



The Role of Business Leaders in Sustaining Market Capitalism

- Moderators: **Joseph L. Bower**, Baker Foundation Professor
David A. Moss, John G. McLean Professor of Business Administration
Lynn S. Paine, John G. McLean Professor of Business Administration
- Panelists: **Rahul Bajaj**, Chairman, Bajaj Auto Ltd.
Nancy M. Barry, President, Nancy Barry Associates – Enterprise Solutions to Poverty
Bertrand P. Collomb, Honorary Chairman and Director, Lafarge
Jorge Paulo Lemann, Founder, InBev
David Murray, Chair of the Board, Guardians of the Future Fund
Gustavo Roosen, Chairman, Envases Venezolanos SA

Overview

In recent HBS research, most business leaders agree on the threats to market capitalism. These threats include income inequality, environmental issues, inadequate governance, and lack of transparency.

But these same leaders have very different perspectives on the most appropriate path forward. Some feel the sole focus of business should be on building great companies. Others believe that for market capitalism to be seen as legitimate, it must consider the interests not just of shareholders, but of all stakeholders.

Several panelists see societal problems as opportunities for entrepreneurial businesses. They believe it is possible for business to help solve societal problems, improve the standard of living in poor countries, and also earn an attractive profit. In this way, market capitalism can be a legitimate and sustainable solution for some of the world's major problems.

Context

Two separate panels shared their views on the challenges faced by and the future of market capitalism, with very different perspectives among the panelists. This summary combines the key takeaways from both panel discussions.

Key Takeaways

- **HBS research shows that attitudes toward market capitalism fall into four categories.**

In anticipation of HBS's centennial, several professors at HBS thought it would be a fitting time to take stock of market capitalism. Starting in 2006 (well before the current financial crisis) a series of discussions was held with business leaders from around the world. Two questions were asked: 1) What are the threats, if any, faced by market capitalism? 2) What should be done about those threats, and by whom?

Several themes emerged. Business leaders from around the world consistently saw the following threats associated with market capitalism:

- *Growing disparities in wealth and income.*
- *Concerns about environmental degradation and scarcity of resources.*

- *Inadequate governance at the firm, national, and international levels.*
- *Increasing concentration of financial power among entities that lack transparency, such as sovereign wealth funds and hedge funds.*

While the perspective on these threats was consistent, the views on the role and responsibility of business differed greatly. These views can be categorized as:

- *Business as bystander.* Leaders in this group feel that problems associated with market capitalism, like income inequality, are most appropriately addressed by government. Business should get out of the way.
- *Business as activist.* In contrast to the first group, leaders in this category don't trust government. They feel that international institutions are inadequate and that business should mobilize and be active in bringing people and organizations together to effect change.
- *Business as entrepreneur.* Members of this group feel that there needs to be a shift in how businesses think and relate to other parts of society. These leaders believe that business can play an important role in addressing social problems. This means transforming how companies do business and measure success.
- *Business as usual.* These leaders feel that the current system of market capitalism is adaptable. They see the current financial crisis as just another bump in the road and believe the system will adapt. As a result, no changes are needed in how business organizations think and relate to the world.

- **Although some feel that market capitalism solves problems by self-correcting, there is still a belief that business leaders must act ethically.**

Mr. Lemann believes that the best way to further market capitalism is simply for businesses to operate as efficiently as possible. Capitalism creates wealth and jobs, which benefit society. Mr. Lemann argued that businesses that take on other agendas, such as trying to become a social enterprise, run the risk of taking their eye off the ball and not operating in the most efficient manner. In Mr. Lemann's view, "Business should stick to business."

"I think the best thing that businesspeople can do is to operate their business effectively and efficiently."

— Jorge Paulo Lemann



Mr. Lemann believes that the capitalist system will self-correct the current crisis, as it has done with prior crises. He did state that the ethical behavior of business leaders is a necessary requirement in the capitalistic system. But when ethical problems and excesses occur, as they have in recent years, they will be corrected through market mechanisms. Regulation cannot address ethical shortcomings.

