

The Inclusive Capitalism Imperative



Mark Weinberger

Global Chairman and CEO
EY

Instead of focusing only on quarterly returns, inclusive capitalism means also creating long-term benefits that reach a broad group of stakeholders — shareholders, employees, communities and more.

In 1962, Milton Friedman famously argued, “There is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits.”

For decades this was a defining doctrine. But recently the conversation has shifted. Since the financial crisis, only 30 percent of Americans believe what’s good for business is good for society. Nearly 60 percent want companies to play a bigger role in solving social problems. In response, businesses are still meeting their responsibility to create profits, but they are also finding ways to broaden the benefits they create. In doing so, they are creating a new, more expansive kind of capitalism: inclusive capitalism.

IMF Director Christine Lagarde has argued that inclusive capitalism is “a constant quest.” And today, companies worldwide can take important steps to propel that quest forward.

Focusing on Stakeholders in Addition to Shareholders

As corporate entities, companies of course have a fiduciary duty to focus on returns to shareholders. But that is just the beginning. Instead of focusing only on quarterly returns, inclusive capitalism means also creating long-term benefits that reach a broad group of stakeholders — shareholders, employees, communities and more.



Companies aren't just building themselves a stronger financial foundation. They are solving some of the greatest challenges our communities face. ””

As a partnership, EY may not have a duty to shareholders, but the same principle applies: It's increasingly important to engage with a wide variety of stakeholders. We've found the best way to do that is to distill our shared mission into a clear, company-wide purpose: Building a Better Working World.

Around the globe, our 225,000 people are engaged in solving some of the world's toughest challenges. We've worked with governments to solve cash-flow crises, nonprofits to tackle youth unemployment, and pharmaceutical companies to cure life-threatening diseases. Work like this doesn't just generate profits. It creates enormous value for stakeholders worldwide.

Investing in Our Most Valuable Asset: People

Of course, our most important stakeholders are our people. We grow as companies when they grow as professionals. But today, 60 percent of employers report that their job applicants don't have the skills their positions require. Closing this skills gap would lead to stronger businesses and a stronger economy.

That's why companies like Starbucks, McDonalds and Target offer tuition reimbursement to help their employees earn degrees and expand their skills. EY invests \$535

million every year in workforce training. We gain more qualified people, and they gain valuable experience.

We can also strengthen workforces by building a pipeline to underserved populations. Many students live in places where, culturally, the infrastructure for college planning doesn't exist. We've responded with a program called College MAP, which pairs our people with high school juniors and seniors. They offer guidance to prepare for SATs, improve college applications and find scholarships. Ninety percent of participants complete the program, graduate high school and pursue college.

Taking the Long View

Investments in people may have short-term costs, but that kind of long-term thinking is critical for inclusive capitalism. Indeed, one of business's most important contributions to society is driving sustainable, long-term growth while investing in solutions for the challenges of tomorrow.

This is exactly what many businesses are doing right now. By 2050 the global population will increase to roughly 9.7 billion. According to the U.N., that means food production will need to rise by 70 percent. That will require more

clean water, when nearly 3 billion people are already struggling with water scarcity.

In response, innovative startups like CropX are investing in data analytics to make irrigation more efficient. Small sensors collect topography data on their customers' farms, then algorithms determine which parts of the land need water, and how much. This helps increase crop yield while reducing water use by up to 25 percent.

Building Partnerships for Progress

As businesses focus on a wider range of stakeholders, they also create opportunities for mutually beneficial partnerships.

In 2014, for instance, the Obama administration announced an initiative to turn Raleigh-Durham, North Carolina into an innovation hub. The administration, state government, local businesses and universities began working together to attract high-tech businesses and jobs, while creating apprenticeships and better talent pipelines from local schools.

Thanks to this alliance, companies that move to Raleigh-Durham will find the highly-skilled workforce they need. Students will have access to jobs nearby. And as new employment opportunities attract new residents, communities will enjoy a surge in economic activity. This is a true win-win-win — the very definition of inclusive capitalism.

By embracing this way of thinking, companies aren't just building themselves a stronger financial foundation. They are solving some of the greatest challenges our communities face. That is the promise — and the great potential — of inclusive capitalism.