competition.

The South African platinum mining company, Royal Bufeking, provides a graphic illustration of the benefits of pursuing inclusive capitalism. The company makes significant efforts to improve the economic and social prospects of its workers, through a variety of community investment programs including housing, health care, and training. The dividends of such an approach (for investors as well as the company itself) can be seen in part in its outstanding relations with its workforce; Royal Bufeking has lost virtually no production time to strikes. In stark contrast stands Lonmin, another platinum miner only kilometres away. Not only has Lonmin been crippled by strikes (and a falling share price), but its poor community and labour relations were dramatically demonstrated by the tragic shooting of 34 miners at its Marikana mine in August of 2014.

Imagine the positive impact that could be achieved if even a fraction of the companies signed up to the UN Principles for Responsible Investment (that collectively control $47 trillion) were to state publicly that, henceforth, an important part of their judgement about management quality, and therefore investment merit, would be based on companies' demonstrated commitment to inclusive capitalism!

Pascal Blanqué

Deputy CEO and Chief Investment Officer

Amundi

Amundi strives to be a world-class asset manager by putting its expertise at the service of long-term performance for its clients. We are convinced that value can be added to our investment process by the integration of extra financial analysis and we systematically integrate environment, social and governance criteria into our active strategies. To this end, our team of extra financial analysts is actively involved in market workgroups and ESG ratings are circulated in real time to all our management teams.

The long-term investor, with a mandate to deliver returns over the coming decades, should by nature be an inclusive investor. We are convinced that there is value in engaging companies: long-term performance can be improved by helping companies set a course for long-term success in a resource-constrained world.

In addition, we have been an active proponent of socially responsible investments which we implement through a best-in-class approach combined with the exclusion of most controversial issuers. Socially responsible investments now represent more than €70bn of our assets under management.

> The long-term investor, with a mandate to deliver returns over the coming decades, should by nature be an inclusive investor.

A responsible investor cares not only about value generation but also about the impact of their investments. To be an inclusive investor in a free-market capitalist economy means not only taking into account financial performance, but also being aware of externalities and the overall impact on society of one's portfolio. We need to pay attention to factors that could hinder growth, financial returns and the welfare of our fiduciaries over the long term. Many of these derive from government and market failures. Climate change and increasing income inequality are two such factors.

Investors and business leaders need to internalize the climate change externality

At the end of May, policymakers, financial players and economic agents gathered in Paris, a few months ahead of the international climate conference, COP21. A consensus is emerging: climate change, the greatest challenge for humanity of the 21st Century humanity, cannot be overcome by national governments alone.

Governments, local political leaders, civil society and business leaders must work together to build a new model of sustainable, low carbon, more inclusive, growth. Nobody will be immune from the consequences of climate change, there is therefore no room for passive observers: it is the duty of each and everyone, investors included, to take into account climate externalities.

Moreover, I am convinced that financial markets largely underestimate the materiality of carbon risk. It is not just a moral duty but also, therefore, an investor's fiduciary duty to analyze and reduce exposure to carbon risk.

> “To be an inclusive investor in a free-market capitalist economy means not only taking into account financial performance, but also being aware of externalities and the overall impact on society of one's portfolio.

To this end, Amundi has recently launched three Low-Carbon Funds. I hope that this will be one of many possible positive steps forward that we, the investment community, take in the months and years to come.

Melody Barnes

Co-founder and Principal

MB² Solutions LLC

Marland Buckner

Co-founder & CEO

ForeverView Farms

In America, making capitalism truly inclusive requires more capitalism, not less. More capitalism can help eliminate some of the embarrassments that characterize today's 'free market': huge profits that remain private while catastrophic loss is socialized and too many benefit too little. More capitalism can capture value from externalized costs that allow those in charge to get filthy, stinking rich – too often by creating a filthy, stinking mess – while many millions more are unemployed or underemployed.

These embarrassments do not occur because capitalism is inherently bad. It's just that, at present, Americans, at least, are bad capitalists. Achieving more inclusive (read 'better') capitalism requires that we identify new opportunities, and invest in and create value from underutilized assets in ways that expand prosperity.

How can capitalism right itself? By focusing on two critical and related areas: environmental and human resources. Instead of perpetuating a system in which workers are viewed as overhead to be cut and environmental outcomes as costs to be shifted, inclusive capitalism seeks to identify and nurture the true value of these resources.

> How can capitalism right itself? By focusing on two critical and related areas: environmental and human resources.

We should rush to embrace the shockingly obvious opportunity provided by pricing ecosystem services (PES): air and water purification, biodiversity promotion, and activities designed to mitigate or manage climate change. We've taken some very small steps in certain areas but a smarter model of capitalism would capture the trillions in potential value created from such opportunities. PES will unleash a torrent of capital formation across multiple sectors, generating job opportunities for millions along with considerable social benefits. Agriculture is one such sector.

Today, US lettuce is grown on well over 300,000 acres. If a significant portion of today's terrestrial production were to be transferred to greenhouse-based production utilizing 'recirculating' technology, land no longer in production could be dedicated to carbon sequestration. This closed loop, soilless growing system would create two profit centers for landowners/producers: lettuce and sequestered carbon.

