

## **Beyond Consumer Capitalism: Towards Sustainability and Fair Trade**

**R Gopalakrishnan**, Executive Director, Tata Sons, and a Member of the Group Executive Board, Tata Group

**Caux, Switzerland, 13 August 2010**

Good Afternoon.

I am deeply honored to be part of this Caux conference, so aptly titled TIGE (Trust and Integrity in the Global economy) in the times when we are still reeling under the recession caused by banking crisis leading to a lot of trust deficit.

The theme of the conference is to explore ways to create a just and equitable global economy and I thank the organizers for giving me this opportunity to share my views on the topic of Capitalism, Sustainability and Fair trade. It would be my privilege to interact with all the distinguished participants here and also take back significant learnings.

Ladies and Gentleman, the subject that I am attempting to address is vast. We are also aware that capitalism, sustainability and fair trade are fairly complex issues with multiple and often contradictory views. The human brain is wired to look for efficient and direct answers; however, issues like these are too complex for straightforward solutions. There is no silver bullet.

The way solutions evolve for such complex issues is not very different from the path that a fly takes while approaching an object. Please allow me to further elaborate this.

The fly has two large eyes, so large that they cover most of its head. The fly can simultaneously see up, down, forward, and backward. The fly's eye is made up of about four thousand tiny, hexagonally packed lenses. No two lenses point in the same direction. Not only that, each lens operates quite independently of the others. As the fly approaches an object, the image shifts slightly in each facet. To hold in a constant position its vision of the object, the fly has to adjust its whole body. At each turn of its body, the fly is closer to the object, so the radius of the circle of approach progressively becomes smaller and smaller. If one plots the approach path of the fly, it would resemble a coil or a spiral with a decreasing radius.

Wherever there are people, who are encouraged to think for themselves, there is bound to be a diversity of views. The world is the sum total of these diverse viewpoints. Differing viewpoints lead to differing agendas and at times serves as a source conflict among people. A straight-forward approach cannot align these divergent views. Going around in circles is a common mode of functioning; it is quite often the effective way for the world to function—and the more complex the problem, the more likely that the effective solution will require us to move tangentially.

In the interest of time, I will restrict this address to four key lessons that I have learned during the course of my career.

**Lesson 1: Capitalism has evolved differently across regions of the world. This gives rise to multiple interpretations, conflicts and contradictions in the way it is understood and practiced!**

Most countries seem to have followed a particular sequence in the course of their political development. People first experienced capitalism ushered in by the industrial revolution; this allowed wealth rather than class to be the determinant of social status. Then they experienced constitutional liberalism i.e. speedy legal dispute resolution and protection of property. Full franchise democracy was experienced last.

Full-franchise democracy is a very young form of governance. Just one hundred years ago, only twelve percent of the people in Britain could vote, and universal suffrage was adopted just eighty years ago. In the US, blacks were enfranchised as late as 1870, and women only in 1920.

Consider Europe as an example; there was a pattern in its economic development which in one sense, defined the sequence. Two hundred and fifty years ago, most countries in Western Europe were semi-democracies or, at best, liberal autocracies. The industrial revolution unleashed entrepreneurship, which led to early capitalism. The primary means of social advancement thus shifted from birth and rank to wealth. This was followed by constitutional liberalism i.e. the introduction of private property rights and the rule of law. Both these sprang deep roots before full franchise democracy was adopted as the method of governance. South Korea, Thailand, Taiwan, Malaysia were all governed by military juntas or single-party systems. These regimes liberalized the economy, the legal system, and then decades later, they held free elections.

There are exceptions to the above sequence and one glaring example is India, and, perhaps another is South Africa. It is important to understand how events shaped up in India as it is one of the largest emerging economies and has profound impact on the world economy.

In India, full-franchise democracy came first with independence, followed by constitutional liberalism, and entrepreneurial liberalization was restored only in the 1990s. Compared to many other nations, “the cart has come before the horse”. Very few nation of comparable size or substance have attempted to achieve rapid economic progress concurrently with full-franchise democracy. This is distinct to India. This also makes India an enigma for marketers and businesses across the world. What works in other nations might not work in India and vice-a-versa!

