

Addressing Poverty and Inequality Through Business

Towards a Human-Centred Management Paradigm

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This issue of Philanthropy Impact Magazine asks: Are Poverty and Inequality the Defining Challenges of Our Time? My answer is yes, they are. They are defining challenges for humanity in general and of our time specifically.

The moral development of a society can be measured by how it treats its weakest members is one of the cornerstones in the debate on distributional justice and I believe it holds much truth. In this sense poverty and inequality are defining challenges of humanity in general but they are also defining challenges of our time for two main reasons.

- First stands the acknowledgment that in a global economy most of what we do makes indirect impact far beyond our direct sphere of action. Hence, we are called to reflect on the impact our business conduct, purchasing preferences, supply chains or investment decisions make on the weakest in our global community as well as in our neighbourhood
- Secondly, the tremendous productivity gains and technological advances of the last decades have created unprecedented wealth in many parts of the world giving us much reason to embrace the combination of free enterprise and democratic government as its foundation

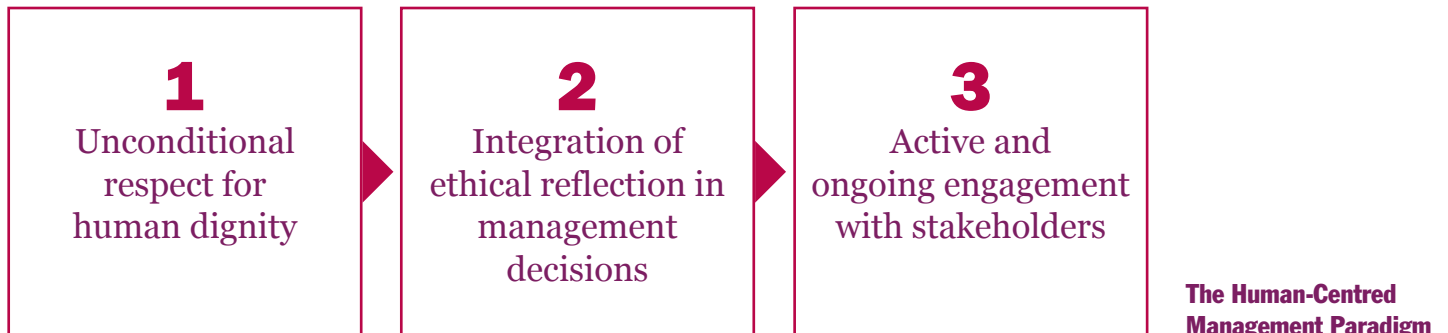
In consequence, we are in a situation where, for the first time in human history, we have it in our hands to eradicate extreme poverty. Allowing for everyone to live a dignified life has become an attainable goal, it has turned from a question of having enough or not, to a question of developing the capacity to share or not; from a question of volume based constraints to a question of overcoming distributional challenges.

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As much as this macro-level analysis may be true, it would be wrong to simply insinuate a lack of will to make more progress on fighting poverty and reducing inequality. From government failure to



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widespread corruption, from sometimes adverse effects of culturally embedded traditions to navigating the complexities of a globally interlinked and interdependent economy, the challenges are substantial. However, I see no reason why we should not be capable to lay the first stone and adopt a mindset where we no longer accept devastating poverty as inevitable and no longer readily tolerate a level of inequality that is detrimental to societal wellbeing and shared prosperity.

The Means and Ends of Business

In making progress towards the goals of lifting people out of poverty and reducing inequality that has risen steeply over the last decades, business can play an even greater role than it does today. This is contingent though, upon re-establishing a meaningful relationship between the means and ends of business and its role in society. In essence we need to depart from a one dimensional goal-set where maximising profit is the singular aspiration of a business organisation and shift towards the triple bottom line in assessing business success. Being profitable is a necessary condition of sustainability for any business organisation, but it is not its *raison d'être*, profit is a means but not an end in itself.

The reason why we want prospering businesses in our communities is because they deliver goods and services that meet genuine human needs, because they provide livelihoods through employment opportunities, because they allow us to collaborate in creating value and finding innovative solutions to the challenges we face within the boundaries of the capacity of our planet. In short: the end of business is to serve society and healthy profits are a means to gain and maintain the capacity for doing so, not vice versa. As Peter Drucker said: “Free enterprise cannot be justified as being good for business. It can be justified only as being good for society”.