Such practices are commonplace in sectors with well-developed markets: witness the widespread placement of wind turbines or cell towers on productive farmland.

The big losers in this scenario? Incumbents who profit from systemic inefficiencies and those heavily invested in the status quo.

Necessity dictates that many ecosystem service businesses will be 'place based'. The result? A new economic engine that helps reshape labor markets and builds trust between communities and the businesses that profit by improving the quality of life in their markets. Can you name the last firm sued, picketed or publicly vilified because their core business was water quality improvement?

From a jobs standpoint, ecosystem services and investment in infrastructure are the same: a workforce development opportunity and job creation bonanza. Unlike infrastructure improvement, however, many ecosystem services businesses do not require massive public investment. Yet they could have equally positive employment outcomes among the demographic groups that are most in need; low- and middle-skilled workers, particularly in rural areas, could benefit significantly. For example, our reimagined lettuce economy would provide low- and middle-skill employment in two sectors: land management and greenhouse operation.

> We should rush to embrace the shockingly obvious opportunity provided by pricing ecosystem services.

In 2014, the so-called 'ag-tech' sector attracted approximately $2.6 billion in investment, supporting business growth in sub-sectors from waste mitigation to food e-commerce to controlled environment agriculture. Many of these businesses already solve ecosystem service challenges. PES would support the scaling of these firms driving job creation across the occupational spectrum, including for those who benefit least in our current model of capitalism. For centuries, capitalists have successfully created untold wealth while making a big mess; we can create far more and be vastly more inclusive by simply deciding to clean it up.

Sharan Burrow

General Secretary
International Trade Union
Confederation

It is my belief that the single action that would make the biggest difference to achieving a more inclusive capitalism is stronger enforcement of the rule of law. There is no substitute for the law if we want to design and enforce a sustainable model of business: where people's rights matter; where the profits of labour are fairly shared in wages, tax and investment in the country in which they are earned; and where the environment is respected. In short the world needs a new business model.

Corporate social responsibility (CSR) has failed. With an $80 billion US dollar CSR industry the reality is that the dominant global model of trade/corporate supply chains remains a recipe for exploitation. Workers are enslaved for months on a ship in the global fishing trade. Women are forced to work overtime such that a mother can never tell her children when she will be home or whether she will be able to cook them a meal. Outsourcing or short-term and zero hours contracts are used as weapons to deny workers job security or a collective voice to raise concerns. This is not a model we can, or will, accept.

> If developed economies were to follow France's lead – passing legislation to mandate due diligence for economic, social and environmental governance in big business supply chains across borders – we would change the model.

If developed economies were to follow France's lead – passing legislation to mandate due diligence for economic, social and environmental governance in big business supply chains across borders – we would change the model.

It is on the G7 agenda, it is on the G20 agenda – it's a matter of political will.

Harry Samuel

CEO
RBC Investor & Treasury Services
Chairman
European Executive Committee

Corporations have a vested interest in developing their employees, which increases economic value for their organization and the economy as a whole. The next step is for the private sector to recognize that it is essential to invest in social infrastructure to underpin a dynamic and robust economy, and ensure its longevity. These investments include, but are not limited to, education, healthcare, housing, and public transportation, all of which must be designed to promote and protect equal access and opportunity.

Diversity in the workplace is a means to achieving what may be called a 'culture of inclusion', contributing to the long-term success of a capitalist society. This is an environment which welcomes diverse backgrounds and viewpoints, but also ensures employees feel entirely comfortable being themselves in their professional surroundings. Studies have shown that companies with diverse management and, in particular, diverse boards, have tended to outperform their industry peers over the long term.

> “The next step is for the private sector to recognize that it is essential to invest in social infrastructure. These investments include, but are not limited to, education, healthcare, housing, and public transportation . . .

Looking ahead, there are significant opportunities for private and public enterprises to partner together to invest in an array of social programs, such as scholarships for education and extracurricular activities. Investing across industries on a collective basis will strengthen the opportunities available for every individual to achieve personal success and fulfillment, resulting in tremendous benefits for society.

Mark A. Weinberger

Global Chairman and CEO
EY

In today's interconnected world, our challenges are so great and so complex that no single organization can address them alone. That means if businesses want to drive more inclusive capitalism, the first, most important step is to build strong partnerships with as many stakeholders as possible.

Achieving more inclusive capitalism will require all hands on deck – and once you start looking, it is possible to find allies almost everywhere. They can be your employees, shareholders, lenders, communities, suppliers, partners, regulators, or government officials. As long as they have a stake in our shared future, it's up to us to seek them out and get them engaged.

At EY, we've found the best way to engage our stakeholders is to distil our shared mission into a company-wide purpose: building a better working world. That sounds incredibly ambitious, but what it means in practice is that we have 200,000 people doing all they can do in small – and sometimes big – ways every day to improve the working world.

As an example, EY has extensive financial reporting and corporate governance knowledge that crosses markets and geographies. We use this knowledge to fuel discussions about important regulatory changes with our clients, business leaders, investors, regulators, legislators and academics. We've seen the power that comes from strong networks like this, and we have worked to leverage these diverse viewpoints to find the best answers to complex questions.

