

# Responsible Capitalism:

Why change is necessary and what we can do about it

By

Campbell Macpherson

Author of:

**'The Change Catalyst: secrets to successful and sustainable business change'** (Wiley 2017)  
2018 Business Book of the Year

**'The Power to Change: how to harness change and make it work for you'** (Kogan page 2020)



Updated June 2020

A business does not exist purely to make a financial profit.  
Nor does it exist solely for the benefit of its executives or shareholders.

Responsible Capitalism recognises the synergistic value of  
addressing the needs of the entire ecosystem in which the business operates.

*“Capitalism has been attacked as a system that has failed to create broad-based prosperity. Because of this, and growing income inequality and uncertainty, there is a marked withering of public trust in business. Businesses, many of which saw their responsibility limited only to shareholder value, must work to restore trust from all members of society.”*

**Lady Lynn de Rothschild, CEO and Founder of the Coalition for Inclusive Capitalism**

*“It’s called capitalism. We are proudly capitalistic. I’m not confused about this.”*

**Eric Schmidt, CEO Google, on Bloomberg TV December 2012 when asked about Google’s tax avoidance strategies.**

*“Walmart’s low-wage workers cost US taxpayers an estimated \$6.2 billion in public assistance including food stamps, Medicaid and subsidized housing.”*

**Forbes Magazine quoting ‘Americans for Tax Fairness’ report 15 Apr 2014.**

*“The (percentage) of Walmart employees receiving Medicaid is similar to other large retailers.”*

**Randy Hargrove, Walmart spokesperson, in response.**

*“Our economic model is broken and we are failing those who will grow up into a world where the gap between the richest and the poorest is significant and destabilising.”*

**Justin Welby, Archbishop of Canterbury and ex oil industry executive. 6 Sep 2017**

*“We need to call out not just the worst examples of crony capitalism, but an awful lot of what passes for capitalism today; a creature of subsidy that lobbies governments for regulatory barriers to entry.”*

**Conservative Peer, Lord Ridley, 2017 Keith Joseph Memorial Lecture to Centre for Policy Studies**

**Table of contents:**

**What is Responsible Capitalism?**

**The Responsible Capitalism Ecosystem**

**The UK Companies Act 2006**

**Why is there a need for 'Responsible Capitalism'?**

**Our current form of capitalism is unsustainable**

**Change is inevitable**

**Responsible Capitalism is good for business**

**What does Responsible Capitalism look like?**

**What can I do about it?**

## What is Responsible Capitalism?

Leading and managing companies in a manner that is sustainable for the benefit of all stakeholders:

- employees,
- suppliers,
- partners,
- customers, and
- the wider communities in which they operate
- ... as well as for the benefit of shareholders and executives.

## The Responsible Capitalism Ecosystem

Employees, suppliers, partners, communities, shareholders, executives and customers together comprise the ecosystem in which a company operates. Attending to the needs of each and every one of these groups creates a virtuous circle in which all stakeholders benefit.

It goes without saying that treating customers well reaps rewards for the company, for without customers, there are no businesses.

But employees are also customers. If employees are paid well, cared for and feel secure, they will spend and invest – with you and other businesses within the wider community.

If suppliers and partners are paid fairly and treated well, they will also spend and invest.

Your investment in the wider community supports economic growth while generating goodwill for your organisation.

If executives are genuinely held accountable for their decisions and the outcomes of those decisions – and rewarded fairly as a result – greater value will be created for all concerned.

If shareholders also take into consideration the needs of all of the other stakeholders, they will grow the entire ecosystem and in turn, will reap even greater rewards.



## The UK Companies Act 2006 encourages Responsible Capitalism

The 'Responsible Capitalism Ecosystem' is precisely what the UK Companies Act 2006 was drafted to promote. The legislation states that, when considering what is most likely to promote the success of the company, a director must have regard to:

- the likely consequences of any decision in the long term
- the interests of the company's employees
- the need to foster the company's relationships with suppliers, customers and others
- the impact of the company's operations on the community and the environment
- the company maintaining a reputation for high standards of business conduct

Interesting that the reality doesn't always live up to the ideal contained within the legislation ...

