

# EMBRACING THE 'NEW CAPITALISM'

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At the 2014 SID Directors' Conference, global business leaders deliberated on what capitalism means today, and what it could mean tomorrow. Even though there was agreement that the capitalist model is, conceptually, the best economic system, a consensus emerged that change is overdue.

When they work effectively, market principles enable healthy competition, innovation, wealth creation and efficient resource allocation. However, the unfettered capitalism of recent years has led to market and corporate failures with disastrous consequences.

The rethink of capitalism has also been precipitated by the increasingly urgent need to achieve sustainable development in a progressively resource-constrained global economy that needs to

support an ever expanding population.

Sustainability is not just a global issue but one that affects companies, with direct implications for their survival. History illustrates that companies that are unable to adapt to such changes soon find themselves out of business. And the current change in the business climate is fundamental. SustainAbility, a UK think-tank, suggests that companies must “disrupt or be disrupted”.

Some companies have seized the moment and started the process of transformation to a more balanced model of capitalism. However, to achieve critical mass, more companies must join this shift. And without the board at the helm of such change, to provide proper oversight and control, progress will always be temporary, incremental and, ultimately, ineffective.

## RETHINKING BUSINESS AND MODELS

So, what should boards do?

First, boards and their companies should understand these new realities. They need to recognise that a blinkered focus solely on maximising returns on financial capital is increasingly undesirable. Externalities must be accounted for, inequality is divisive, and growth cannot be the singular measure of success.

Companies need to take a stewardship perspective towards all stakeholders, not just shareholders. Decisions need to be made from a holistic and longer-term standpoint, incorporating environmental, social and governance impact with the more traditional measures of economic success. The “capital” in “capitalism” does not refer to finance alone. The Integrated Reporting framework, for example, refers to six types of capital: financial, manufactured, intellectual, human, social and relationship, and natural.

Second, they should seek to understand and engage with

stakeholders, both supporters and critics. Information flows cannot be one-way traffic, rooted in past events and focused on historical data. With real engagement, boards can become better informed about how different groups view the company and its impact over time.

With a better balance between external and internal views, boards can develop a good understanding of how their licence to operate is framed, and what the potential is for sustained partnerships and collective action that are best suited given their own limited resources.

Third, boards need to start asking different questions of management and their business models. Instead of just wondering – “How much will these things cost in the future?” – they need to probe further with questions like: “How should we adapt now, for the future?”, “What alternatives are there?”, and “How do we create them?”

Next, in seeking answers to these questions, boards and companies should look at changes in the marketplace, both within and outside their industries, and focus on actions and innovation which can be adapted and incorporated into their own business models.

SustainAbility’s 2014 report, *Model Behaviour*, identified 20 business model innovations that are currently in use. These include innovation in financing (such as crowdsourcing); creating alternative marketplaces (such as Uber); inclusive sourcing (where supply chains focus on long-term outcomes and not simply short-term volume); social enterprises (for profit companies with a social mission); and the rejuvenated cooperative movement (the latter two examples as progressive ownership models).

Evidently, these new disruptive organisations can either be viewed as new competitors to an existing business or they can be potential partners in innovation.

An example of collaborative action can be found in the notion of “Breakthrough Capitalism”. The term, coined by Volans, captures the emergence of the Corporate Venture Capitalist, an investor that applies established investment skills to tackle environmental or social goals as well; and the Impact Investor, who focuses on scaling up such innovations. The “breakthrough” occurs when outcomes marry all of these elements together.

## LOOKING AHEAD

Many would agree that today’s capitalist model is outdated. While Clay Shirky notes that “institutions will try to preserve the problem to which they are the solution”, new capitalist models have doggedly emerged. Boards need to take a broader view of their companies and the markets in which they operate in the light of these potentially game-changing developments.

It’s not just about leading the way today, but also about which companies want to be around in five, 10 or even 20 years’ time. ■