Many business leaders I talk to, especially those of owner managed or privately held companies

share this view and reject the notion of short-term shareholder value maximisation, viewing financial returns as a means and a reward for offering goods and services that provide value to a wide swath of their stakeholders. They know that sustaining business success depends on a value proposition to society at large and have a deep sense of responsibility for the communities in which they operate. Not only at home, but around the globe, not only within their own operations but also along their supply chains, they strive to create shared value and share the value created.

Towards a Human-Centred Management Paradigm

At the Humanistic Management Center we have researched the hallmarks of businesses that are based on what we call a human-centred management paradigm. Combining theoretical insight with empirical evidence from companies that are healthy, competitive actors in their markets we found three main characteristics of companies that do well just as much as they do good. These are 1) the unconditional respect for human dignity, 2) integration of ethical reflection in management decisions and 3) the active and ongoing engagement with stakeholders.

The respect for human dignity may seem somewhat remote from business at first sight but it is central to a human-centred management paradigm. A precondition for fruitful human interaction is the mutual respect for one another. Business is human interaction and business leadership is first and foremost about being a human being. Our dignity lies in our capacity to define autonomously the purpose of our existence and business can promote as well as hamper our capability for doing so. Paying living wages, ensuring safe working conditions or avoiding environmental damages that adversely affect peoples' health or their ability to farm their own food are but a few examples for how business can be an agent for self determination and a life in dignity. Human-centred businesses do not accept that people create

value for the business under undignifying conditions and they do not pose preventable limitations on their stakeholders' ability to live a self-determined life.

Secondly, ethical reflection forms an integrated part of business decisions in a human-centred management paradigm. Businesses that are serious about respecting human dignity examine management decisions in terms of their consequences and risks for all those affected. They do not wait for costly public outcry if and when misdemeanour makes the headlines before they respond with corrective action nor do they view CSR programs only as a tool to manage reputational risks. Human-centred businesses think that protecting their integrity through adhering to self-imposed, strong values needs no further reasoning for it is the right thing to do.

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The third hallmark of a human-centred management paradigm is the active and ongoing engagement with stakeholders. Through stakeholder engagement businesses seek to learn about the interests and concerns of all those who are touched by their operations. Aiming for compromise where interests are in conflict and allowing for the power of the better argument to supersede factual power, they gain and maintain a high level of public legitimacy. Human-centred businesses are willing and able to make their decisions transparent and listen to and act upon concerns voiced by their stakeholders. Stakeholder engagement allows to share responsibility and gain insights on the public perception of the business. This, in turn, provides business intelligence to refine value propositions and promote the ongoing success in the market place.

In summary, a human-centred management paradigm follows strategies and practices aimed at the creation of sustainable human welfare. It is part of their organisational DNA to reduce poverty and inequality; directly for those who generate value for the business and indirectly for those whose interests are respected and considered based on strong values and the desire to generate value for society at large.

Reality Proves Possibility

However, I am cautious not to be naïve and the status quo conserving interests are strong. We need to be aware that no actor, neither business or policy makers, nor NGOs or international and civil society organisations can deliver the solution to eradicating poverty and reducing inequality on their own. It would thus be equally wrong to expect business to singlehandedly fix it, as it would be wrong to expect that it can be done without the active contribution of the private sector. To live up to the promise of addressing poverty and inequality through business we need to emancipate ourselves from the assumption that businesses as well as investors face a binary choice between aiming for risk adjusted maximum financial returns and sacrificing income for societal benefit. As aforementioned we have every reason to embrace the great success story of market economies under democratic government. Simultaneously though, we need to better align business and societal interests, to the benefit of both. The evidence we found in our quest to determine the underlying characteristics of human-centred businesses show that financial health and societal benefit generation can very well go hand in hand.

It is an enormous privilege that we are given the opportunity to rid the world of extreme poverty and allow for everyone to live in dignity as a member of our global community. Let's make sure not to waste it.

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In addition to general questions of business ethics his topical foci are humanistic management, stakeholder engagement, development theory and impact investing. He researches, publishes, teaches and delivers advisory services on these topics. Previously he has worked in strategy consulting with a leading management consulting firm based in London, England. Ernst holds a M.Sc. from the London School of Economics (LSE) and an award winning Ph.D. from the Institute for Business Ethics at the University of St Gallen.