



Morgan Stanley

INSTITUTE FOR SUSTAINABLE INVESTING

Inclusive Growth Drivers:

The Anatomy of a Corporation

Introduction

Corporations have far-reaching impacts on society and economic growth through the decisions they make about their employees, products and services, operations and management practices. By considering implications of those choices on inclusive growth, corporations can contribute to economic gains that are broad-based and sustainable over time, while achieving business benefits through new market opportunities, reduced costs and enhanced investor interest.

The news on March 13, 1965, was of the landmark variety: President Lyndon B. Johnson championing the Voting Rights Bill in the Rose Garden. Protesters in Selma, Alabama, facing down a police blockade. A catchy little tune called “Eight Days a Week” hitting #1 on the Billboard chart. Amidst the big headlines, it was easy to overlook the death of an 81-year-old Italian statistician.

Corrado Gini had spent his decades-long career at the broad intersection of sociology and statistics, but it was a single formulation in his 20s for which he would forever be remembered. A dry but profound equation, the so-called Gini Coefficient represented a *relative* measure of prosperity. How equitably is income dispersed across a population? Does it concentrate at the top or circulate more evenly throughout society? Gini’s work would become foundational for a coterie of economists, policy makers and development experts dedicated to something called inclusive growth.

Inclusive growth’s central premise is simple: Economic gains ought to be broad-based, sustainable and provide opportunity across the range of participants within that economic system. This begins with income, but also comprises access to health, education and economic advancement opportunities, regardless of gender, race, ethnicity, geography or other such circumstances.

Elemental as that may be, it has nonetheless proven elusive. Decades of globalization and technological innovation have produced tremendous economic growth around the world—and yet have not supported a broad rise in living standards. In both developing economies and industrialized ones, the past 30 or so years have seen inequality climb steadily. In the U.S., productivity grew by 72.2% between 1973 and 2014—but the gains from those improvements went primarily to those at the top of the income distribution. The top 1% saw their wages rise 137.7% between 1979 and 2013, while the bottom 90% of wage earners saw gains of just 15.2%.¹ As Nicholas Kristof put it in *The New York Times*, “The situation might be tolerable if a rising tide were lifting all boats. But it’s lifting mostly the yachts.”²

The good news is that income inequality and wealth disparity have begun to penetrate the popular consciousness. When Oxfam reported that the world’s richest 1% possesses as much wealth as the rest of the population combined,³ the statistic exploded across Twitter. But thus far analysis of the topic has tended to focus on the impact of government policies on inclusive growth. The private sector’s role has largely been overlooked.

In reality, companies and investors alike have an opportunity to positively influence inclusive growth—and to benefit from it. In most countries, the private sector accounts for large shares of employment, natural resource use and government revenue.⁴ Meanwhile, a growing body of research shows that business leaders need not sacrifice financial performance and shareholder returns in order to affect society-wide benefits. Walking this line successfully—achieving both meaningful growth and impact—starts with a keen grasp of a

corporation’s key functions. That’s what this paper represents: a high-level “anatomy of a corporation” that explores the business considerations of a company, and maps the ways in which those factors impact inclusive growth and achieve business benefits. This framework is intended to help businesses think about their activities, choices and strategies through the lens of inclusive growth. Investors, for their part, can use this framework to evaluate risks and opportunities related to inclusive growth.

In the broadest sense, inclusive practices can promote business aims in two key ways:

- 1 Improved Operating Environment:** Inclusive growth creates more prosperous, secure, healthy and safe societies, which ultimately provide better operating environments for business and investment. Countries with higher levels of inclusive growth are more politically stable and typically have lower levels of social resentment and social unrest.⁵
- 2 Enhanced Consumer Purchasing Power:** By folding historically neglected swaths of the population into a growing economy, inclusive growth expands the customer base available to businesses. That benefit is extended by the better health outcomes and longer life expectancies correlated with reduced inequality.⁶

Businesses that take specific actions internally to promote inclusive growth can experience other direct benefits. Among them:

Greater employee attraction, retention, engagement and productivity, which can result in lower costs for human resources, suppliers and production.