Through our partnerships, we've worked with governments to navigate cash-flow crises, employed data analytics to tackle youth unemployment alongside non-profits, and helped pharmaceutical companies harness the tools to cure life-threatening diseases. In these ways and more, we've aligned our purpose with our business strategy – and the benefits have been clear.

When businesses purposefully work to engage with a broad set of stakeholders, they do not just make a positive impact on society – they also perform better. In fact, in a survey EY conducted with the Harvard Business Review, an overwhelming number of business leaders – 87 percent – said that they believe a company performs best when their purpose goes beyond profit. In that way, businesses have the power to create a virtuous cycle that positively impacts us all.

Like most important things, the responsibility for building these effective partnerships starts at the top; today's CEOs need to own these relationships. They need to really take the time to engage with a broad range of stakeholders – to establish open two-way communication, where it's clear that they are just as good at listening as they are at talking. This kind of open, authentic collaboration is the best way to move the needle on the social, environmental, and economic challenges we face.

Nicholas Elledge

Investment Officer
E.L. Rothschild LLC

The *Wolf of Inclusive Capitalism* may never be a blockbuster, but the uphill journey that we face and on which we must embark will certainly lead to a better and more sustainable world for us and for our children.

> Achieving inclusive capitalism is a balancing act between realism and idealism.

Achieving inclusive capitalism is a balancing act between realism and idealism. One thing is plainly essential: the ability to respect, and empathize with, a diverse range of communities and individuals, regardless of gender, ethnicity, occupation, or wealth. As Bill Clinton said at the 2014 Conference on Inclusive Capitalism, we should be "ever expanding the definition of who is us and shrinking of the definition of who is them."

John Rawls famously articulated a vision of a fair society as one in which you would be comfortable being born randomly into any station. Today, there exist far too many stations without equal opportunity to succeed. If we were to apply this principle of fairness, we would no doubt ensure that everyone had the same opportunity to succeed, that the environment was protected, social safety nets ensured, taxation justly distributed, workers' rights safeguarded, and financial protections provided.

To make such a world a reality each one of us must explicitly recognize that we share responsibility for inclusive capitalism, never resorting to the dangerous phrase 'I don't know and I don't care'. This responsibility extends into our professional decision-making, our organizational cultures and our personal lives. It encompasses many things, but particularly the recognition that financial profits are not an end in themselves but only a means to a healthier and better world.

> To make such a world a reality each one of us must explicitly recognize that we share responsibility for inclusive capitalism . . . This responsibility extends into our professional decision-making, our organizational cultures and our personal lives.

Jeroen van der Veer

Chairman
*ING and Philips**
**written in a personal capacity*

For inclusive capitalism to succeed, the key is to change the mindset of boards, both corporate and in the financial sector. Board members need to take into account that increasing shareholder value is just one amongst a number of objectives and desired outcomes. The job of the board is to balance multi-stakeholder interests.

> The job of the board is to balance multi-stakeholder interests.

Boards should therefore:

- set long-term goals for People, the Planet and Profits;
- oversee the production of integrated annual reports that monitor progress in all these three areas; and
- ensure that the remuneration of top executives is aligned to achieving these goals.

Financial success should account for no more than 50% of remuneration calculations. The remaining 50% should be tied to objectives around People and the Planet. Overall, salaries should be mostly fixed with little or no cash bonus paid. Where bonus is paid, it should be in the form of shares that must be kept for at least 7 years, ensuring that managers have a long-term stake in the success of the company.

> Financial success should account for no more than 50% of remuneration calculations. The remaining 50% should be tied to objectives around People and the Planet.

Together these measures will help achieve a more inclusive form of capitalism.

Frances O'Grady

General Secretary
Trades Union Congress

Not so long ago, it was taken for granted that most boardrooms would resemble an exclusive gentlemen's club. Those who challenged the status quo were told, without a trace of irony, that board appointments must be made on merit. This despite the fact that, even today, board members are routinely selected with a tap on the shoulder, rather than through an open recruitment process.

While popular with the public, the TUC's call for mandatory representation of workers on boards has met with a similarly confused response in some quarters. Some say it would make no difference, as worker representatives would feel too overawed to make a meaningful contribution. Others say it would shake the very foundations of the corporate governance system. Sometimes our opponents hold both views simultaneously.

A combination of greed and 'group-think' led to the collapse of Lehman Brothers and sparked a crisis across the global financial system. Diversity in the boardroom can help guard against events such as this. Excluding half the human race makes for poorer company decision-making. The same is true for the exclusion of workers, regardless of gender.

Britain is now in a minority of EU countries that fail to make any provision for workers' representation on corporate boards. According to TUC research, 18 EU countries – plus Norway – already practice some form of industrial democracy. Evidence shows that this can help build better companies that are more likely to invest in skills and distribute rewards more fairly. From employment rates to R&D spend – countries with the strongest workers' participation rights reap the greatest rewards.