▪ **Light regulation across all aspects of the business world could promote greater transparency.**

While there are business leaders who feel capitalism should be left alone, others believe that the financial crisis demonstrates the limits of free markets. Leading up to the crisis, strong regulation existed in a limited part of the financial landscape. Sarbanes-Oxley only promoted transparency in publicly traded companies. Derivatives, in contrast, were explicitly exempted from any regulation.

There may be a role for light regulation across all types of business, as a means to promote transparency. Any organization that can influence the economic system should be subjected to basic transparency requirements.

"I would advocate light regulation on a wide basis . . . and would encourage government to keep some level of control."

— Bertrand P. Collomb

▪ **To sustain market capitalism, businesses must earn legitimacy in the eyes of society.**

While the current crisis began in the financial sector, it decreased the legitimacy of all businesses. This is true especially in developing parts of the world. Until 30 years ago, capitalism was not accepted in many emerging economies. Over the past three decades, however, private enterprise gained legitimacy. But progress has been eroded due to perceptions of excessive greed by business leaders. For market capitalism to be accepted, all stakeholders—not just shareholders—need to support it.

"Business will have to earn a license to operate by demonstrating a positive impact on society."

— Bertrand P. Collomb

For market capitalism to survive, it needs everyone's trust and confidence. Mr. Bajaj believes that legitimacy comes through a balanced approach to business that considers the perspectives of all stakeholders. Bajaj Auto Ltd. tries to attain balance and legitimacy through a philosophy that focuses on:

- *Doing the best possible job in operating the company's core business.* This means producing great products, serving customers effectively, treating employees well, and dealing properly with all other constituencies.
- *Committing to good corporate governance practices.* To be legitimate, a company must have good governance.
- *Engaging in corporate social responsibility activities.*
- *Engaging in philanthropy.*

- *Communicating with the government to try to influence public policy, but not in a self-serving way.*

"Saying our job [as businesspeople] is just operating our business effectively isn't enough [to achieve legitimacy]. It is more than that."

— Rahul Bajaj

▪ **Opportunities exist for entrepreneurial businesses to market products/services to low-income people, providing a new source of profits and benefitting society.**

Among the problems that most threaten the legitimacy of market capitalism are global poverty and income inequality. However, while these are threats to market capitalism, market capitalism can actually help provide a sustainable, long-term solution to these problems.

Ms. Barry quoted Bill Gates in saying that "the problem with philanthropy is that the money runs out before the problem is solved." In contrast, creating businesses that generate profits while simultaneously lifting people out of poverty is a self-sustaining model.

Experience has shown that it possible to build inclusive, competitive, and profitable businesses that also benefit low-income people. Microfinance is an example: It can provide low-income people with capital to start businesses, and at the same time can be a profitable business.

"Companies are tilting the business model with an eye toward how to mobilize and engage low-income people in the value chain in profitable ways."

— Nancy M. Barry

Ms. Barry's company has identified attractive business opportunities in countries such as China, India, and Brazil in areas like agribusiness, decentralized distribution, financial services, and products that build income and assets—like education, health, and housing. Her company works to convince major companies to pursue for-profit opportunities marketing products/services to low-income populations in these countries. The products and services will generate profits for the companies providing them while improving the income of people in these countries. For example:

- *Agribusiness.* Large companies in India like Tata, Mahindra, and others are working with millions of farmers to help them grow and sell products.
- *Decentralized distribution systems.* Avon's experience is mixed. It has developed both good and bad distribution systems. In a good system, poor women (such as the one million Avon women in Brazil) earn two to four times the local minimum wage and become successful entrepreneurs. In a bad system, women only stay for three months and spend half their income on cosmetics.
- *Financial services.* China Mobile is exploring a joint venture with a bank to provide microfinance services through cell phones.
- *Housing.* Cemex, the world's third-largest cement company, offers low-cost modular houses. Cemex is



investing \$100 million in the project, as it earns the same returns as other projects in its portfolio.