## Why is there a need for 'Responsible Capitalism'?

Capitalism is at a crossroads. Its future has never been more uncertain.

Shareholder value and executive remuneration are the two main areas of focus for a large number of corporations. Even many with a 'customer first' mind-set can seem to regard the needs of employees, suppliers, partners and the community in which they operate as secondary priorities.

Despite the fact that capitalism has been the single most important driver of global prosperity, it has become the object of loathing and mistrust over the last few decades (especially since the 2008 recession) for the simple reason that the financial and social benefits of our current form of capitalism have become so dramatically one-sided. While it has pulled billions out of poverty, it has also widened inequality, which is dangerous for everyone. Our current form of capitalism works for the few not the many. This is not good for society or for corporations.

**Responsibility is the missing third leg.** Market share and financial profit are the two main pillars of today's version of capitalism. 'Social Responsibility', the third leg of our theoretical stool, exists but it is weak. The primary assumption underpinning today's capitalism appears to be that it is the role of government to mop up the social consequences of business' relentless strive for greater efficiency and technology advancements. Unfortunately, governments are inefficient, disjointed, under-funded and increasingly impotent. Business leaders will have to step up.

**Tax has become optional.** The secondary assumption behind today's form of capitalism appears to be that tax is optional. Multinationals have been enjoying an unprecedented game of tax arbitrage - playing one nation's tax regime off against another to minimise overall tax and avoid national corporate taxes. Cities use tax credits to bid for the right to house multinational corporations. Capitalism appears to believe that the economic benefit of employing locals outweighs the local jurisdiction's loss of corporate tax revenues. This self-serving logic is flawed. Today's web-based multinationals employ c10% of the workforce than the old industries that they have replaced.

**Government and business have ignored those left behind by globalisation.** Globalisation has decimated traditional Western manufacturing communities and generations of governments have either let it happen or their efforts to assist have been inadequate. The result of this has been a wave of anti-capitalist sentiment and the rise of protectionist politicians.

**AI and Automation will make globalisation look like a picnic.** Many academics and industry pundits have forecast that half of today's jobs will be replaced by machines within the next 10-20 years.

**Robin Hood in reverse.** Over the last few decades, the rich have become richer while an increasing proportion of the population has become poorer. The gap is now dangerously and unconscionably high. As AI and enhanced robotics start to replace an expanding range of human employees at an accelerating rate, the gap between rich and poor is likely to increase further. Governments and corporations alike appear to be ill-equipped to address the social and economic consequences of permanently higher unemployment and under-employment ahead.

Our current form of capitalism needs to change.

**Our current form of capitalism needs to change**

Let's take a look at a few of the previous points in more detail:

## 1. Workers' wages have not kept pace with corporate productivity.

While productivity gains have continued to increase since WWII, the wages of goods-producing workers have stagnated in the last forty years.

The Washington-based Economic Opportunity Institute proposes that the cause may be cultural - a change of values and attitudes in Western Societies from the mid-1970s.

They suggest that capitalism in the first thirty years after WWII was inclusive - it was considered to be important that workers shared the gains from productivity increases - but that this attitude has since evolved into a more dog-eat-dog style of business environment where workers are regarded as expendable resources: 'Human Resources'.



## 2. Income equality in the West has become unconscionably high.

Someone in the top 10% in the US earns 9 times the annual average income of the other 90%.<sup>1</sup> The top 1% of income earners in the US earns 38 times the average wage of the 'bottom' 90%. The top 0.1% earns a staggering 184 times that of the 'bottom' 90%. The US CEO-to-worker compensation ratio was 20-to-1 in 1965. It is more than 300:1 today.<sup>2</sup> The average Dow Jones' CEO is paid almost as much in a day as their average employee earns in a year.

