

Private sector must become agent of inclusive growth in the post-crisis world

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The global financial crisis accelerated a shift of power from the West back to the East and, in the resulting landscape, companies will need to forge new business models that generate not only profit, but also more inclusive economic growth, panellists said in the opening today of the World Economic Forum's India Economic Summit. "The private sector needs to understand that they are now expected by society to play a role that goes beyond the role for which their business was created," said Ajit Gulbchand, Chairman and Managing Director of the Hindustan Construction Company and a co-chair of the Summit. "They have a transformational role to play."

The global financial crisis hastened an ongoing, profound shift in the balance of global economic and political power, Klaus Schwab, the Forum's Founder and Executive Chairman, told the 800 participants from more than 45 countries who have convened for the three-day Summit. "This crisis was not just a cyclical crisis; it was a fundamental structural crisis."

Schwab outlined 10 paradigm shifts that have been catalysed by the crisis:

Deleveraging – Innovative forms of credit helped accelerate global growth, but have left the West deep in debt. While that debt has been shifted from households to governments, it will hobble growth in the West and mean slower global liquidity for years to come.

The Next Generation Takes Over – A new generation is coming of age that grew up with the openness and connectivity of the Internet. Either the world embraces their expectations and attitudes in a positive way or it creates an inter-generational divide.

Resource Scarcity – The world is on track to use by 2025 twice as many resources as it does now, an unsustainable rate of depletion.

The Integration of Ecological Resources – Scarce resources, reduced credit and popular demand will force businesses to begin integrating environmental costs into their internal business models.

Digitalization – Any service that can be digitalized is being digitalized, making such services geographically mobile, a feature that is already having an enormous impact on business and society.

The Power Shift – The weight of global economic output is shifting back towards the most populous parts of the world – specifically China and India – a return to the situation that prevailed prior to the Industrial Revolution.

The Redefinition of Work – The traditional relationship between employer and employee is eroding. Not only must workers become more educated to survive in the new workplace; they must become "entrepreneurialized".

Risk Exposure – The world is becoming increasingly complex and the risks faced increasingly interrelated. How companies and nations mitigate these expanding risks is crucial.

The Dysfunction of Globalization – The world needs to create more balanced structures of global governance.

The Amalgamation of Social Spheres – Much talk has centred on the swing away from free-market fundamentalism towards state interference and regulation, but what is needed is a cooperative stakeholder approach that avoids either extreme.

No single government or company will be able to deal with these issues in isolation, warned Dennis Nally, Chairman of PwC International and another Summit co-chair. Instead, they will need to build institutions of trust to facilitate more cooperative approaches.

More specifically, added Schwab, they will need to find ways to expand economic development to the world's disenfranchised – the poorest segment of the population that remains unbanked, uninsured and largely untapped by conventional capitalism. "Those are the people who will drive the economy in the future," he said. Up to now, companies have been satisfied to address these issues through corporate social responsibility programmes, which he said represented little more than "corporate welfare", and not a meaningful attempt to create real opportunities

for society.

“ More important is to pull these people onto the corporate ladder, ” said Pawan Munjal, Managing Director and Chief Executive Officer of India ’ s Hero Group and another Summit co-chair. “ You need to go that extra mile to extend economic benefits to all these people. ”

It was this notion that inspired the late C. K. Prahalad when he wrote *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits* in 2004, noted Raghunath A. Mashelkar, President and Bhatnagar Fellow at India ’ s National Chemical Laboratory. Finding the kind of models needed to produce this inclusive growth among the masses, he said, will require not just incremental innovation, but “ disruptive innovation ” . “ If you create products for the poor, ” he said, citing the spirit embodied by Tata Motors ’ sub-US\$ 2,000 Nano car, “ even the rich will buy it. But if you make products for the rich, only the rich can buy it. ”

Indeed, he said, this was the spirit of “ getting more for less for more people ” that drove India prior to deregulation and reform in 1991. And it is this kind of spirit that will be required for nations to advance in the world ’ s resource-constrained future.

India ’ s government, for its part, is taking up the call to achieve more balanced, inclusive growth, said Pranab Mukherjee, Minister of Finance of India. Its aim is to accelerate growth above 10% in order to create enough jobs for India ’ s growing population, he said. In addition to simplifying foreign direct investment and expanding access to banking to more of the population, the government intends to reform the tax system and is working towards a unified, national goods and services tax, while doubling its spending on physical infrastructure to US\$ 1 trillion by 2017. “ Our objective is to harness this growth to make the development process more inclusive. ”

Prominent business leaders serving as co-chairs for the Summit are: Jon Fredrik Baksaas, President and Chief Executive Officer, Telenor Group, Norway; Ajit Gulabchand, Chairman and Managing Director, Hindustan Construction Company, India; Ellen Kullman, Chair of the Board and Chief Executive Officer, DuPont, USA; Pawan Munjal, Managing Director and Chief Executive Officer, Hero Group, India; Dennis Nally, Chairman, PwC International, PwC, USA.

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