For three decades, governments followed Milton Friedman’s ideology, which made it acceptable, and even desirable, for an organisation to work exclusively towards profit. Supported by a friendly political class in the US and the UK, this became a convenient truth that worked very well for Wall Street and eventually became the underlying principle of neo-classical economic dogma. What was missed in the process was that the long-term sustainability of organisations cannot be disengaged from the welfare of the societies in which they operate.

The extended downturn since 2008 has now started a rethink of the Friedman dogma. The unbridled pursuit of profit by companies has only created greater inequalities, resulted in persistent unemployment in many countries, and taken away some of the safety nets. A company’s shareholders benefit not only from its management; they also gain from the wealth of local communities, infrastructure provided by governments, the health of the environment, and so on.

The downturn has brought into relief the fact that some of the costs of running a business were borne by the local community but the profits were shared by a few. Such a situation is seen to be increasingly untenable, leading to a questioning of the capitalist model in its current shape. A number of thinkers have concluded that the ideal form of organisation must involve some element of trusteeship.

For much of the past 20 years, states have been nudging companies in this direction; they have gradually imposed upon corporations a strong commitment to the societies they operate in. These include the strengthening of securities laws, increased levels of disclosure, imposition of controls as manifest in the Sarbanes-Oxley Act in the US, and policies that have strengthened the protection of the environment.

Non-governmental agencies for their part now encourage customers to buy from companies that source materials the right way, avoid dealing with rogue regimes, etc. Central banks have even made it difficult for fund transfers from countries that are socially or politically deficient. Even fund managers, normally as hard-nosed a species as any, are grudgingly accepting that the right ethical compass can lead to beneficial balance sheet effects.

Large corporations can be forgiven for feeling that almost every aspect of their business is subject to public scrutiny. So, although we hear much more about the general trend towards reducing the role of government in business, in practice more and more regulations guide and restrain the hand of enterprise. This trend will only accelerate, and companies will need to live with this ‘new normal’.

Working towards a new trend

One knows that the move towards a newer and softer capitalism is gaining currency when successful management thinkers begin to espouse the cause. The venerable Michael Porter has been at the forefront of an ideology that corporate performance must now be
reflected in a concept of ‘value shared with other stakeholders’ as distinct from exclusively shareholder return. The sense that any socially motivated action taken by an organisation would usually involve a cost with no direct return and therefore act as a drag on shareholder returns is now being questioned. Companies that have sometimes circumvented their true social responsibilities by peripheral corporate responsibility programmes are now being encouraged to bring value to other stakeholders into the core of their business model.

Mr Porter believes that when societies are harmed, organisations actually incur long-term costs. These may include the higher costs of raw materials, greater absenteeism and an inability to find the right type of talent. He lauds companies that support environment-friendly growing techniques among their suppliers, undertake activities that increase the wellness of employees or seek to tap the bottom of the pyramid, as examples where organisations benefit themselves while doing good for the larger society. He is also critical of the relentless focus on holding down wage levels by reducing employee benefits and offshoring, which have sometimes hollowed out societies. Not all profit is equal and those profits that involve a social purpose should represent a higher form of capitalism.

How different, one wonders, is this from the essence of trusteeship, the recognition that companies are trustees of national wealth and the welfare of the societies they work in needs to be an integral part of their business model? Not very much.

**A visionary’s tradition**

Founder of the Tata group, Jamsetji Tata, recognised the sustainability of the trusteeship model over a century ago. Mr Tata was a visionary whose entrepreneurial daring enabled him to found three great industries in India — steel, power and hospitality. Yet he saw no disconnect between the spirit of entrepreneurship and the conception of trusteeship, which he articulated so eloquently.

His vision of trusteeship encompassed within itself all the desirable features of any 21st century governance framework, including fair treatment of employees, fairness to vendors and investors, and the consistent sharing of wealth with society. It is gratifying to see that one of the world’s leading management thinkers (perhaps with the benefit of hindsight after the financial crisis) is crystallising into theory what Mr Tata practised more than a century ago.

No one expects that the demands of Wall Street will go away overnight. However, the trend towards shared value is on the rise as large organisations, encouraged and prodded by public opinion, markets and governments align themselves with the larger good. It is only a matter of a few years before analysts and investors recognise that the risks of supporting organisations that eschew shared values offset any short-term returns that they may generate from them. This is not wishful thinking. There are already signs that environment-unfriendly companies find it difficult to raise funds and organisations that do not care about the way they source products are often excluded from markets. Those that seem to ignore their local communities frequently lose the race for talent.

As the world seeks to find a capitalism shorn of its roughest edges, the inexorable move towards trusteeship supported by contemporary management gurus can be seen. For the Tata group, of course, it is business as usual, as it has been since the days of the Founder.

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