"There are ways to massify products and services that help to close the differences in income between the rich and the poor."

— Gustavo Roosen

The key to addressing the inequality of income between and within countries is not to decrease the income of the top earners; it is to increase the income of those at the bottom. Such entrepreneurial endeavors as those described can help raise the standard of living of millions of people, while providing attractive opportunities for major companies. At the same time, these entrepreneurial efforts help legitimize market capitalism around the world.

- **Greater emphasis is needed on employees and the human systems within business.**

One of the threats to market capitalism is the perception of employees that they are not treated well by their employers. To confer legitimacy on business in general and to maximize the effectiveness of a company's operations, leaders must view business as a *human* system. This human perspective is crucial for operating a business in a legitimate way. Significant opportunities exist to develop more scientific human systems. Business schools are well positioned to become leaders in the science of human systems.

"If leaders want to defend market capitalism and they cannot win over their own employees, they don't have a chance. That's where all the votes are."

— David Murray

- **The public and private sectors can play distinctive roles, while co-existing harmoniously.**

Government plays a key role in creating an environment for market capitalism. Valuable government activities range from investment in education and R&D, to supporting public/private partnerships, and providing a variety of policy tools that help businesses thrive.

— *Public spending.* Governmental spending in areas like public health and education is absolutely necessary. These services help develop and support a solid workforce. In addition, publicly funded R&D spending offers

value to the private sector. Most companies cannot afford to invest in developing technologies that may not be commercially successful.

- *Public/private partnerships.* Although governments must take the initiative to support programs like education or clean drinking water, they may not be prepared to implement these programs. Public/private partnerships enable the private sector to improve the quantity and quality of services that are funded by the government.

"In emerging markets, there are holes in the quantity and quality of services provided by the government. These are opportunities for the private sector."

— Nancy M. Barry

- *Team capitalism.* One view is that business cannot thrive without teaming with government. Government involvement in establishing and enforcing the rule of law, setting good fiscal policy, and establishing macro-economic policy is necessary for the private sector to be successful.

Other Important Points

- **Leading profitability indicator.** Research by Goldman Sachs shows that a key predictor of future profitability is a company's social responsibility indicator (SRI).
- **Corporate social responsibility metrics.** Multinational companies should have business metrics related to corporate social responsibility (CSR). Such metrics, which should be linked to compensation, ensure that executives don't lose sight of CSR.
- **Indian conservatism.** Mr. Bajaj acknowledged that India's economy will be affected by the current financial crisis as India is not decoupled from the rest of the world. However, he believes that India will not be unduly affected. Unlike other countries where "professional financial managers" make the financial decisions (such as decisions to use high amounts of leverage), in India, most major companies are family owned and managed. These companies are reluctant to take on huge amounts of debt (his company has no debt) or take any actions that could put the company or its reputation at risk.



Speaker Biographies

Joseph L. Bower, MBA 1961, DBA 1963 (Moderator) Baker Foundation Professor

Joseph Bower, Baker Foundation Professor at HBS, has been a leader in general management for 35 years. The faculty chair of The Corporate Leader until this year, he was the founding faculty chair of the General Management Program, both in Executive Education. An expert on corporate strategy, organization, and leadership, he has devoted much of his teaching and research to challenges confronting corporate leaders in today's rapidly changing, hypercompetitive conditions. He is now focusing on corporate value-added, the contribution corporate groups make to their operating divisions, and on the management of CEO succession.

Bower has been active in developing institutions and programs. Between 1968 and 1973 he helped establish the International Institute for Applied Systems Analysis in Vienna, Austria. In 1978 he founded the Senior Managers in Government Program at Harvard's Kennedy School, and in 1995 he founded the General Management Program at HBS.