In the UK, the average disposable income of the bottom 10% is £9,644. The top 10% have net incomes almost nine times that (£83,875). In 2012, the average income of the top 1% was £253,927 and the top 0.1% had an average income of £919,882.<sup>3</sup>

In Germany, the richest 10% of households saw their real incomes increase by 27% between 1991 and 2014 while the poorest households' incomes dropped by 8%.

## 3. Wealth inequality is even more dramatic.

According to the Fed's 2013 Survey of Consumer Finances, the bottom fifth of US households had a median net worth of just \$6,400, whilst the median net worth of the top 10% was \$3.3m – a multiple of 500 times. The top 1% owns 44% of the world's household wealth.<sup>4</sup> The 2,095 wealthiest people in the world in 2020 own \$12 trillion, an average of \$3.8bn each.

## 4. Inequality can be fatal.

<sup>1</sup> Courtesy of inequality.org

<sup>2</sup> Courtesy of Economic Policy Unit Report by Alyssa Davis and Lawrence Mishel June 12, 2014

<sup>3</sup> <https://www.equalitytrust.org.uk/scale-economic-inequality-uk>

<sup>4</sup> 2019 Credit Suisse research

## CHANGE :: STRATEGY

changeandstrategy.com

Poor people don't live as long as rich people. In 2016, The New Yorker reported that the richest one per cent of American men live 15 years longer on average than the poorest one per cent. The gap is as large as 20 years, depending upon where you live.<sup>5</sup> Nine years is the age gap between the life expectancy of men in some of the poorest and wealthiest areas in the UK according to official statistics. The gap is seven years for women.

### 5. **The 2008 recession hit the innocent the hardest.**

The average Western citizen lost their job, lost their business, had their home repossessed, saw their benefits slashed, income stalled and their standard of living decrease as a consequence of the 2008 banking collapse while share indices soared to all-time highs. Recent history looks like repeating itself in 2020.

### 6. **Globalisation has left millions of people with nothing to lose.**

While globalisation has lifted millions of people around the world out of poverty, it has also decimated traditional Western manufacturing communities. The regional divide within Western countries, once narrowing, has been growing over the last twenty years. The share of high-salary technology jobs in America's eight largest technology hubs has risen and London's share of the UK's gross value-added has increased from 19% to 23%.<sup>6</sup> While a swathe of new jobs has been created, a far greater number of 'traditional' jobs have been lost. The end result is an expanding Western Underclass that generations of politicians and business leaders have taken for granted - failing to provide effective financial safety nets, retraining and relocation programmes that this increasingly large group of voters requires.

### 7. **AI and Automation will make globalisation look like a picnic.**

Ray Kurzweil, a director of engineering at Google and winner of the 1999 US National Medal of Technology and Innovation, predicted that, by 2029, "the manufacturing, agriculture, and transportation sectors of the economy will be almost entirely automated". This is just the tip of the iceberg. In the not-too-distant-future, we will need far fewer lawyers, accountants, financial advisers, bankers, investment professionals, ... every industry's employment model will be turned on its head.

### 8. **Under-employment is rife throughout much of the West.**

While unemployment is at record lows, under-employment is rife. "The working poor" is a disturbingly accurate description of an increasing number of Western workers who cannot afford to live on the part-time hours and/or low wages their employers provide.

UK Food Banks hand out 100,000 three-day emergency food supplies every month. Workers in many market-leading US corporations qualify for food stamps due to the low wages they take home.

And that was all before Covid-19.

---

<sup>5</sup> Inequalities in Life Expectancy Among US Counties, 1980 to 2014 Temporal Trends and Key Drivers. July 2017. <https://jamanetwork.com/journals/jamainternalmedicine/fullarticle/2626194>

<sup>6</sup> The Economist 21 October 2017

## CHANGE :: STRATEGY

changeandstrategy.com

The 'share' economy, or the 'gig' economy as it was rebranded, delivers enormous benefits for shareholders and consumers but has left a large number of workers overworked, underpaid, vulnerable, without benefits and with no job security.