Improved product innovation, quality and market access, which contribute to increased revenue through enhanced sales.

Stronger risk management, through systematic evaluation of decisions that may generate consumer or regulatory backlash and/or negative effects on productivity and sales—for example, tax practices, layoffs or certain forms of political engagement.

Enhanced reputation and protection of a “social license to operate,” which have multiplier impacts through the human capital benefits mentioned above, and lead to increased sales, customer loyalty and better market access.

For these reasons and more, the conversation about inclusive growth is spreading among business leaders and investors alike. Meanwhile, trust in business is falling on several key indexes.^{7,8} In light of political movements seeking to curb globalization and heightened public awareness of economic inequality, the question faced by a growing number of companies is not whether to pursue inclusive growth, but how.

In this brief we will focus mainly on the levers that companies can use to integrate inclusive growth into their thinking, and we will highlight existing research on the financial outcomes of such actions among companies traded publicly on U.S. stock exchanges. However, in many cases, the principles also

apply to other geographies and to other company sizes and ownership types.

This paper aims to put the existing literature in the context of our framework and shed light on the many ways that corporations impact inclusive growth. It will form the foundation for a broader body of work from the Institute for Sustainable Investing that will explore the role of corporations in building a more inclusive economy. Future analytical work will detail the implications for investors and business leaders in greater depth and aim to quantify the business performance impacts of behaviors and activities that promote inclusive growth.

The Role of Business in Inclusive Growth

Baked into any conversation about inclusive growth and business is a central nagging question: Does pursuing the former imperil the latter?

For decades a prevailing belief within the business community held that combating inequality meant sacrificing profits, and that growing the company and addressing social ills had to be at odds. In 1970 Milton Friedman famously declared that the sole responsibility of business is to increase profits.⁹ The implication, of course, was that a company's priority must always be its bottom line—and that all else was but a distraction.

Unquestionably positive impact and business growth can be at odds. But when the right balance is struck, inclusive growth

can also become an unambiguous win for a company. In that sense it's no different than any other business decision that gets made—requiring thoughtful evaluation of risks and opportunities.

Our Anatomy of a Corporation framework (Fig. 1) breaks down four keys areas in which companies can either promote or hinder inclusive growth. We will explore each of these avenues in greater detail.

Anatomy of a Corporation

FIGURE 1



Human Resources

Recruitment. Workforce management. Compensation and benefits. A firm's human resources function concerns itself with key labor practices—and often with an earnings-focused understanding of how to do so most advantageously. For most companies, the first step toward inclusive growth is jettisoning the notion that the least-expensive workforce is best for the bottom line. In fact, employee satisfaction—a composite reflection of fair wages, job security, work-life quality and more—has been shown to correlate with improved corporate performance.¹² These benefits accrue through lower costs for human resources, higher productivity and increased revenue through enhanced innovation, market access, sales, brand awareness and reputation.

Creating a dedicated and engaged group of employees begins with the recruitment of a workforce that is representative of the population at large. **Workplace diversity** has been shown to result in better cultural sensitivity, an improved grasp of the customer base and improved corporate reputation.^{15, 16} In turn, companies with diverse workforces at all levels may potentially achieve superior performance.^{17, 18} Morgan Stanley Research has demonstrated that companies with greater gender diversity have higher return on equity (ROE) and lower ROE volatility relative to low gender diversity sector peers.¹⁹ Similarly, according to the research and action institute PolicyLink, “As baby boomers retire and the pool of American workers grows more and more diverse, the costs of racial economic exclusion—and the value proposition of inclusion—will continue to rise.”²⁰

A company's choices around **job security**—when to use regular or contingent employment models, and when and how to lay off workers—represent another opportunity to achieve inclusive growth. Evidence shows that strategically limiting layoffs can lead to improved operating performance even in times of financial pressure.^{23, 24} Indeed, companies that focus on operating efficiently and R&D investment rather than just cutting payroll costs during downturns tend to outperform their peers during economic recoveries.²⁵ This is due to a variety of factors including maintaining a continuity of customer relationships, R&D pipelines and a trained workforce.²⁶