Bower is the author or coauthor of more than a dozen books. *From Resource Allocation to Strategy* (2005) won the Best Book in 2006 Award from *Strategy and Management*. His most recent book, *The CEO Within: Why Inside Outsiders Are the Key to Succession Planning*, was published in 2007. This book is the outcome of a decade's work on corporate value-added. Previous work dealt with the strategic problems posed by the restructuring of industry throughout the world. A 1986 book titled *When Markets Quake: The Management Challenge of Restructuring Industry* reports the first phases of that study. Other publications include *Business Policy: Text and Cases* (1982, 1986, and 1991), *Business Policy: Managing Strategic Processes* (1995), and *Managing the Resource Allocation Process* (1970), which won the McKinsey Foundation book award in 1971. *The Two Faces of Management: An American Approach to Leadership in Business and Government* was published in 1983.

Bower has consulted widely on problems of strategy and organization with companies here and abroad. He is a director of Anika Therapeutics Inc., Brown Shoe Company Inc., Loews Corporation, New America High Income Fund, and Sonesta International Hotels Corporation and a trustee of TH Lee, Putnam Emerging Opportunities Portfolio. He is a life trustee of the New England Conservatory of Music and a trustee of the DeCordova and Dana Museum and Park.

David A. Moss (Moderator) John G. McLean Professor of Business Administration

David Moss teaches in the Business, Government, and the International Economy unit. Moss graduated from Cornell University (BA, 1986) and went on to earn an MA in economics (1988) and a Ph.D. in history (1992) from Yale University. In 1992 and 1993, he served as a senior

economist at Abt Associates, a public policy consulting firm based in Cambridge, Massachusetts. He joined the HBS faculty in July 1993.

Moss has published three books. *Socializing Security: Progressive-Era Economists and the Origins of American Social Policy* (1996) traces the intellectual and institutional origins of the American welfare state. *When All Else Fails: Government as the Ultimate Risk Manager* (2002) explores the government's pivotal role as a risk manager in policies ranging from limited liability and bankruptcy law to social insurance and federal disaster relief. The third book is *A Concise Guide to Macroeconomics: What Managers, Executives, and Students Need to Know* (2007). He has also published numerous articles, book chapters, and case studies, mainly in the fields of institutional and policy history, political economy, and comparative social policy.

Moss is a member of the National Academy of Social Insurance. Recent honors include the Robert F. Greenhill Award, the Editors' Prize from the *American Bankruptcy Law Journal*, the Student Association Faculty Award for outstanding teaching at HBS, and the American Risk and Insurance Association's Kulp-Wright Book Award.

Lynn S. Paine (Moderator) John G. McLean Professor of Business Administration

Lynn Paine, the John G. McLean Professor of Business Administration, is a member and former chair of the General Management unit at HBS. She heads the required MBA course on Leadership and Corporate Accountability and cochairs the affiliated faculty interest group. Her teaching assignments have also included the required General Management course for MBAs, elective courses on ethics in the MBA and Executive Education programs, and the second-year MBA elective on Managing Across Cultures.

Paine's research focuses on the leadership and governance of companies that meld high ethical standards with outstanding financial results. Her book *Value Shift: Why Companies Must Merge Social and Financial Imperatives to Achieve Superior Performance* (2003) was named one of the year's Best Business Books by *Library Journal* and a top-10 business book by Soundview Executive Book Summaries. Paine's publications, including more than 200 case studies, have appeared in a variety of books, periodicals, and scholarly journals, including the *Harvard Business Review*, the *California Management Review*, the *Journal of Business Ethics*, *Philosophy & Public Affairs*, and the *Wisconsin Law Review*.