At a time when most shares in Britain are held overseas and, on average, for just a matter of months, the old fashioned idea that shareholders are the sole stewards of the best interests of a company is defunct. No one has a greater interest in the long-term interests of a company than those whose livelihoods depend on it. Workers on boards serve as a reminder that sustainable wealth is not just created by corporate rock stars but by labour. And worker representatives can contribute much needed common sense and honesty to boardroom deliberations on what to do with this wealth. On issues such as investment, productivity and top pay, the voice of working people needs a fair hearing.

People are increasingly questioning the legitimacy of an economic system run by a tiny, powerful corporate elite that calls all the shots. For trade unions, our values of equality and democracy do not stop at the workplace door. If the great reform of the twentieth century was political enfranchisement, then the twenty-first century must address its economic equivalent.

Hongchul Ahn

CEO
KIC

When liberated from Japanese rule in 1945, Korea was as poor as sub-Saharan countries. Until the late 1960s its income per capita remained below $1,000 but since then the country's wealth has vastly increased, such that many developing countries now look to Korea as a role model.

Some argue that income equality should trump prosperity. That is a difficult principle to adhere to in the face of formidable catastrophes, such as tsunamis, earthquakes, tornadoes and floods. Korea was unable to do anything in the face of such catastrophes until a great leader with clear vision steered his course to sustainable economic development.

I would argue, therefore, that economic development is a precondition not only for inclusive capitalism but also for rebuilding after natural disasters.

The secret of Korea's economic and democratic achievements lies in Korean parents' determination to educate their children at any cost. Korea's only natural resources are its 50 million people. During the colonial period, Korean parents refused to send their children to school – despite their continued respect for education - as a way to resist Japan's rule (Japanese was the language of education at the time). As a result, at liberation around 80% of Koreans were illiterate (similar to the rate in South Sudan now).

> “SWFs strive to maximize long-term return on investments, something that lies at the heart of inclusive capitalism . . . [they] maximize their effectiveness when they co-invest with other organizations with similarly long investment horizons, such as governments and multilateral financial institutions.

The country therefore lacked not only financial and physical capital but also human capital: an educated and skilled labor force. It is not surprising, then, that Korea's economic miracle took two decades to get underway. Poor physical infrastructure is a barrier but poor social infrastructure, particularly low levels of education, is the main barrier to achieving inclusive capitalism.

> Now is the time to take action together. Action speaks louder than words.

Capitalism is rooted in the philosophical assumption that people are motivated by their own self-interest, not by the good of society, as Thomas Hobbes thought. This makes it hard to achieve truly inclusive capitalism. Yet there are things that KIC and other public funds can do to support inclusive capitalism.

Globally, the number of sovereign wealth funds (SWFs) - which are mandated to secure the economic welfare of future generations - has increased dramatically since 2000. Their assets under management now amount to nearly $20 trillion. They played a big role during the global financial crisis of 2008, providing critical liquidity through their investments in companies such as Citigroup, Morgan Stanley and Merrill Lynch. Indeed, helping to stabilize global financial markets is one of the guiding principles of SWFs, as laid out by the International Forum of Sovereign Wealth Funds.

SWFs strive to maximize long-term return on investments, something that lies at the heart of inclusive capitalism. Their extremely long investment horizon enables them to invest both in physical infrastructure (highways, railways, airports, seaports, electrical grids, energy utilities, telecommunications, etc.) and social infrastructure, such as schools and hospitals, taking on political as well as economic risk.

SWFs maximize their effectiveness when they co-invest with other organizations with similarly long investment horizons, such as governments and multilateral financial institutions (the World Bank and regional development banks, for example). One way to increase impact is by working together, for example through the Co-investment Roundtable of Sovereign and Pension Funds (CROSAPF), a collaborative co-investment platform formed by several public funds. Now is the time to take action together. Action speaks louder than words.

Dominic Barton

Global Managing Director
McKinsey & Co.

Society is missing out on long-term growth, increased innovation, and a more inclusive capitalism due to destructive short-termism and under-investment across the investment value chain. Enabling more long-term investment is the single action that would make the biggest difference in achieving a more inclusive capitalism. Unfortunately, we face a daunting collective shortfall.

Globally, long-term investment collapsed during the last recession and has not recovered. Across advanced economies, real private business investment has fallen by 10-25% from the highs achieved in 2007.[1]

The world economy needs bold investments: $57tn in the next 15 years on infrastructure alone, according to the McKinsey Global Institute. Investment is essential to stimulating long-term growth, creating jobs, enhancing global infrastructure, reducing ecological degradation and overcoming some of our most pressing societal challenges. Yet, what we see instead is that short-termism has become the norm in our capital markets.

With more than 70 percent of a typical company's value coming from activities that will take place three or more years in the future, businesses, governments and investors need to make bold, profitable long-term investments.

The best place to begin is for long-term asset owners to act and invest in a way that creates sustainable value for both current and future stakeholders. With Canada Pension Plan Investment Board President and CEO Mark Wiseman, and BlackRock Chairman and CEO Larry Fink, I co-chair the Focusing Capital on the Long Term (FCLT) initiative. Together, we have developed a four-part framework for addressing the issue:

> The world economy needs bold investments . . .