At the end of 2019, 15% of UK workers were self-employed, up from 11% twenty years ago. That's 5 million workers. More than a quarter of the workforce is employed part-time. The number of people on zero hours contracts doubled in the decade after the 2008 crisis and the official underemployment rate increased by 50%.<sup>7</sup>

### 9. **Multinationals are becoming more powerful than nations and work hard to avoid tax.**

Multinational corporations have significant and, arguably, undue influence over western governments. They also are able to play one tax jurisdiction off against another. By booking revenues in no/low tax regimes and costs in the country of operation, multinationals are paying a small fraction of the tax that they could otherwise pay – whilst benefiting from the (current) social harmony, infrastructure, and stability of the countries in which they operate.

Too many multinationals have been avoiding corporate tax on a massive scale ...

- In 2017, Amazon was handed a €250m tax bill from the European Union, the result of a 3 year investigation into their taxation arrangements with Luxembourg.
- In 2016, Apple's European arm paid just €50 tax for every €1 million of profit.<sup>8</sup>
- In 2012, Microsoft paid no UK tax on \$1.7bn of software sales by channelling revenues through Luxembourg.<sup>9</sup> In 2015, Microsoft Ireland's accounts show that the computer giant made £2.3bn in revenues from the sale of hardware and software in the UK, but paid just £16.9million in UK corporation tax.<sup>10</sup>
- Google generated around £2.5 billion in UK sales in 2011 but paid just £6m in corporation tax.<sup>11</sup> When this became public knowledge in 2012, Google's Global CEO, Eric Schmidt, stated that he was "proud" of his company's tax minimisation strategies, adding that "It's called capitalism." "We are proudly capitalistic. I'm not confused about this." That year, Google reduced its global tax bill by funnelling \$10bn of sales revenue through Bermuda. In 2016, Google paid £36m in UK tax on £149m of profit on £1bn of revenue. However, the accounts of its parent company, Alphabet, declared UK sales were 6 times this. Google's motto is "do no evil".
- Starbucks became a social pariah for its UK corporate tax avoidance in 2012 when it was revealed that it had paid just £8.6m in tax on £3bn worth of sales over its first 14 years of trading. But has Starbucks had a change of heart? Bowing to public pressure, Starbucks paid £8.1m in corporation tax in 2015 at a rate equivalent to 24%, well above the UK corporation tax rate of 20% due to a one-off change in

---

<sup>7</sup> <https://www.businessinsider.com/uk-underemployment-since-the-great-financial-crisis-of-2008-2018-4?r=US&IR=T>

<sup>8</sup> <http://www.irishmirror.ie/news/irish-news/apple-paid-just-50-tax-8733883>

<sup>9</sup> The Telegraph 9 Dec 2012

<sup>10</sup> The Sunday Times and The Daily Mail 9 June 2016

<sup>11</sup> The telegraph 3 Dec 2012



## CHANGE :: STRATEGY

changeandstrategy.com

accounting practices. In 2017, they paid £15m in UK corporate tax, having closed the tax-avoidance partnership that used to receive European royalty payments and moving its European HQ from The Netherlands to London. And yet in 2018, the company paid just £4m of UK tax on £387m in sales. Starbucks said it actually made a £17m pre-tax loss in the UK that year after paying out £75m in “administrative expenses”, which includes royalty payments of £27.4m. Hmmm.

- Another mammoth multinational, Facebook, also started talking a good game. For years Facebook has minimised taxes by funnelling non-US income through the Republic of Ireland (12.5% corporation tax) and paying royalties to companies based in the Cayman Islands. In 2016, Facebook paid just £2.58m on revenues of £842.4m and profit of £58.4m. But it has since declared that it will start booking British sales in the UK. It then said it will extend the UK policy to the rest of the world. However, in 2018, Facebook’s UK operations paid just £28m in corporation tax last year despite achieving a record £1.6bn in British sales.<sup>12</sup> So – no change then.