A member of Phi Beta Kappa and a summa cum laude graduate of Smith College, Paine holds a doctorate in moral philosophy from Oxford University and a law degree from Harvard Law School. At Harvard, Paine is a faculty associate of the Edmond J. Safra Foundation Center for Ethics. She is also a member of the advisory board of Leadership Forum International, the academic advisory board of the Zicklin



Center for Business Ethics Research at Wharton, and the academic council of the Hills Program on Governance at the Center for Strategic and International Studies in Washington, D.C. In 2002–2003, she served on the Conference Board's Blue-Ribbon Commission on Public Trust and Private Enterprise. In 2007 she was named one of three public members of the governing board of the Center for Audit Quality.

Before joining the Harvard faculty in 1990, Paine taught at Georgetown University's Business School, the University of Virginia's Darden School of Business, and National Cheng-Chi University in Taiwan, where she was a Luce Scholar in 1976–77. Since 1987 she has been a permanent member of the Luce Scholar Selection Panel. She and her husband have three adult children and live in Wellesley, Massachusetts.

Rahul Bajaj, MBA 1964

Chairman, Bajaj Auto Ltd.

Rahul Bajaj has been chairman of Bajaj Auto Ltd. of Maharashtra, India, since 1972 and serves in the upper house of India's Parliament. He is a member of the HBS India Advisory Board.

Bajaj serves on the international advisory councils of the Brookings Institution and NYSE Euronext, the World Economic Forum's international business council, the executive board of the Indian School of Business, and the board of directors of the Commonwealth Business Council. He is former chairman of Indian Airlines and has also served as president of the Confederation of Indian Industry and as chairman of the board of governors of IIT Bombay.

Bajaj received a bachelor's degree from St. Stephen's College (Delhi), an LLB from Government Law College (Mumbai), and an MBA from HBS.

Nancy M. Barry, MBA 1975

President, Nancy Barry Associates – Enterprise Solutions to Poverty

Over the past 30 years, Nancy Barry has engaged private-sector leaders, policymakers, and local organizations in emerging economies to build finance and enterprise systems that work for the poor majority. In September 2006 she continued this commitment by launching Nancy Barry Associates — Enterprise Solutions to Poverty. This organization, with Barry as its president, works with major corporations, emerging entrepreneurs, and leading business schools around the world to build business models that engage low-income producers as suppliers, distributors, and consumers of products that build income and assets. The objective is to catalyze at least 50 million economic opportunities for low-income entrepreneurs over the next five years, with a focus on India, China, Colombia, Mexico, Brazil, and Kenya.

Before Enterprise Solutions to Poverty, Barry was president of Women's World Banking (WWB) from 1990 to August 31, 2006, having served on its board of trustees since 1981. Under Barry's leadership, WWB network members dramatic-

ally increased their outreach of financial services to low-income women and households, from 20,000 to 23 million. WWB shaped the microfinance industry, mobilizing other key actors to build new paradigms, policies, and performance standards, globally and in the major emerging markets of Asia, Latin America, and Africa. WWB also mobilized mainstream financial institutions to provide financial services to low-income entrepreneurs and households.

Before joining WWB, Barry spent 15 years with the World Bank, where she pioneered its small enterprise programs, led its work on industry, trade, and finance, and managed several Bank-wide initiatives. She also chaired the Donor's Committee on Small and Medium Enterprises.

Barry has a bachelor's degree in economics from Stanford University and an MBA from HBS. She has received a number of awards, including the Forbes Executive Women's Summit Trailblazer Award in 2002, the Kellogg-McKinsey Award for Distinguished Leadership in 2004, the HBS Alumni Achievement Award in 2005, the AARP Impact Award in 2006, *U.S. News and World Report's* America's 20 Best Leaders Award in 2006, and the Harvard 100 Most Influential Alumni Award in 2007. In 2004 and 2005 *Forbes* magazine named her among the 100 most powerful women in the world.

Bertrand P. Collomb

Honorary Chairman and Director, Lafarge

Bertrand Collomb is the honorary chairman and director of Lafarge, a worldwide leader in building materials.