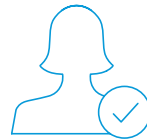
Equitable compensation can have enormous impact on employee morale and retention. In the U.S., more than 6% of the workforce holds the equivalent of full-time jobs but nevertheless lives below the poverty level: the “working poor.”²⁷ Low-wage jobs are disproportionately held by women and those who are younger, Hispanic, single parents or in poor health. These workers are less likely to have access to paid leave, health insurance, retirement benefits or an employer-paid health plan.^{28, 29} Jobs that pay less than a living wage have been linked to a variety of problems for

2.3–3.8%

From 1984–2011, companies on the Fortune 100 Best Companies to Work For list delivered stock returns that beat peers by **2.3–3.8%** per year. The study found that employee satisfaction improves performance, not the other way around.¹⁰



Companies with high levels of employee engagement experienced earnings per share growth **4.3X** greater than peers from 2011–2015.¹¹



North American companies in the top third of Morgan Stanley Research's gender diversity model have seen **2%** average annualized relative returns vs. the bottom third since 2011.¹³

+35%

Companies in the top quartile for racial and ethnic diversity are **35%** more likely to achieve returns above national industry medians.¹⁴



Research has shown that a 1% workforce reduction can lead to a **31%** increase in voluntary turnover.²¹

150–250%

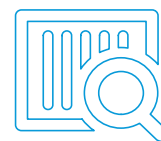
It is estimated that layoffs can cost firms **150–250%** of an employee's salary.²²

individuals, including high rates of health problems and stress from financial insecurity.^{30, 31, 32, 33} In this light, a company's most direct tools for pursuing inclusive growth can be the **wages** it pays and the **benefits** it confers. Fair and collaborative **labor relations**—whether through collective bargaining, open door policies or employee participation in decision-making—can help achieve more equitable compensation and can increase employee engagement generally, leading to improved productivity, customer service and retention.

Bolstering **benefits** is another proven mechanism for helping both employee and firm alike, and a broad array of options exists: paid time off, 401(k) matching, pension plans, childcare, parental leave, paid education benefits, commuter benefits and a range of health insurance options. Satisfied workers have been shown repeatedly to yield clear rewards for their companies.³⁴

Firms that develop **profit-sharing**— such as stock options and other employee stock ownership plans— in conjunction with strong labor-management partnerships often show strong

improvements in profitability.³⁶ Nevertheless, most employees do not share in the profits of the companies which employ them. For example, in the U.S., only 19.5% of all private sector employees own stock in their companies. This number falls dramatically for workers who are lower on the income scale.³⁷



Companies that adopt profit-sharing see a gain in profitability on average of **4%** after adoption.³⁵

Human Resources and Inclusive Growth

FIGURE 2

BUSINESS FUNCTION	BUSINESS LEVERS
<p>Recruitment</p> <p>Talent pipelines reflect regional, local and consumer communities.</p>	Diversity and Inclusion
<p>Workforce Management</p> <p>Hiring and management practices provide income stability, foster professional growth and development, and respect basic labor rights and human needs.</p>	<p>Hiring and Staffing</p> <p>Training</p> <p>Performance Management and Promotions</p> <p>Labor Relations</p> <p>Employment Conditions</p>
<p>Compensation and Benefits</p> <p>Compensation practices are equitable across the organization and enable employees at all levels to meet basic needs fundamental to financial, physical and emotional health for themselves and their dependents.</p>	<p>Compensation</p> <p>Benefits</p>

Products and Services

From research and development through design, production, marketing and sales, a company’s products and services stand astride powerful inclusive growth potential. The **research and development** phase is one of the earliest opportunities to include or exclude segments of the population, while sales and marketing decisions can cement those moves—right down to choices in how a product is packaged, priced and sold, and for whom. Whether they have been neglected on the basis of gender, race, location or income, underserved populations represent untapped customer bases.