*“Why is minimising tax a bad thing?” I hear you ask. “Surely, every dollar saved on tax can be spent on R&D, employee wages and investing in the business.”*

And you would be right – it could. But it isn’t. Too many of those uncollected tax dollars are diverted into self-serving share buy-back schemes and unproductive cash mountains (see below). The “trickle down” effect of lowering corporate taxes is like the pot of gold at the end of the rainbow – a lovely idea, however real life doesn’t work that way.

Furthermore, most Western governments are in financial difficulty; caught in a perfect storm of depleting incomes and increasing outlays due to an ageing population. And that is before the impact of the so-called ‘Fourth Industrial Age’ of AI and advanced automation. If half of today’s jobs are to be replaced by machines within the next 10-20 years, as is widely predicted, government tax revenues will fall off a cliff. Our societies need corporations to step up and pay their share.

I predict that business taxes will change. There is already talk of a ‘robot tax’. I also think that governments will start to base part or all of their calculations for corporation tax on revenue rather than profit. Old-school capitalists will squeal and predict even lower R&D investment as a result but these protests will hopefully be ignored – for the simple reason that society will need the tax dollars to fund a growing population that is growing older, living longer and working less.

### 10. **Multinational corporations are sitting on enormous mountains of un-deployed capital.**

According to Standard & Poors, the top 2,000 US nonfinancial companies held \$1.82 Trillion in cash and investments as of year-end 2014. UK corporates held approximately £500bn in cash, according to figures published in the UK National Accounts. Estimates of the total worldwide un-deployed cash sitting in corporate bank accounts, hedge funds and Private Equity funds runs into several trillions.

---

<sup>12</sup> <https://www.theguardian.com/technology/2019/oct/11/facebook-paid-just-28m-on-record-16bn-earnings-in-the-uk>

**11. Meanwhile, share buy-back schemes have been propping up share prices.**

Corporations have been using excess cash and low-interest loans to buy back their own shares, serving little economic benefit other than increasing their company's share price. According to Standard & Poors, US companies spent \$2.5 Trillion buying their own shares in the five years from 2011 to 2015. 2018 saw \$806bn spent on share buy back schemes in the US alone.

**12. While governments are finding it increasingly difficult to raise taxes.**

With income tax revenues falling, aggressive lobbying of politicians from multinationals and business groups, an unaccountable and divisive press and increasingly partisan parliaments, Western governments seem unable to raise the taxes they need to balance their budgets, invest in much-needed infrastructure, provide adequate health care to a relentlessly ageing population and plan for the future.

**13. And governments have become laden with debt.**

100, 120, 200%+ government debt-to-GDP ratios have become the norm. Several Western governments now spend more on interest every year than they do on education.

**14. The backlash has begun.**

Brexit, Trump and Corbyn are just 3 of the populace's adverse responses to today's form of capitalism.

**Detroit Roars.** It appears that Donald Trump and Bernie Sanders were the only two candidates in the 2016 US Presidential Election who realised just how much the average American is hurting from our current strain of capitalism. Desperate for change, any change, they chose a billionaire, anti-politician who campaigned on a promise to erect economic as well as physical barriers to entry into US markets: "Only America First".<sup>13</sup> Surely, an even bigger backlash will occur when voters realise that the jobs supposedly lost to Mexico will not be returning. If industries were forced to relocate factories back to the US, they would be manned with robots, not people.

Even though voters vote with their hearts and not their heads, the exploding inequality and decreasing opportunities for the growing American underclass is a pressure cooker waiting to explode.

**Nothing to lose from Brexit.** David Cameron failed to appreciate the anger, resentment and sheer numbers of those left behind by our current brand of capitalism. To Cameron's surprise, millions of people voted to leave the EU for the reason that they literally felt they had nothing to lose. Britain is now tying itself in knots trying to de-couple itself from its largest trading partner. A significant number of companies from banks to airlines, tech firms and even charities have been relocating jobs to Europe. The NHS, universities, hotels, construction companies, hospitals and fruit growers are wondering where their future staff will come from. The pound remains 20% lower than 22 June 2016 and the UK looks ready to

---

<sup>13</sup> President Donald Trump's inauguration speech 20 January 2017.