1. **Reorient the portfolio strategy and management of institutional investors** to ensure: (i) clearly articulated investment beliefs; (ii) comprehensive statements on risk; (iii) longer-term benchmarks that speak to investment beliefs and strategies; (iv) improved evaluations that lengthen the period over which qualitative and quantitative aspects are assessed; and (v) mandates that align asset owner and management expectations and behaviour.

2. **Unlock value through engagement and active ownership** by: (i) supportively engaging in constructive discussions with large, passive and active holdings; (ii) focusing on activities directly tied to long-term value creation; and (iii) supporting companies that face short-term threats if management presents sound plans and processes for long-term value creation.

3. **Improve the dialogue between investors and corporates through:** (i) ensuring that corporates develop and communicate compelling long-term strategies; (ii) measuring long-term value creation and performance relative to a set of metrics specific to the company's strategy and incentives; and (iii) reporting to and engaging with the right long-term investors over an extended period through one-on-ones, investor days, financial reports, and earnings communication.

4. **Shift corporate boards' focus to support long-term strategy and sustainable growth by:** (i) selecting the right directors to ensure diversity of opinion and proven experience in building relevant businesses, as well as deep functional expertise; (ii) spending more quality time fulfilling duties and allocating a larger portion of that time to discussing long-term strategy; (iii) engaging key directors with long-term investors through discussions on long-term strategy and metrics, not just compensation; and (iv) paying directors more, especially for long-term performance (ideally putting in place an incentive structure that requires directors to have a significant equity stake for an extended period of time and significantly reducing cash payments).

Taken together, these actions will enable more long-term investment, a shift the world desperately needs to help create a more inclusive capitalism.

> Corporate boards should engage key directors with long-term investors through discussions on long-term strategy and metrics, not just compensation.

1 Bank for International Settlements, (Why) Is investment weak?, by Ryan Niladri Banerjee, Jonathan Kearns and Marco Jacopo Lombardi (March 18, 2015)

Theresa Whitmarsh

Executive Director
Washington State Investment Board

For a decade, institutional investors have been challenged to lead the search for solutions to the short-termism that afflicts today's markets. Thought leaders such as Keith Ambachtsheer have made the straightforward case that because our commitment to pay pensions goes out decades, so should our time horizon for thinking about investing.

Investing in assets that produce steady cash flows and appreciate over time will have important collateral benefits for the broader economy. Yet many institutional investors remain skeptical about how to make the change. As investors, we find that long-horizon ambitions are not always well served by our governance structures, compensation systems and benchmark-driven performance metrics.

There are, nonetheless, three emerging pathways that seem to offer a way forward: (i) disintermediation through direct ownership of private assets; (ii) concentrated holdings of publicly traded securities with commensurate influence over corporate behavior; and (iii) collaboration with other investors to influence market behavior. All three models are being tested and successfully implemented, though not yet at scale.

> “ . . . we find that long-horizon ambitions are not always well served by our governance structures, compensation systems and benchmark-driven performance metrics.

There are several sound reasons for this. Disintermediation is not always practical for a globally diversified portfolio. Skilled intermediaries who possess asset class, style, sector, and geographic expertise will always be in demand (and, unfortunately, even unskilled ones will remain in demand). And holding a concentrated portfolio of public companies runs counter to what we know about active investing: it is very difficult for an active investor to outperform broad market indexes, and index investing remains an efficient and cost-effective way for institutional investors to put large amounts of money to work.

Market and governance reform has fallen short of our goals as investors, despite strong governance-focused collaborations. Intermediaries outnumber us, outspend us on lobbying, and are more financially motivated than us to maintain the short-termist status quo.

So while we perceive the potential benefits of long-termism – harvesting an illiquidity risk premium, providing ballast to the capital markets, and encouraging corporations to invest in innovations that sustain their enterprises and society over time – neither we, nor corporations, have a strong record in practice.

I am, however, becoming more optimistic that change is nigh, as I observe the gathering momentum behind the movement towards inclusive capitalism. The important thing about this movement – which has many names and takes many forms – is that it comes from deep within the corporate sector and is increasingly supported by important market players. Its aim is to encourage a brand of capitalism that prices in externalities, broadly benefits society, and ultimately sustains the planet.

There are three main catalysts behind its rise. The first is the need to restore trust in the capitalist system by ensuring that growth is more inclusive, favoring the many, not just the few. The second is related: it is the increasing recognition that rising income inequality negatively affects growth. Finally there is the threat of carbon-emission-induced climate change and the costs that will impose on all of us. Even the most self-serving capitalist wants a world in which they can keep making money.

> As investors, we find that long-horizon ambitions are not always well served by our governance structures, compensation systems and benchmark-driven performance metrics.

Perhaps, with capitalism in crisis, trust in the finance sector at all-time low, and growing concerns about what we are doing to our planet, we may be willing to act. As investors we are quite modest about our ability to influence corporate behavior and change the world, but now is the time to raise our ambition and act accordingly.

Note: A longer version of this article was previously published in the *Rotman International Journal of Pension Management* (Vol. 7. Number 2. September 2014)

Carsten Stendevad

CEO

ATP Group

As a mandatory pension scheme for the citizens of Denmark, we are charged with producing lifelong pension income over the very long term. In fact, ATP has pension guarantees that extend as far as the 22nd century. Our members therefore require long-term, sustainable streams of income, rather than the short-term maximization of returns.