A graduate of the École Polytechnique and the École des Mines in Paris, he also holds a French law degree and a Ph.D. in management from the University of Texas. He founded the Center for Management Research at the École Polytechnique.

After working with the French government in various positions from 1966 to 1975, Collomb joined Lafarge in 1975, where he held responsibilities in several areas of the group, including CEO of Lafarge Corporation, the group's North American arm, in 1985–1988. In 1989 he was appointed chairman and CEO of Lafarge; he served as chairman of Lafarge from 2003 to 2007.

Collomb is a director of Total, ATCO, and DuPont, a trustee of the International Accounting Standards Committee Foundation and of Reuters, and chairman of the French Institute of International Relations and the Institut des Hautes Études pour la Science et la Technologie. He is a member of the Institut de France (the Académie des Sciences Morales et Politiques).

**Jorge Paulo Lemann***Founder, InBev*

Jorge Lemann was born in Brazil and graduated from Harvard College with a BA in 1961. He founded and was senior partner of Banco de Investimentos Garantia SA in Brazil from 1971 to June 1998, when it was sold to Credit Suisse First Boston. Until early 2005 he was director of the Gillette Company in Boston and Swiss Re in Zurich, chairman of the Latin American Advisory Committee of the New York Stock Exchange, and director of Lojas Americanas, a Brazilian retailer. He resigned from these boards to concentrate on his beer investments at InBev. In 2004 Lemann aligned his AmBev beer interests with those of Interbrew of Belgium to help create InBev.

Lemann is a board member of Fundação Estudar, provider of scholarships for Brazilians, and a member of the HBS Board of Dean's Advisors.

David Murray*Chair of the Board, Guardians of the Future Fund*

David Murray is chair of the Board of Guardians of the Future Fund in Australia.

Established by the Future Fund Act of 2006, the board is responsible for the fund's investments and the performance of the fund's assets to help meet the government's public-sector pension liabilities. The board is also responsible for the investment of Australia's Higher Education Endowment Fund. Murray was appointed in April 2006 to a five-year term.

Murray spent 39 years at the Commonwealth Bank in 2005, serving as CEO for 13 years until his retirement in 2005. During this time he guided the bank through a number of major changes, including privatization in 1996.

As part of his interest in education, Murray chairs the Business, Industry, and Higher Education Collaboration Council and is a member of the Tara Anglican School for Girls Foundation in Sydney and a life member of the Financial Markets Foundation for Children. He is also the chairman of the Global Foundation, a fellow of the University of Technology, and a nonexecutive director on the board of Tenix Pty. Ltd.

Murray holds a bachelor of business degree from the New South Wales Institute of Technology and an MBA, begun at Macquarie University and completed at the International Management Institute in Geneva. He received an honorary doctorate from Macquarie University.

In 2003 the Australian government awarded Murray the Centenary Medal for his contribution in the areas of banking and corporate governance. He was appointed an officer of the Order of Australia in 2007.

Gustavo Roosen*Chairman, Envases Venezolanos SA*

Gustavo Roosen is chairman of Envases Venezolanos SA, a publicly held packaging company in Venezuela that manufactures tinsplate, aluminum, and glass containers. From 1995 to 2007, he was chairman and CEO of CANTV/Verizon, Venezuela's largest fully integrated telecommunications company.

Before CANTV, Roosen served in the government of Venezuela, first as minister of education from 1989 to 1992 and then as special presidential advisor on banking reform after the country's financial crisis in 1994. Roosen was CEO of Petróleos de Venezuela from 1992 to 1994 and CEO of the food division of Empresas Polar from 1977 to 1989.

Roosen is chairman of the board of governors of the Instituto de Estudios Superiores de Administración, Venezuela's most prestigious business school. He was president of the Caracas Chamber of Commerce from 1986 to 1988 and vice president of the Asociación Bancaria from 1981 to 1983.

Roosen received his law degree in 1966 from the Universidad Católica Andrés Bello in Caracas and in 1967 studied comparative law at New York University.