## CHANGE :: STRATEGY

changeandstrategy.com

experience the worst economic downturn of any OECD country as Covid lifts and Brexit begins in earnest.

Ignoring those left behind is not just bad for society; it is bad for business.

**Enter the Dragon.** Meanwhile, President Xi of China, having been sworn in as President for a further five years and perhaps for life, has heralded “a new era of socialism”. China is fast developing several ‘silicon valleys’. Every Canton contains at least one mega city. Once a tragically poor nation, China now boasts 100 million millionaires. President Xi is now undeniably the most powerful man in the world.

In the West, socialism is unlikely to be the answer – although a large and growing number of increasingly desperate voters believe that it may be. Energy, vitality, innovation and entrepreneurialism need to be encouraged and much of the West’s attempts at socialism in the past have not been up to the task.

But neither is laissez faire capitalism that focuses on shareholders and executives to the detriment of the rest of the ecosystem in which it operates. Voters recognise this and as they become increasingly desperate, they are becoming increasingly vocal.

## **Change is inevitable**

One doesn't have to be a science fiction writer to envisage a dystopian future society with well-armed security forces protecting a small cadre of Haves from the anger, envy and resentment of a majority of Have-nots. We only have to look to Johannesburg, Caracas or Acapulco to glimpse this reality today.

We also don't have to be a particularly insightful political analyst to envisage a future where governments become more insular and start to roll back globalisation, close borders and erect tariff barriers to protect inefficient home-grown industries – whilst failing to address the tax avoidance of global multinationals. This too has begun.

If we wish to prevent any of the above futures from developing further - something has to change. And a key 'something' is our current form of capitalism.

We need responsible free market capitalism that is less myopic, less self-centred, less self-serving, less win:lose; more inclusive, more collaborative, more win:win - more responsible.

“Change is inevitable”, declared Benjamin Disraeli well over a century ago. The change that we have embraced since then would have left him speechless. The change we have all witnessed in the last twenty years has been staggering but that is nothing compared to the change that is coming our way in the next twenty – or less. Globalisation and web-based conglomerates have disrupted industries and nations alike. AI, automation, climate change and new energies will turn industries and organisations on their heads, creating new opportunities and increasing the burgeoning Western underclass. Meanwhile, genetic medicine and immunotherapy look set to increase human lifespans beyond our wildest imagination – perhaps only for those who can afford it.

Individuals will need a significant amount of help to cope with the mind-boggling changes ahead. Governments will need to start looking after the people that will be displaced by the tsunami of change headed our way – or they will be replaced by politicians who will.

But is the business world that needs to take the lead. Business and society are intertwined. Business needs to be part of the solution. To accomplish this, business leaders will need to embrace the needs of the entire 'Responsible Capitalist Ecosystem' or, inevitably, they will be forced to do so by a disillusioned public, strengthened regulators and newly elected, empowered governments.

Business not only needs to change, it also needs to lead the change.

## **Responsible Capitalism is good for business**

People only change if and when they want to. This is true in every level of business as it is in life – from the shop floor to the CEO and Chairperson. And in order to change, people require sticks and carrots. We have discussed the ‘stick’ in some detail. The ‘carrot’ is that investors and consumers alike are increasingly regarding ethics and sustainability as key parts of their decision-making. Twenty years ago, Corporate Social Responsibility was a nascent fad. Today, it is a key unit within an organisation’s strategy departments.

Fourteen years ago, the tenets of ESG (Environmental, Social and Governance) were new ideas for institutional investors – and very few asset managers took it seriously. That has changed. The UN’s Principles for Responsible Investment was launched in April 2006 at the New York Stock Exchange with 100 signatories. The number of signatories now exceeds 3000. Norway’s \$1 Trillion Sovereign Wealth Fund leads its sector in this regard - offloading coal assets and other environmentally-damaging stocks and steering clear of companies (like Snap and Alibaba) who only list non-voting shares. ESG is no longer a “nice thing to do”; it is at the core of institutional investment strategies.