> It is my firm belief that a long-term perspective among asset owners is conducive to better economic outcomes . . .

It is my firm belief that a long-term perspective among asset owners is conducive to better economic outcomes, not just for pensioners, but also for society at large.

> . . . 'short-termism' overlooks substantial economic return opportunities.

Yet 'short-termism' is pervasive in the financial markets, even among long-horizon investors. That's puzzling because 'short-termism' overlooks substantial economic return opportunities. It's disappointing because 'short-termism' is the enemy of environmental, social and governance (ESG) concerns.

Long-term asset owners can engage in shareholder dialogues that are focused on long-term value creation. And, over the long term, ESG issues and economic outcomes are more intertwined and thus easier for both investors and companies to address.

I will look forward to exchanging views with global peers on ways to encourage a broader group of economic actors to take the long view.

Benjamin F. Stein

Co-founder and Managing Member
The Spruce House Partnership LP

Inclusive capitalism is the recognition by major beneficiaries of capitalist systems that these systems work best if the rewards are distributed in a manner that perpetuates the very long-term success of the system. Perhaps the single largest determinant of this long-term success is the degree of broad-based participation in an – ideally frictionless – meritocracy. By contrast, very limited participation in a self-perpetuating plutocracy over an extended period of time would almost certainly produce a standard of living increase that is only a fraction of what might have been achieved.

If we agree that capitalism is the economic model that is most able to promote a higher standard of living for the largest number of people, then we should also agree that we should aim to strengthen it. For the system to be robust, it needs to reward those who excel and succeed at the same time ensuring that productive members of society are fairly compensated for their efforts.

If too large a share of the economic profits go to equity owners then the outcome will eventually be unsustainable and potentially volatile. On the other hand, if labor receives an outsized proportion of the profits, a company, or country, will inevitably become uncompetitive. In the long term this will hurt all stakeholders.

What this means is that if we seek to ensure the long-term success of our global capitalist system, a highly inequitable distribution of rewards over an extended period of time is a shortsighted choice; over the long term, both groups do better when everyone is doing better.

> “. . . if we seek to ensure the long-term success of our global capitalist system, a highly inequitable distribution of rewards over an extended period of time is a shortsighted choice; over the long term, both groups do better when everyone is doing better.

However there is a problem: most of society's capital and other resources are only managed temporarily – whether by politicians/governments or by private equity groups – yet inclusive capitalism in its most ideal form requires policies and decisions to be made by long-term stakeholders.

To a great extent, the success of the inclusive capitalism initiative will hinge on its ability to institutionalize long-term decision-making, despite the fact that the decision-makers in most governments, companies, and institutions are there only temporarily. The degree to which our society advances will be determined by the sum of all decisions made by all people: imagine, then, the compounded impact of tilting the lens through which decisions are made in both the private and public sectors squarely towards the long term.

James Norris

Managing Director

Vanguard International

The use of the term 'inclusive' as an adjective to complement the noun 'capitalism' implies that there is something inherently 'exclusive' about a capitalist system. Presumably, the belief is that this exclusivity manifests in some of the systemic challenges that society faces today, including poverty, climate change and political violence, to name just a few. There is no question that these issues exist and imperil the future of humanity and our planet. However, it is not at all clear whether capitalism is the cause of these problems, the solution to these problems, or simply an innocent witness to the travails that humans have faced for thousands of years.

It is my strong belief that the solutions to these problems are more likely to be identified under the auspices of a capitalist system than any other political or economic system known to us today. But the very fact that so many of us are gathered here in London for this forum suggests that capitalism as we know and understand it could use a few adjustments. So what might those adjustments look like? I would humbly suggest two areas that are worthy of careful consideration, both of which get to the heart of what I think most of us would agree are the fundamental underpinnings of capitalism.

First, enterprise must re-embrace the concept of long-term investment, which has become the exception in a society where so-called investors are obsessed with short-term profitability. The performance of the enterprise is no longer measured in years, but quarters, a mindset that drives opportunism and transactional behaviour both inside and outside the organization. The reaping of short-term profits enriches the individual but destroys long-term benefits for clients, investors and society as a whole. My firm is the only client-owned asset management company in the world, operated exclusively for the long-term benefit of our clients, and we attribute a significant amount of our success over the past 40 years to that long-term alignment between us and our client–owners.

Second, it is a misconception to assume that capitalism promises equal outcomes for all; it does not. That said, it is hard not to be troubled by the divide that exists in our society today – and that has in many ways always existed – between the haves and the have-nots. Clearly, the benefits of capitalism have not been enjoyed in equal measure by all of humanity. The challenge for capitalism in the decades ahead is to provide, as Milton Friedman, the noted economist suggested, equality of opportunity. The steady advance of the wired world is a significant step in that direction, but enterprise, governments and NGOs must collaborate to bring much broader access to education and training, to engage more people in the global economy and make equal opportunity more real.