Having a workforce that reflects the broader population can better reveal consumer needs and expectations. This is particularly true for companies that provide food, healthcare and amenities which are necessary for consumers across all socioeconomic, cultural and geographic divides. Employing a diverse and engaged workforce at all stages of product creation, from research and development to management, may increase the likelihood that products and services will meet the needs of a wider market.

On the **marketing and sales** end, companies without diverse workforces run the risk of tone deafness when attempting to communicate with previously underserved consumers, whether through traditional or social media channels. This may be particularly true for companies selling across borders. Marketing and advertising campaigns created and led by diverse teams may better connect with new markets.

As companies create products that are accessible and affordable for all, society can benefit as well. The population of low-income individuals across the globe represent significant spending power³⁹ and are increasingly willing to pay for, products and services with true value—from quality food to effective healthcare to financial services that protect and grow their wealth. Companies with an inclusive growth mindset have the best opportunity to successfully provide these goods and services and benefit from new market segment revenues, customer acquisition and overall brand and reputational impacts. Indeed, developing affordable products for price-sensitive consumers in emerging markets has been shown to have a significant positive impact on firm financial performance.⁴⁰



The **4.5 billion** low-income people around the world that make up the “bottom of the pyramid” represent combined spending power of as much as **\$5 trillion** per year.³⁸

Products and Services and Inclusive Growth

FIGURE 3

BUSINESS FUNCTION

Research and Development

Product development practices consider consumer accessibility and safety from conception and design through end of life.

Sales and Marketing

Sales practices and distribution channels make products accessible and affordable for many types of consumers, while marketing and advertising practices are fair, honest and reflect the diversity of consumer populations.

BUSINESS LEVERS

Product Concept and Design
Product Safety

Market Analysis and Pricing
Product Advertising
Customer Relations

Operations Management

At the core of operations management lays the central concern of any business: How to convert labor and materials into goods and services most efficiently? It's a challenge that the free market does not always adequately address. Think of urban food deserts, gender gaps in financial access in emerging markets and limited access to healthcare for rural patients.

Getting products to underserved populations requires a careful rethinking of **logistics**. Consumer goods and basic services are often unavailable or more costly for low-income consumers, due to the scarcity of retailers and other service providers in many neighborhoods. Innovative, technology-enabled approaches to last-mile distribution and partnerships with civil society and governments can open up access for underserved populations.⁴² This in turn can benefit companies and their investors through expanded and diversified customer bases.

But operational decisions about inclusive growth can begin much further upstream with **procurement and supply chain management**. Some of the most deep-seated economic gulfs play out here: a well-intentioned corporation unaware of or tolerating exploitation of factory workers on distant shores, suppliers hired without fair employment oversight, crisis management plans crafted without consideration for marginalized communities.

In all of these scenarios, correcting such oversights can generate operational advantages as well as reputational ones. In both developed and developing countries, socially responsible **supplier selection**—defined as selection of suppliers embracing principles such as diversity, ethical treatment, human rights and safety when conducting normal operations—has predicted sales growth and sales revenue.⁴³ Bringing an inclusive growth mindset to the supply chain can yield new potential customers and partners by improving economic health in supplier communities.



In the U.S., socially responsible supplier selection has demonstrated significant impacts on revenue, three-year sales growth and market share.⁴¹

Consumers, for their part, have increasing influence on each other through social media, and rarely make distinctions between a given company's internal practices and those of its partners or suppliers. Exploitation of workers by any company partner or supplier can have significant reputational costs for both brands and businesses.

Companies can influence inclusivity and encourage improved employment practices of partners through **supplier qualification** and transparency standards. Third-party monitors can help in this regard. For example, the Higg Index developed by the Sustainable Apparel Coalition helps standardize how apparel and footwear companies evaluate social and environmental performance. Similarly, the Electronic Industry Citizenship Coalition sets a Common Code of Conduct for member tech companies and provides tools to improve working conditions in the electronics supply chain.