“Sustainability” has become the buzz word of investors around the globe and integral to every active investor’s stock selection process. Investors want to invest in sustainable companies for the simple reason that companies with sustainable business models and sustainable practices regarding the environment and the societies in which they operate ... out-perform the rest of the market over the long term. Recent research by McKinseys and the Focusing Capital on the Long Term think-tank discovered that the market capitalisation of ‘Long Term’ US companies grew \$7 billion more than that of other firms between 2001 and 2014.

**Irresponsible capitalism is bad for business.** On the 22<sup>nd</sup> September 2017, Transport for London announced that Uber’s licence to operate in London would not be renewed, stating that Uber was not fit and proper to hold a private hire operator licence. “Uber’s approach and conduct demonstrated a lack of corporate responsibility which could have potential public safety and security implications,” said the TfL statement. It appears that this dramatic move was the only way for TfL to have their concerns taken seriously. Addressing the regulator’s concerns about customer safety and allegations of assault was evidently not regarded as an important part of the Uber culture. If the company wishes to remain in London, this will need to change. The European Court of Justice has now declared that Uber is a taxi company rather than an app, meaning it will now have to act responsibly and pay attention to the regulators of every European city. The sad thing is that actually they tried to fight this. These latest blows come on top of allegations of sexism in their head office and poor treatment of drivers in many cities around the world. The customer experience may be brilliant but Uber has been ignoring the other stakeholders of the ecosystem in which they operate.

Graduates now select prospective employers for their CSR and ESG credentials. Millennials in particular want to work for companies that make a positive difference to the world in which they operate. They also want to invest in businesses that are ethical and sustainable. As they start to inherit the Baby Boomer’s wealth, Millennials will move their money accordingly.

Responsible Capitalism is good for business.

## **What does Responsible Capitalism look like?**

Responsible Capitalism is the art of leading and managing organisations in a manner that is sustainable and for the benefit of all stakeholders, not just the executives and shareholders.

This means ...

### **1. Clear strategy, strategic rationale and sustainable business model.**

Responsible Capitalists run successful companies. Success requires strategic clarity. It requires a sustainable business model based around a deep understanding of the needs, wants and drivers of the customers, a clear purpose, a change-ready culture that is aligned to deliver the strategy and an organisation that is ready, willing and able to execute.

### **2. Long term thinking, planning and actions**

Responsible Capitalists think long term. They invest for the oncoming years and decades, not just the next quarter. Responsible Capitalists realise that short term thinking is destructive and that long term deployment of capital in line with a clear long-term strategy delivers far greater value to shareholders and long-lasting benefits to all members of the ecosystem.

### **3. Responsible capitalists understand the value of culture.**

“Culture is everything” declared Louis Gerstner when he was CEO of IBM. Responsible Capitalism requires the adoption of new attitudes: attitude leads to behaviours and your corporate culture is the result of how your people behave. Culture drives business success or failure - and culture starts at the top. Responsible Capitalists develop an organisational culture that actively encourages and rewards responsible capitalist attitudes and behaviours, enables long-term thinking, planning and action; and delivers for the entire ecosystem in which it operates.

### **4. Responsible Capitalists treat their employees how they would like to be treated themselves.**

**Pay:** Responsible Capitalists pay their employees as much as their business models allow. Companies whose employees need to turn to welfare to top up the wages they earn are not responsible capitalists. Responsible Capitalists look after employees when they are made redundant or when a business is closed or sold. They don't exploit loopholes in corporate law to leave employees unpaid, out of pocket or without hope.

**Conditions and benefits:** Responsible Capitalists provide their employees with a work environment that they would be proud for the rest of the world to see. They provide them with the sort of working conditions, healthcare and pension plans that they would like if positions were reversed.