Tony Broccardo

Chief Investment Officer

Barclays UK Pension Fund

A preference for the short term continues to undermine efforts to transform our global economic system, and in many cases can destroy – rather than create – value. Failure to adopt a longer-term time horizon remains one of the most significant issues that both the business and investor communities need to address.

As an institutional investor – a group that is often accused of driving short-term thinking and behaviour – we carry a particular responsibility to respond to this challenge. Our investment mandate requires us to deliver value for our members over both the short and long term. Pension funds and other institutional investors are therefore in a unique position to effect change. This shouldn't be viewed as a trade-off. Our experience has demonstrated that by managing our investments in this way we deliver superior returns.

We are increasingly refining our investment strategy to ensure that we are employing a longer-term view. But there is more than we can, and should, do.

The single biggest contribution the investor community can make is to help to build the evidence base and commercial case for long-term thinking. By sharing our results, research and insights we can create a pool of experience that shows that acting in this way isn't just good for society, that it clearly delivers superior and sustainable returns. We need to share this view and direct and incentivise our fund managers to think and act on a longer-term basis on our behalf.

> “ As well as extending our time horizon, we must broaden our definition of value . . .

As well as extending our time horizon, we must broaden our definition of value – looking for opportunities to create 'shared value', by relentlessly pursuing economic value that also creates value for society.

Jagdeep Singh Bachher

Chief Investment Officer

University of California

At the University of California (UC), we respect the beliefs of students and others who argue that only divestment from fossil fuels will prove that one of the world's best public university systems is 'on the right side' of the environmental divide.

We also respectfully disagree.

While symbolic gestures have a noble history of driving social change for the public good, reversing the effects of climate change demands much more than symbolism. At UC, we believe it demands strong and sustainable investments in the solutions, for the sake of our environment – and for the financial future of our stakeholders.

While we agree with the imperative to take a stand on sustainability – which UC has done, including through its groundbreaking steps toward achieving carbon neutrality by 2025 – respected studies have shown that exclusionary policies are ineffective in denying capital to 'sin' industries. Proactive investment in climate change solutions will have a bigger impact than simply avoiding certain industries, markets or asset classes.

Access to long-term capital will be critical to the success of low-carbon fuels and emerging energy efficiency technologies; today's markets still suffer from a shortage of patient, early stage capital essential to transforming clean technology start-ups into enduring, profitable companies. Governments such as the United States, China and Germany have made significant financial commitments to promote innovation and opportunity, but public spending can only go so far. As world leaders have acknowledged in the planning for the UNFCCC Conference in Paris later this year, the private sector must also play a larger role in underwriting solutions.

To date, the venture capital industry and many pioneer investors have taken great risks to show us the kind of progress that can be made. While their successes have inspired us, the challenges they have encountered have demonstrated the magnitude of the task. And, as the experience of Tesla and First Solar demonstrate, even growth stage companies in this promising space sometimes lack access to project capital to execute first-of-a-kind

> Proactive investment in climate change solutions will have a bigger impact than simply avoiding certain industries, markets or asset classes.

demonstrations and deployments. The capital required to achieve price competitiveness at commercial scale is monumental.

In our view, the solution to the long-term capital problem is for major long-term institutional investors – pension funds, endowments, sovereign funds, family offices and foundations – to play a catalytic role. The success of large public pension funds in the infrastructure asset class is instructive: it was their entry that enabled this asset class to mature.

Catalyzing the resource innovation capital markets could be approached in the same way. There will be a set of new ventures in energy, agriculture, waste, and water that can scale to become the most profitable companies for generations to come. Long-term institutional capital has a unique opportunity to invest in such resource innovation companies and potentially reap large profits as these new green ventures and technologies reach millions (and billions) of consumers. The problem? Many long-term investors lack the in-house expertise to do this without assistance, especially in the United States.

We believe that the creation of a new, aligned intermediary to help long-term institutional investors identify, screen, assess and invest in high-potential companies is the best way to promote meaningful – and profitable – solutions to climate change. Fortunately this has happened: the Obama administration, the US Department of Energy and long-term investors from around the world have launched such an initiative. Its role will be to serve as the not-for-profit platform that brings investors together as part of promising long-term partnerships in resource innovation.

We believe that the creation of a new, aligned intermediary to help long-term institutional investors identify, screen, assess and invest in high-potential companies is the best way to promote meaningful – and profitable – solutions to climate change.

At UC, we believe that our participation in programs such as this represents a better option than making a symbolic, but likely financially meaningless, gesture to divest from fossil fuels. It will offer a real solution and a deep pocketbook for generating solutions to climate change.

Elroy Dimson

Professor of Finance

*Cambridge Judge Business School and London Business School**

**In conjunction with Paul Marsh and Mike Staunton, London Business School.*

Some investors simply buy shares where the financial rewards seem most compelling, and ignore social, environmental and ethical issues. But this *laissez faire* approach is losing ground:

- The UN-supported Principles for Responsible Investment today lists 1,385 signatories with investment assets of US$59 trillion.
- The Global Sustainable Investment Alliance estimates that, worldwide, portfolios valued at over US$21 trillion incorporate environmental, social and governance concerns.
- The UN Global Compact reports that 13,026 organisations in 170 countries have now committed to responsible and sustainable practices.

