Global Commission on
THE FUTURE OF WORK

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ISSUE BRIEF

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#9

Cluster 5: New approaches to growth and development

New business models for inclusive growth

The establishment of the Global Commission on the Future of Work in August 2017 marked the start of the second phase of ILO's Future of Work Centenary initiative. The six thematic clusters provide a basis for further deliberations of the Global Commission. They focus on the main issues that need to be considered if the future of work is to be one that provides security, equality and prosperity. A series of Issue Briefs are prepared under each of the proposed clusters. These are intended to stimulate discussion on a select number of issues under the different themes. The thematic clusters are not necessarily related to the structure of the final report.

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Introduction

While business enterprises are the engine of our economies, the generators of prosperity and the creators of jobs, there are growing concerns that the current dominant focus on rewarding investors and creditors comes at the expense of the environment and well-being. This raises the challenge as to how best to utilize the potential of business to contribute to society.

Reflecting on this challenge, this Issue Brief takes stock of the research on new business models in order to better understand how we can harness the productive capacity of business to optimally contribute to inclusive and sustainable growth.

Key findings

Should we be concerned about single stakeholder models of “shareholder primacy”?

A good deal of research has analysed the consequences of shareholder primacy for income inequalities and employment conditions. Shareholder primacy is the idea that the pursuit of value for a single stakeholder – the shareholder – is the core business function driving production efficiencies. Shareholders have a residual claim on the surplus from production, but they also carry the risk.

Thanks to the liberalization of capital flows across borders and growth in shareholder value financial assets, the shareholder value principle is increasingly taken for granted across countries with different corporate governance traditions (van der Zwan, 2014). The strength of financial incentives – as opposed to other types of incentives that drive shareholder value – has increased with the growth in “financialization”, whereby corporate governance is conditioned by, and more responsive to, financial markets rather than product markets (Fligstein, 1990). Financialization has important implications for processes of value creation and distribution (Appelbaum and Batt, 2014); it means that shareholder value today is more likely to depend, among others, on the creation of wealth through financial engineering (via accountancy and other intermediary organizations). Under this model, value is generated primarily from non-productive resources. This has clear implications for the distribution of efficiency gains. Research has focused on the question of how financialization has changed the scope of shareholder primacy and shaped business strategies and processes. Shareholder primacy exerts pressure on corporate managers to maintain shareholder approval, which in a context of financialization means generating continuously high rates of return on equity. This raises a number of concerns for inequalities and employment conditions faced by a competing but important stakeholder group, namely, workers:

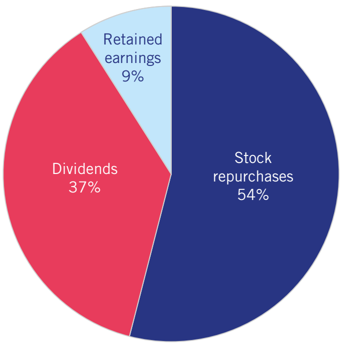
1. Short-time horizons in shareholder systems seem to militate against longer-term employment strategies of investing in training and related forms of human resource development (for the Republic of Korea, see Kim and Kim, 2015).

2. Record high levels of stock buybacks (figure 1) reduce funds available for investment in plant and equipment, research and development, wage increases, and improved health and safety; moreover, buybacks reward shareholder volatility rather than stability (for the United States, see Lazonick, 2014).

3. Workers may face greater risks of downsizing in companies that emphasize shareholder primacy than in those that do not because labour is frequently the target of cost-cutting strategies (Lin, 2016); in practice, effects are contingent upon institutionally conducive factors that lessen workers' capacity to resist lay-offs (Goyer, Clark and Bhankaraully, 2016).