Now let me shift gears from sequence of capitalism to the nature of capitalism. Let me pick China as an example as it is poised to be the largest economy in the years to come and is important to be understood. We remember when the world was divided between communism and capitalism, and when the Chinese were communists. The Chinese still call themselves communists, but now they’re also capitalists. In fact, visit China today and you find the most dynamic capitalist nation in the world. It has the distinction of being the world’s fastest-growing major economy. Its cities are booming. China’s super-highways are filled with modern cars. Its deep-water ports and airports are world class. Its research and development centers are state of the art. At the rate it’s growing, in three decades China will be the largest economy in the world. China shows that when it comes to economics, the dividing line among the world’s nations is no longer between communism and capitalism. Capitalism has won hands down. The real dividing line is no longer economic. It’s political. And that divide is between democracy and authoritarianism. China is a capitalist economy with an authoritarian government. This type of authoritarian capitalism is very different from the democratic capitalism which is more commonly observed.

We can see that there is a great diversity in the way capitalism has evolved across the world!!

Today's developed countries followed the classical sequence of capitalism, followed by liberalism, followed by full-franchise democracy. Then there are countries like India and China, who might look a little different in their approach but are now the new engines driving world economy.

So what are the consequences and implications of this variation? The difference in evolutionary paths makes each country unique. Business sensitivities significantly vary across countries, even if there is any outward similarity. These differences can be 'obvious' or 'subtle, and may take time to surface'. MNCs hoping to enter different markets need to recognize this reality and alter their approach accordingly. Just like you would treat a tiger and a dog differently, despite both being four-legged animals, there is merit in understanding that each country would require its own type of approach. Multilateral agencies trying to get buy-in from various member countries also need to be sensitive to this fact.

## **Lesson 2: Follow the principle of Obliquity: Focus on stakeholder welfare and profits shall follow**

We are aware that often a direct approach to problem solving will not work when we face complex issues like capitalism and sustainability. Let me labour this point to understand whether there are oblique approaches to find solutions.

John Kay has recently written a delightful book entitled *Obliquity* in which he comments on the tangential achievement of goals and indirect solving of problems. He quotes Jim Collins and Jerry Poras (1994) about how the most profitable companies do not sport direct profit-orientation. They simply do the right things and end up being nicely profitable.

ICI flourished for decades through renewing its interpretation of one consistent and tangential theme—responsible application of chemistry. After the Hanson Trust threat in 1991, the company revised its vision to a direct form, 'industry leader in creating value for the customer and shareholder.' Over the next 20 years, ICI declined and vanished.

Led by the visionary Bill Allen, Boeing delivered spectacular results through an oblique approach to profits. Phil Conduit changed the approach ten years ago by stating that 'shareholder return is the measure to judge us.' Boeing soon lost the plot.

Kay suggests that at both ICI and Boeing, shareholder value was best created when obliquely sought. He offers the same lesson through the examples of Marks and Spencer, Saint Gobain and Merck.

Two months ago, Unilever CEO Paul Polman sensibly said that he was focused on serving consumers, and that returns and profits would follow. Writers and analysts flayed him. In my view, Polman is right and he confirmed that he would ignore his critics when I queried him.

An even better everyday example concerns happiness. To quote John Kay, "Oblique approaches are the best route to happiness.....happiness is where you find it, not where you go in search of it." His statement verges on the Vedantic and is very compelling!

The average lifespan of a fortune 500 company is 40 years; luckily Tatas have existed for more than 140 years now. Perhaps the central purpose of giving what it earns, back to the society is the reason why Tatas continue

to flourish. The Tata Group of Companies has always believed strongly in the concept of collaborative growth, and this vision has seen it emerge as one of India's and the world's most respected and successful business conglomerates.

To elaborate my point, let me take example of Tata Steel. What started as quest for steel way back in 1882, has now led to an enterprise which is amongst the top ten steel producers in the world with an existing annual crude steel production capacity of around 30 million tonnes per annum and employee strength of above 80,000 across five continents.