Inclusive practices can also be considered when planning for **business continuity** in the event of a crisis or natural disaster. Planning for resilience in an unexpected emergency, for example, should consider how workers in the supply chain, employees and consumers may be impacted by interruptions in supply, day-to-day operations or distribution.

Information technology systems, while underlying operations across the entire business, are also critical to support business continuity and safeguard employee, supplier and customer information.

Operations Management and Inclusive Growth

FIGURE 4

BUSINESS FUNCTION	BUSINESS LEVERS
<p>Logistics and Distribution</p> <p>Logistics systems enable affordable distribution across the value chain and have appropriate back up and response systems to ensure continuity during business interruptions.</p>	<p>Product Distribution Business Continuity</p>
<p>Procurement and Supply Chain</p> <p>Supplier identification, onboarding and management practices are competitive for small and diverse suppliers and protect human rights and fair working conditions across global supply chains, while investing in capacity building that enhances reliability and resilience of all types of suppliers.</p>	<p>Supplier Qualification (Tier 1 and Tier 2) Procurement and Supply Chain Monitoring Supplier Capacity Building</p>
<p>Information Technology</p> <p>Information technology and security systems support business operations, ensure business continuity and guard against cybersecurity risks.</p>	<p>Cybersecurity</p>

The Importance of Place

Amidst such high-altitude discussion of corporate values and policies, it's easy to lose sight of perhaps the most concrete inclusive growth factor: Place. As every urban planner knows, companies do not exist in a vacuum, and geographic realities have business impacts at every level. Where a new manufacturing facility is built, how a company fits into the local supply chain and which communities it hires from and sells to—each has a distinct bearing on the business' capacity for inclusive growth.

There are many questions that investors and corporations must consider with regard to place and inclusive growth. For example, will headquarters be built in a rural location? If so, what does that mean for employees' public transportation options? If those options are limited, how does that limit workforce diversity?

How does that limited diversity affect community relations? Conversely, what does an international location mean for a company, or an urban one? How does the decision to build in one part of town versus another situate the company in a broader, and perhaps volatile, gentrification conversation?

Even when geographic decisions do not have direct consequences, eventually their weight is felt on local economies, consumer buying power and even local politics.

The role of place in inclusive growth for the private sector merits deeper analysis and will be explored in greater detail in future work from the Institute for Sustainable Investing.

Firm Management and Governance

A good 30,000 feet above supply chain management or research and development practices, firm management and governance comprises perhaps the most fundamental and deeply interrelated elements of a company: strategy, finance and accounting, external relations and risk management.

Similarly, a company's ethical considerations are part and parcel of an overall business strategy, and of the leadership's commitment to shareholders, employees, local communities and other stakeholders. Effective inclusive growth decisions at this level can simultaneously enhance brand reputation and business value while reducing liabilities and legal or regulatory risks.

Inclusive management and governance practices begin with long-term thinking. By looking beyond quarterly earnings targets, executives and leaders can think more holistically about value creation—considering the macroeconomic forces that will impact business and societal health over the long term. Oversight by an independent and diverse board of directors can be an effective catalyst of long-termism, but is not sufficient on its own.

Executive compensation is a crucial piece of the puzzle. In the U.S., CEO pay among S&P500 companies grew from 24 to 343 times the median worker's pay from 1965 to 2010.⁴⁴ While policies to address executive compensation to date have mostly focused on pay caps or CEO-worker pay ratios, there is limited evidence that these types of policies improve the overall pay of

the workforce or shareholder returns.⁴⁵ A more effective policy has been to increase the use of long-term compensation plans such as longer vesting periods on restricted stock, restricted options or long-term incentive plans. When a CEO's equity vests, he or she tends to significantly cut long-term investments in the firm.⁴⁶

At the same time, in a world of social media, brand reputations are subject to entirely new levels of scrutiny. Decisions that once never left the boardroom are now routinely shared consumer-to-consumer on social media. **Tax payments** and avoidance practices, for instance, have a potential to generate consumer and regulatory backlash, and erode employee morale.