Figure 1. Share buybacks and dividends, United States

S&P 500 aggregate values for 2003–12



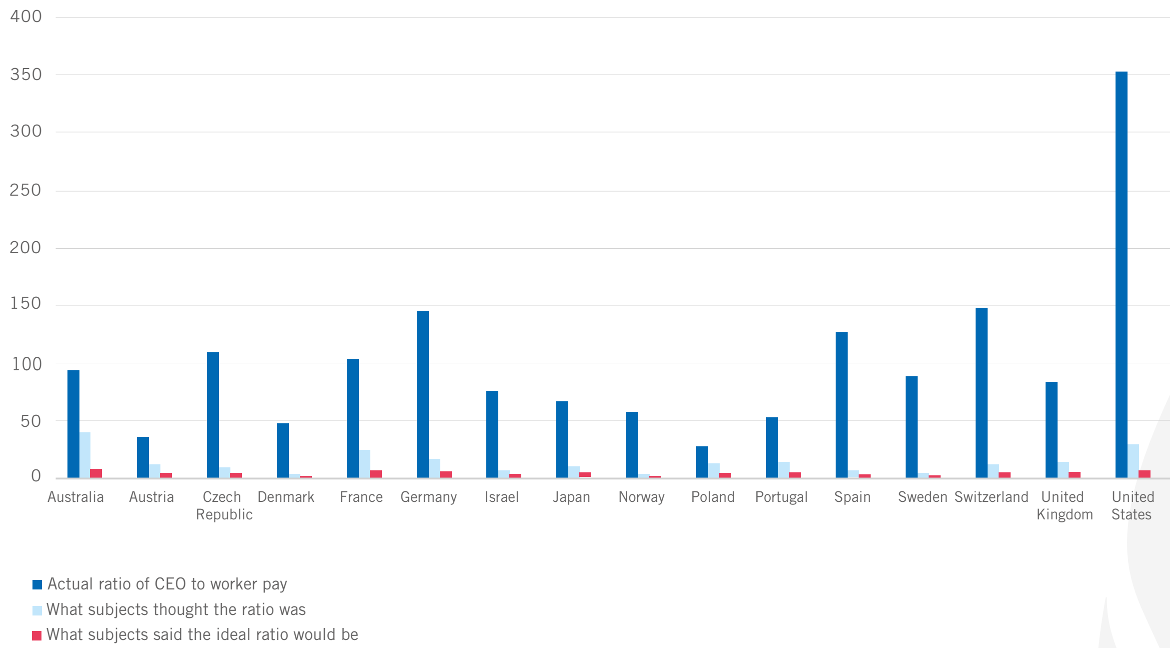
Top 10 companies by value of buybacks, Q3 2016

	Buybacks (US$ billion)	Dividends (US$ billion)
Apple	7.22	3.09
General Electric	4.29	2.10
Microsoft	3.55	2.80
Allergan	3.19	0.07
McDonalds	2.77	0.75
Citigroup	2.53	0.69
JP Morgan Chase	2.30	2.07
American International	2.26	0.34
Home Depot	2.14	0.85
Yum! Brands	2.09	0.18

Source: Lazonick, 2014.

In a context of increasing inequality and stagnation of real wages faced by workers in many countries, there is growing concern over the rising compensation of corporate executives (Dah and Frye, 2017). An international survey conducted by Kiatpongsan and Norton (2014) asked people what they thought chief executive officers (CEOs) earned and also what they thought CEOs ought to earn. The results demonstrate a significant disconnect between societal norms and executive expectations (figure 2). In the United States, for instance, CEOs made on average 354 times the amount earned by unskilled workers in 2012. This was considerably higher than the ratio that was estimated by survey respondents (30:1) as well as the ratio respondents considered as ideal (7:1).

Figure 2. International survey results on executive pay



Source: Kiatpongsan and Norton, 2014.