The burning desire in the heart of the founder was to make India and its people self-sufficient. Profits were only a secondary concern as is evident by numerous events surrounding the journey of Tata Steel. For instance, Tata Steel pioneered the concept of 8-hours work day, leave with pay and employee provident fund. So occupied were the Tatas in building a world class infrastructure for the community surrounding its factory, that they were often accused of wasting money. In October 1923, RD Tata told the shareholders, "We are constantly accused by people of wasting money in the town of Jamshedpur. We are asked why it should be necessary to spend so much on housing, sanitation, roads, and hospitals and on welfare...Gentlemen, people who ask these questions are sadly lacking in imagination. We are not putting a row of workmen's huts in Jamshedpur – we are building a city."

Let me share some insights that inspired me when I joined Tata 12 years ago.

I used to visit various Tata units in remote locations—a fertilizer factory in Uttar Pradesh, a hydro electric plant in the Western Ghats, a chemical plant in Gujarat. Almost always the presentations began in the way the presentations have been made to me during my earlier career: what are the challenges that the management faces, how are they overcoming them? The unstated message was that the team was right on top of its job and the company's interest is in safe hands. But I was struck that they always ended in a unique way. What were they doing with the community around them?

I have never come across a circular in TATA, which tells managers that their presentation must end that way. People seem to do so because they are genuinely of the view that their job is to earn profit for the betterment of the community. I think there is a wonderful commentary on trusteeship when people can actually act and behave that way rather than only make presentations; when people believe in it and they don't have to make an effort to believe in it; when it is not a programmed thing; when they practice trusteeship because it is the very reason why they are there.

It was then that I realized that what drives this hugely diverse conglomerate with billions of dollars of revenue and income is the constant quest and shared purpose (amongst employees) to improve the quality of life of the communities around. Profit is a "lag" measure and not the lead driver of actions.

One of the notable things about TATA is the shareholding pattern. It allows TATA to do the right things in the right way with an eye on the long-term. TATA companies are promoted by a company called TATA Sons, a private and unlisted company. Thus the parent company is unlisted, while the son and the daughter companies are listed, such as TATA Steel, TATA Consultancy, TATA Motors, TATA Chemicals, and TATA Power and so on.

And so there are some three million share holders of the son-companies and the grandson-companies and the great grandson-companies. The principal share holder of the parent holding company, TATA Sons, is a clutch of

charitable trusts. Recall that Tata Sons is worth billions of dollars. Therefore I think the structure of TATA embeds certain values, which you either practice or you do not belong.

It gives you a sense of humility and humanity, whereby you can run the company and yet try to be a servant of society. If that can be imparted and translated across as many TATA companies we have, it is quite significant. I get up and go to work every morning, fighting to get every single extra rupee or dollar of profit to the extent of my influence or position. There are 350,000 other people doing the same thing. We do this because those two thirds of the extra dollars go to charity!

And if we probe deeper, we find we have several role models with CSR as their driving force. Recently, I came to know that the ownership structure of the global Bosch group is very similar to the Tatas. Since 1964, the majority of the share capital of the Bosch group has been held by Robert Bosch Stiftung GmbH, a charitable foundation. This shareholding now stands at 92 %, while the remaining 8 % is in family ownership. The foundation carries on the charitable and social endeavors of the company's founder in contemporary form. It sees itself both as an "operative foundation" that pursues its objectives with programs of its own, and as a supportive foundation that enables others to develop and implement innovative projects or initiatives aimed at tackling the tasks faced by the society.

I would hope in the course of time such instances inspire people to believe that, when businesses put social responsibility at the core of their activities, other 'lag' measures like profits automatically follow.

### **Lesson 3: The central purpose of a business is to serve the society...**

Let me touch upon what I think is the most important objective an enterprise stands for and that is serving the society. Infact I would go on to say that Business is a servant of society. It is not the other way around. If you observe how business leaders behave, you get the feeling that business controls the society. In reality, business is a servant of society.