Investors who follow a more inclusive policy are driven by one, or more, of at least three motivations. They recognise that:

- As owners they are complicit: they share responsibility for a firm's actions. This is the notion that underpins the screening processes followed, among others, by the Norwegian Government Pension Fund and by faith-based investors who exclude certain companies or industries the activities of which offend the investor.
- Investors can influence companies. They can use their leverage to persuade the executives of businesses they own – or their regulators, judiciary or other influencers – to improve company behavior based on their beliefs about social justice or in the interests of stakeholders.
- Long-run returns may be enhanced by taking advantage of the 'universal ownership' of major investors, who are exposed to almost every company and have long investment horizons. Indeed, since many people invest through mutual funds or pension providers, the managers of globally diversified pooled funds often engage with companies in the interests of more modest investors, thus less wealthy individuals may also be universal owners.

Universal owners cannot escape costly, company-specific factors. If one firm benefits at the expense of others, there may be no net gain to a diversified asset owner. Universal owners should, then, strive to increase the aggregate value of all corporations. Aggregate value is destroyed when a business maximises its profits by imposing externalities on competitors and society.

When it comes to responding to unacceptable corporate behaviour, investors have a choice between exit or voice. **Exit** – sometimes termed the 'Wall Street Walk' – involves excluding the shares of companies, industries or countries with unattractive attributes. Sometimes this will have little overall effect. However, in the case of an active owner, the very fact of exit may apply pressure on a company or industry. This pressure is heightened when a number of investors divest together.

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Voice involves engaging with the company or pursuing other methods for amending the behavior of the firm.

Paradoxically, much of the evidence suggests that 'sin' pays, that investment in less responsible companies, industries, and countries has tended to outperform. This runs counter to the stance of many ethical investors who emphasise 'doing well by doing good'.

Ironically, the actions of ethical investors may compound this problem. If, through exit, responsible investors depress the share prices of noxious businesses, these 'sin stocks' may become attractive to investors who are relatively untroubled by ethical considerations. Expected financial returns are likely to be higher (due to the relatively low price) which can compensate for the emotional burden of owning offensive companies.

A corollary is that just buying shares in responsibly and sustainably managed companies cannot be seen as a winning investment strategy. Investors therefore face a challenge: should they divest from objectionable stocks, or should they use voice to make target companies more acceptable? The decision depends upon a number of factors including: loyalty – how strongly they feel about retaining their stake in the company; the potential return loss and reduced diversification from divesting objectionable stocks; and the scope for changing businesses for the better.

Importantly, engaging with investee companies has been shown in a number of studies to be financially profitable as well as effective. It is also a key step in making capitalism more inclusive. It is insufficient for investors to omit certain companies from their portfolio. They must be willing to engage in processes of change.

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*This chapter draws on Elroy Dimson, Paul Marsh and Mike Staunton, "Responsible Investing: Does it Pay to be Bad?", chapter 2 of The Global Investment Returns Yearbook 2015, Credit Suisse Research Institute, Zurich (www.tinyurl.com/DMSyb2015). References are also provided in the Yearbook.

Johan H. Andresen

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Exclusion is the opposite of inclusion. The most effective tool of exclusion is corruption. Misappropriating funds or allocating resources in a way that does not reflect merit, prolongs exclusion. Corruption helps to create a kleptocracy, while entrepreneurship contributes to creating a meritocracy. So if we get rid of corruption, we pave the way for the success of initiatives that seek to include everyone in an economy. This is a lofty ideal, I know. Nevertheless, the fact remains that corruption stands in the way of many good efforts that seek to share the benefits of a growing economy with those who work hard and take initiative, whatever their background.

The Norwegian Government Pension Fund Global is saving for future generations in Norway. One day the oil will run out, but the return on the fund will continue to benefit the Norwegian population. As such the Fund provides a mechanism for the inclusion of many generations, rather than squandering all our wealth on only the current generation.

It is important that the Fund generates returns in a responsible manner: this is where the Council on Ethics comes in. The Council makes recommendations to the Central Bank on companies that should be put under observation or be excluded (if there is an unacceptable risk that the company contributes to or is responsible for conduct that is in breach of the guidelines). One such breach is gross corruption. The Council is concerned with future risk and judges a company on whether it has in place and uses meaningful measures to combat gross corruption. And by the way, being a company in the Fund's universe is not a human right. One's conduct matters.

> “ . . . corruption stands in the way of many good efforts that seek to share the benefits of a growing economy . . .

Gross corruption differs from other criteria that the Council considers in two ways. The first is that malpractice in this area often results in prosecution. The second is that all too often even large Western companies come to our attention. As the owner of a family company that itself owns several businesses which operate in industries and parts of the world where corruption is endemic, I know that fighting corruption is a huge practical undertaking. It is also a value choice. Neither comes easily.

I ask you please to do your utmost to halt corruption within your industry and especially within your company. Let's put an end to this mess - because a mess it is, and a very costly one at that. Remember: we do not want to exclude you. At least you cannot say that we did not warn you.