Alongside wage stagnation and global evidence of a falling wage share (ILO, 2016), the share primacy model may also be eroding returns to another key stakeholder: the nation State. There is growing concern in many countries of falling corporate tax revenues associated with a declining average tax rate. For member countries of the Organisation for Economic Co-operation and Development (OECD), for example, the average corporate tax as a share of total tax revenue has fallen from its pre-crisis level of 11.2 per cent in 2007 to just 8.8 per cent in 2014, and in several countries the fall has been dramatic: from 29 to 21 per cent in Chile, from 13 to 6 per cent in Spain, and from 23 to 17 per cent in Australia.[1] States may seek to make up the shortfall by resorting to more regressive forms of tax collection such as consumer taxes, support welfare and infrastructure spending, which are vital for business. Standard VAT rates reached record levels in 2014 at 19 per cent for the OECD average.

The evidence and business debates raise two key questions for the future of work: How can business integrate the views and interests of other stakeholders? How can the short-term economic value of business be complemented by concern for the long term?

1 See OECD data at *http://www.oecd.org/ctp/tax-policy/table-3-12-taxes-on-corporate-income-1200--total-taxation.htm.*

How can business take account of other stakeholder interests?

Any business model may involve contributions from multiple stakeholders – investors and creditors provide finance and expect dividends and other payments; workers provide effort, commitment and ideas in return for wages; and the State provides infrastructure in return for tax revenue. In light of concerns about rising inequality, a key question is how the *integration of other stakeholder interests* can contribute to strategic business decision-making and, in turn, contribute to inclusive development. It may be time, in other words, to treat all interests of society as valid stakeholders, not only shareholders.

While there is longstanding understanding of the employment and innovation performance of "shareholder" models versus "stakeholder" models, mostly conducted at country level (e.g. Gospel and Pendleton, 2005, for developed countries), new research investigates the performance variation among corporations with high or low levels of "stakeholder salience", defined as the degree to which managers and the regulatory environment give credence to the views of multiple stakeholders. The following are a selection of new findings:

- Responsiveness to multiple stakeholders can be a positive driver for corporate social responsibility (CSR), increasingly perceived as essential to sustainable business performance (Mason and Simmons, 2014). Stakeholders may derive legitimacy from statutory rights that empower them to hold business to higher labour standards (as in Germany), or from campaigning (at company or industry level) (Young and Makhija, 2014).
- Business CSR agendas can include partnerships with nation (and local) States against poverty, for standard setting and in forming "privatized governance". While potentially positive for national competitiveness (Boulouta and Pitelis, 2014), research also suggests that there are major limits to business efforts to improve income distribution via payment of corporation tax, suggesting limits to the "stakeholder salience" of government and its citizens (Utting, 2007).
- Multinational corporations (MNCs) may engage with multiple stakeholders in the host countries of subsidiaries because local stakeholders can usefully channel legitimate concerns (and provide expert knowledge) about human rights and social and environmental challenges (Kang, 2013); conversely, non-engagement or absence of locally informed stakeholders can generate conflict and problems with business practices (Bondy and Starkey, 2014).
- Relatedly, the *capabilities* of MNCs to respond to local stakeholders, and thereby avoid conflict and reputational damage, depends in part on positive experience with multiple stakeholders in the home country of operation. Jackson and Rathert (2017) show that MNCs from countries with strongly institutionalized stakeholder rights find it easier to adopt stakeholder-led CSR as a global business strategy.

These new findings add to prior knowledge about the potentially positive effects of a multi-stakeholder business approach. These include the possibility that multiple stakeholders can identify areas of under-used capacity (labour and capital), facilitate trust between staff and management, smooth the employment effects of business cycles (e.g. through work redistribution plans), contribute to innovation via improved information flows, and mitigate against non-compliant management actions (Grimshaw, Koukiadaki and Tavora, 2017).

Facing the challenges and learning the lessons for the long term

As capitalism developed, so did the space for different forms of business organization across all sectors of the economy. There are longstanding models that prioritize the social and environmental needs of society: for example, conventional business models with joint and limited liability, and various new models that pioneer so-called "intangible capitalism", involving investment in intangible assets such as design, branding, R&D and software. The various models present both challenges, as well as insights into devising imaginative methods for incentivizing business to contribute to sustainable development and inclusive growth.