In the late 1800's, Swami Vivekananda went to Chicago to attend the Parliament of Religions. He became a very ardent and outspoken advocate of human values. He met John D Rockefeller, who had made a great fortune in the booming oil business at that time.

On meeting him, It became apparent to Swamiji that John D Rockefeller had lots of wealth and Swamiji posed him a question, "If you have that much more money than other people, do you think that much smarter than the other people? " John D Rockefeller said, "Of course". If he wasn't a hundred times smarter, he wouldn't have a hundred times the money, would he?

Swamiji left him with the thought that he may not be one hundred times smarter, he maybe just three times smarter. If he had made a hundred times more money by being three times smarter, then perhaps he was merely an instrument through which this money has to go back to somebody else. Why don't you think about it? And why don't you consider leaving some of your money for other people?

This sounded absolutely ridiculous to John D Rockefeller, and he departed with the polite statement that he had worked really hard to make his money. He had absolutely no intention of leaving it to other people. But curiously, three weeks later, he came back to see Swami Vivekananda, this time of his own accord. He threw on his table a piece of paper, by which he endowed a certain sum of money – for some noble purpose. He asked

Swami Vivekananda, “Are you happy now that I have done this?” Swamiji responded, “Why should I be happy? You have to ask yourself the question whether you have left enough out of the total wealth that you have?”

It took another 15 years after this episode until 1913 when John D Rockefeller set up the Rockefeller Foundation, which has done an enormous amount of good work in society for the last several decades. The story illustrates the point of trusteeship. When you have earned lot of money, whose money is it? Did that money come to you entirely because of yourself or is it possible that you are merely an instrument through which you should canalize it back to society?

Gandhiji had a profound view on trusteeship. He said, “If the trusteeship idea catches, philanthropy, as we know it, will disappear—a trustee has no heir but the public.”

In this global world, I suppose we could say what comes from the six and a half billion consumers of the world, must in some way go back to the six and a half billion consumers of the world. The fundamental characteristic of working with the trusteeship concept concerns the real purpose of business—to return to society what you earn from society. If you are going to return it to the society, you must work with a certain attitude described by Lord Leverhulme.

Lord Leverhulme was a founder of Unilever. He said that the task of a leader is to act with the humility of the mason, who paves the roads. The man who paves the roads works with his toil and sweat; he knows that for decades after he has finished paving the road, millions of people will travel on those roads. They will travel with hope in their heart and ambition in their eyes, trying to seek out a fortune for themselves in whatever they are doing; but not once will they ever stop to think who it was who paved the road for them—that is the way it is for the mason, an anonymous servant of those travelers.

Being an anonymous servant of humanity is very much a part of a leader’s privilege, it is not his plight.

There are several ways in which a business can serve the society. In addition to being socially responsible through community development initiatives a business can also choose to operate in an area which has massive impact on the community it serves. For instance, a business can create a product that satisfies the need of a large proportion of people previously unexposed to such products. Let me labour this point.

The one question that a typical businessman asks himself is:

1. *What does a consumer with a disposable income need?*

What he should in addition contemplate upon is a less-asked question,

2. *What is it that consumers with very limited income desperately need at a substantially lower price point compared to available alternatives?*

The first question is a ‘classical marketing’ question that businesses have addressed all along. This question is based on needs of affluent consumers and has led marketers to create a slew of convenience products.

The second question is premised on frugality and looks at the needs of a very disadvantaged group of people with no access even to basic amenities. ‘Frugality’ has not been a virtue till now but the paradigm is changing.

Consider the need for an affordable water purifier. Safe water is one of the world's most precious natural resources. With much of world's population denied access to safe drinking water, the delivery of safe, convenient and affordable water purification is one of the biggest social and technological challenges today.

Responding to this challenge, Tata Chemicals, a Tata group company has launched 'Tata Swach' – a unique and innovative water purifier. Today, the replaceable filter-based product, which is entirely portable and based on low-cost natural ingredients, delivers safe drinking water at a new market benchmark of Rs 30 per month (0.4 British Pound) for a family of five.