Responsible capitalists realise that their employees:

- May also be customers
- Are the company's most effective PR conduits
- Deliver the company's customer experience
- Are the only ones who can deliver the strategy
- Are humans, not resources

**5. Responsible Capitalists add value to the communities in which they operate.**

Responsible Capitalists pride themselves in paying genuinely fair amounts of tax in the jurisdictions in which they operate and the communities in which their customers reside. Avoiding tax is not something Responsible Capitalists boast about. While minimising tax through the loopholes and the manipulation of off-shore tax havens may be legal, Responsible Capitalists recognise that over-indulging this practice is self-defeating in the long run.

Responsible Capitalists invest in the communities in which they operate, not only because it is the right thing to do but also because investing in the ecosystem pays dividends for all stakeholders.

Responsible Capitalists look after the environment in which they operate – for the same reason.

**6. Responsible Capitalists invest in their business.**

Responsible capitalists believe in their companies so much that they invest in them for the long term. According to a recent survey by McKinseys and FCLTGlobal, 78% of CFOs would give up R&D spending in order to meet short-term earnings targets and 55% would forgo investment with positive NPV to avoid missing EPS consensus by one cent. The report went on to demonstrate that this sort of short-term thinking destroys shareholder value.

**7. Responsible Capitalists ensure their executives are accountable**

Responsible capitalists tend not to pay for failure, ensuring their executives' incentives are genuinely aligned to the company's strategy and the interest of all stakeholders in the ecosystem.

**8. Responsible Capitalists treat suppliers the way they would like to be treated themselves.**

Responsible capitalists pay fair prices, don't abuse their market position and pay their debts on time and in full. They don't misuse or abuse bankruptcy laws to avoid paying suppliers.

**9. Responsible Capitalists adopt a win:win attitude**

Responsible capitalists understand that win:win negotiations with employees, suppliers and partners produce better long-term outcomes for shareholders. A win:lose negotiation is never sustainable as it will inevitably morph into lose:lose over time.

Are you a Responsible Capitalist?

## What can I do about it?

Change & Strategy International Ltd helps CEOs and leadership teams to lead and embrace change. We can help you infuse the principles of Responsible Capitalism into the DNA of your organisation. While the concepts of Responsible Capitalism are universal, every company is different. Therefore we tailor a Responsible Capitalism Programme to meet the unique needs of each and every client.

### Your Responsible Capitalism Programme could include:

#### 1. Responsible Capitalism Workshops for:

- Boards
- Executive Leadership Teams
- Shareholder Groups
- Senior Management Teams

The workshops discuss the generic concepts of Responsible Capitalism before defining what Responsible Capitalism looks like for your organisation - and the key implications.

**2. Responsible Capitalism Review.** A review of all of the organisation's stakeholders including its relationships with employees, suppliers, partners and the community in which it operates.

**3. One-to-One advisory sessions** with the CEO and other C-Suite Executives on the definition and impact of Responsible Capitalism on them personally and their departments.

**4. Responsible Capitalism Strategy and Action Plan.** Assist the leadership team to define Responsible Capitalism as it pertains to their organisation, document the key implications and develop a detailed analysis of comprehensive strategy, implementation and communications plan.

**5. Leading Change Workshop.** Provide your senior leadership team with the skills and tools they need to achieve one of the most challenging and yet essential assignments in business - the implementation of successful and sustainable change.

**6. Embracing Change Workshops.** Provide all of your employees with the approach and toolset they need to be ready for change and to enable them to treat it as an opportunity for personal growth. Organisational change can only be achieved if your people are ready, willing and able to change. Only your people can deliver your strategy. Only they can deliver the change your business requires.

**7. Change Catalyst Development Programmes.** Identify and develop your in-house Change Catalysts.

**8. Change Readiness Review.** Ensure your culture enables the delivery of your strategy and that your organisation is ready, willing and able to embrace and deliver the change you require.

Change & Strategy International Ltd

[www.changeandstrategy.com](http://www.changeandstrategy.com)

e: [campbell@changeandstrategy.com](mailto:campbell@changeandstrategy.com)