The giants of "intangible capitalism" either did not exist a generation ago or were small, yet they now include the top four valued companies in the world. These corporations have sparked concerns of a fast-moving, new form of business that is harder to regulate, harder to tax and is generally disruptive of the familiar rules and mechanisms of a market economy (Haskell and Westlake, 2017). The "winners" dominate the market, detach value from tangible content, and agglomerate through a process of monopolizing information (they control the platforms and can harvest big data for commercial exploitation) and splitting jobs into tasks (creating ambiguity over employment status) (see Issue Brief No. 5). While there is concern over the exercise of this corporate and financial power, there are few tools to address the issues. Politicians on both the right and the left now recognize that traditional tax and regulatory policies probably need re-imagining to encourage these businesses to take on greater civic and social responsibilities.

Nevertheless, there are many points for possible interventions: the clustering of these enterprises in some geographic districts has raised incomes and housing costs, creating unaffordable citadels. This could be addressed by an inclusive housing and development strategy that distributes resources more fairly; also, the monopolization of information, such as personal data, has generated new discussions about how to pluralize ownership through new forms of capital sharing, thereby both spreading wealth gains and improving tax revenues (Lawrence, Roberts and King, 2017).

Indeed, there are already signs that more businesses, in both the tangible and intangible economies, are wanting to be more inclusive by strengthening their commitment to workers, localities and society through new associations, charters and licences. Moreover, stock markets have to some extent adapted by incorporating ''social indices'' to assess the commitment of businesses to social and environmental goals, whether the ethical indices listed on the London Stock Exchange or the S&P 500 Environmental and Socially Responsible Index. For example, a growing list of so-called "B Corporations" are independently certified as creating value for non-shareholding stakeholders, prioritizing social and environmental concerns (often alongside shareholder value), and are interested in "creating a new economy with a new set of rules" (Kim et al., 2016). There is also a wave of interest among businesses in registering for voluntary employment charters (in, say, a city region or across a global value chain), which raise minimum pay and make work more equal and secure (for the United Kingdom, see Hurrell, Hughes and Ball, 2017).

More broadly, the social and solidarity economy (SSE) enterprises encompass a range of business forms, including worker cooperatives, mutual benefit societies and social enterprises, and respond well to the needs of citizen groups and local communities (Borzaga, Salvatori and Bodini, 2017; ILO, 2017). Research points to key lessons for work and employment of these more pluralist models. First, SSE enterprises are less likely to delocalize production activities or offshore them in order to cut labour costs in response to investor pressures. Second, they are often at the forefront of efforts to regenerate local communities and to rescue businesses at risk of bankruptcy, thereby both creating and preserving employment (e.g. see Vieta, Depedri and Carrano, 2017 for Italy; Ruggeri, 2009 for Argentina); observed country variation is shaped by legal frameworks that promote and protect SSE enterprises (CECOP, 2013; ILO, 2014). Third, the SSE business form can prove fruitful for pooling resources for micro-enterprises or independent self-employed workers.

Some considerations

The growing call for more inclusive business models raises distinctive issues for the future of work. The globalization of financial markets presents challenges to efforts to improve employment quality in a business context that prioritizes shareholder value. There is a risk that the current era of financialized and intangible capitalism will exacerbate these trends.

The empirical evidence shows that new business models do contribute to more sustainable social and economic development, but this raises the question of the generally slow pace of diffusion and adaptation among much of traditional business. There are useful efforts to better understand and measure the intangible value of corporate sustainability goals (e.g. for Brazil, see Orsato et al., 2015). This is a potentially important agenda if we want to encourage businesses to shift away from the focus on short-term tangible, financial gains.

- How do we shape incentives so that businesses – while pursuing the legitimate goal of profit maximization – also contribute to sustainable and inclusive growth?
- How can business models adapt to take account of other stakeholder interests?
- What options and tools exist to respond to concerns about the growing concentration of digital platforms?
- How can we harness the potential of the social and solidarity economy?

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