Reaching out to the disadvantaged group through a relevant product or service is certainly not a new concept. Whether it was Tata Salt, which had set out to eliminate goiter back in 1983 through India's first iodized branded salt, to hosts of micro-finance institutes which aim to empower the poor, certain businesses have put social good at core of their philosophy. Thus, while the seeds of frugality have been sown long back, the change in paradigm is apparent with many businesses now looking at this concept very seriously for a profitable, collaborative and inclusive growth.

When a business is run with the sole purpose of serving the society, it encompasses all the elements of sustainability and ensures that all stakeholders benefit from its operations. Thoughts on sustainability, triple bottom line are written about frequently in contemporary management journals as new wave thinking, but they are not.

#### **Lesson 4: Play to you inherent nature: Example of Free Trade**

The world is a complicated place with numerous 'isms' like capitalism, socialism dictating our lives. We need to simplify our lives and in essence go back to, '*tat tvam asi*' which means, you are not in variance with nature. It is not in man's nature to be destructive, to be at cross-purpose with nature. Infact the inherent nature of mankind has been to stay in harmony with nature.

People have samskar arising out of their ancestry and past, which can lead them to react differently in different situations. History and circumstances have the potential to mask our core nature with layers of strongly embedded unnatural behavioural patterns.

The task ahead is to go back to our core and unwrap biases that historical events may have left on us. Ever since the mankind has started differentiating itself in regions, countries and nation states, human tendency has been to "invade, conquer and expand". For instance, Europe has seen number of civil wars in the past and has been the center of overseas expansion leading to the rise of colonial empires. Rivalry in a scramble for empires amongst great powers has led to both the world wars. We need to break out of the influence of these events go back to a core philosophy of, "live, coexist and prosper".

The two critical objectives of multilateral agencies are to promote fair trade practices (WTO) and save the world from adverse effects of climate change (UNFCCC). These objectives are also leading us to an opportunity for reaching out to our "natural state" and are thus worthy of our sincere and honest attempts at making constructive changes for a sustainable future.

Consider the example of free trade.



Imagine that the world had no history; there had been no wars, nations or politics. There are just people – consumers who are engaged in some income generating activities with a set of consumer needs requiring to be serviced. The world's first entrepreneur comes along with a map of the world, its demographics, a headful of ideas and a heart full of hope. How is he likely to address the question of organizing his business to service those customers profitably? Probably, globally. He would be ignorant of, and therefore, quite uninfluenced by national borders. However the worldwide organization of businesses in the 20th century has been strongly influenced by the existence of nation states. The concept of Nation State is very young. The Dictionary of the Royal Spanish Academy did not use the terminology of state, nation and language in modern manner before its edition of 1884. It was only in the 1880s that Walter Bagehot presented the history of the nineteenth century as that of “nation building”. He also observed about nations and nationalism “We know what it is, but we cannot very quickly explain or define it”. Indeed, historians seem agreed that it was only after World War I that the map of Europe was for the first time redrawn according to the principle of nationality.

On close scrutiny, we would realize that for several centuries, business and trade were globalised, but nobody used the word. With the emergence of the nation-state in the last 150 years, the axis of thinking changed. In particular, during the 1930s, world trade shrank due to national economic rivalries. The dangers of not being global became clear. This was the origin of the International Trade Organization – one of the three concepts contemplated at Brettonwoods after the Second World War. Historians will note that whereas two concepts, IMF and World Banks were fully institutionalized [=organizations, rules and dispute solving mechanisms], the third one did not progress beyond a sort of MoU stage i.e. GATT. Today's WTO is an institution which has taken almost half a century to put together! We should neither wish it away, nor think of it as a diabolical mechanism of rich countries to destroy the poorer countries. We should always remember that globalization has been the natural state of world trade for centuries; like ecology and environment, we are only trying to restore the natural proclivities of trade.

I have not spoken about the specifics of free trade or WTO deliberately. The key challenge is one of mindset, not the technicalities. We must not forget that the principles on which free trade stands are very sound are only taking us to our natural state of staying in a borderless world in harmony with everybody else.

Thank You.