There is a climate of growing sensitivity to the impact of tax avoidance, which has been estimated to cost the U.S. government on average \$100 billion per year in lost revenues.⁴⁸ This, in turn, lowers capacity to invest in infrastructure, education and health care—all critical components to a vibrant consumer and business environment.



Tax inversions have been shown to reduce shareholder value by **1.9%** among taxable shareholders.⁴⁷

Political **lobbying** by companies holds both risks and rewards in the inclusive growth paradigm. U.S. corporate lobbying expenditures are about \$2.6 billion per year — more than the total budget of the U.S. Congress, and around 34 times what labor unions and public interest groups spend.⁴⁹ Companies may choose to use this influence to either promote or deter inclusive growth. According to AccountAbility and the UN Global Compact, responsible lobbying is considered to be lobbying activity that is: a) consistent with an organization’s stated policies, commitments to stakeholders, and core strategy and actions; b) advancing the implementation of universal principles and values in business practice.⁵⁰

Lobbying on regulations around labor and minimum wages, for instance, can affect the percentage of the country living in poverty or in the middle class. Lobbying against living wage legislation can lead to increased economic instability — while

violating a company’s stated goals. Absent adequate consideration of other stakeholder interests, corporate political activities can result in outcomes that negatively impact inclusive growth.

Cutting across all management functions, a company’s **corporate social responsibility** activities can also support inclusive growth by engaging in industry-level initiatives that raise the overall standards for inclusion, and level the playing field on critical issues such as supply chain conditions or payment of a living wage. **Corporate philanthropy** has been shown to increase employee morale and give a competitive advantage in recruitment and hiring.⁵¹ In general, stakeholder engagement initiatives support inclusion by following best practices for strategic and ethical engagement with political, philanthropic and community partners and organizations.

Firm Management and Governance and Inclusive Growth

FIGURE 5

BUSINESS FUNCTION	BUSINESS LEVERS
<p>Strategy</p> <p>Long-term strategy considers broad stakeholder needs and commits the business to inclusive practices.</p>	Corporate Strategy
<p>Finance and Accounting</p> <p>Financial and accounting practices encourage long-term planning and democratic decision making while ensuring that corporate taxes fairly reflect business operations.</p>	Supplier Qualification (Tier 1 and Tier 2) Procurement and Supply Chain Monitoring Supplier Capacity Building
<p>External Relations</p> <p>Stakeholder engagement initiatives support inclusion by following best practices for strategic and ethical engagement with political, philanthropic and community partners and organizations.</p>	Corporate Political Activities Community Relations Corporate Social Responsibility Corporate Philanthropy
<p>Governance and Risk Management</p> <p>Company leadership reflects regional, local and consumer populations while appropriate compliance policies and practices are in place to prevent and respond to ethical concerns.</p>	Board Structure and Management Governance and Risk Management

Barriers to Adopting Company Practices that Foster Inclusive Growth

Despite clear benefits for the world and tangible benefits for the company, a number of barriers have historically prevented broader implementation of inclusive growth practices. Most stem from familiar challenges in the realms of corporate accountability and governance:

- **The Mirage of Fiduciary Duty:** Despite evidence to the contrary, there remains a perception that inclusive growth practices inevitably damage the bottom line. To be sure, some indeed have financial costs for a company. Similarly, some activities that hinder inclusive growth—tax inversions and layoffs to meet earnings targets, for instance—are ostensibly undertaken with an eye toward fiduciary duty. But these actions do not always have the desired outcomes, especially over the long term. For example, data show that the presence of more long-term shareholders tends to yield more inclusive compensation behaviors within a company.⁵² Shareholders with short-term investment timeframes, meanwhile, have the opposite effect.
- **Challenging Labor Policy Environment:** In some countries, the types of employee benefits that most improve economic mobility and inclusion—health insurance, child care, transportation benefits, paid training, paid time off, profit sharing—are disproportionately allocated to higher income earners. What's more, policy-mandated minimum benefits (e.g. minimum wage) are not always enough to support inclusive growth, and end up excluding the lowest-paid workers from economic growth at yet another level. While company policies targeted at overcoming these hurdles may come with a price tag, the inclusive growth benefits—and associated financial rewards—may accrue over a long period of time.
- **Lack of Performance Metrics:** Traditional company performance measurement and reporting focuses solely on financial metrics, and many companies are ill-informed about the financial benefits that can accrue from inclusive practices. This singular focus on financial metrics can create impediments to inclusive growth such as heavy reliance on contingent workers and offering minimal benefits (e.g. reducing direct labor costs). But these practices also generate high indirect costs (employee productivity, accident rates, turnover) that are often not measured, consistently reported or factored into company valuation.
- **Insufficient Transparency:** When it comes to the business levers with the highest impact on inclusive growth, a lack of transparency frequently impedes progress. No universal requirement exists for disclosing employee wages, supply chain monitoring efforts or product design activities. The same is true of corporate lobbying activities and company positions on issues being lobbied by their trade associations. As a result, investors today are often limited in their ability to systematically and comprehensively the impacts of companies on inclusive growth. This lack of disclosure and standardization can lead to an incomplete valuation of companies that have developed strong inclusive growth practices and little incentive for others to make such investments.

Conclusion

This paper has explored how corporations can influence inclusive growth through choices across all functional areas of a business, including:



Human Resources

Choices about diversity, hiring and staffing practices, labor relations, and training and professional development affect employee financial and physical wellbeing, innovation and the overall success of the businesses. Companies can build inclusive work places with job security, good working conditions, and/or profit sharing, either directly or through value chains.



Products and Services

Decisions here can consider the needs of more and newer consumer segments, products can be marketed and sold in fair ways, and customer needs can be more broadly considered from concept and design through the life of the product. By creating accessible and affordable products that meet critical needs in healthcare, infrastructure, education and other sectors, companies can contribute to a more inclusive consumer economy.



Operations Management

Operational decisions affect how goods and services reach end customers, and how workers are treated throughout the supply chain. They also give small and diverse suppliers an opportunity to participate in economic growth. By monitoring working conditions and working with suppliers to build capabilities, companies can deepen relationships and create a more reliable supplier base.



Firm Governance and Management

Sound governance and transparent management practices promote corporate ethics, long-term thinking and consideration of all stakeholders—including but not limited to shareholders. Companies can also use their political and social capital to influence the policy environment in ways that promote inclusive policies for labor, trade, taxes and fair market competition.

Looking Ahead

As global challenges continue to mount in the coming years—climate change, rapid urbanization, an expanding economic divide—government interventions may be insufficient to achieve an inclusive economy. As the public sector finds itself with fewer and fewer resources, a paradigm shift will accelerate. In that space a unique opportunity for business exists.

While the idea of inclusive growth emerged from economic literature focusing mostly on governmental policies in developing countries, the business world has begun to embrace the concept as well. Central to that development has been a critical realization that social change does not mean sacrificing efficiency or profitability. In many cases it's simply good business.

By making decisions that foster broad-based inclusive growth, businesses can contribute to economic growth that is equitable across diverse populations and sustainable over time. In

aggregate, inclusive growth can bring businesses into a virtuous cycle, one that begins with offering good jobs and creating products and services that are affordable and accessible to all. This expands the size of global markets across a range of sectors including healthcare, financial services, technology and beyond.

This paper represents the beginning of a broader body of work, in which the Institute for Sustainable Investing will continue to explore the role of corporations and investors in fostering inclusive growth. We will dig deeper into the intersection of corporate performance on inclusive growth and financial factors to better understand when and how inclusive practices generate business value. Our goal is to uncover the myriad ways that private sector decisions can simultaneously create attractive financial and social returns.

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BSR is a global nonprofit organization that works with its network of more than 250 member companies and other partners to build a just and sustainable world. From its offices in Asia, Europe and North America, BSR develops sustainable business strategies and solutions through consulting, research and cross-sector collaboration.

Notes

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