

**How companies can make it better - Meeting the challenges of the 21<sup>st</sup> century****Think Tanks Network**

The Institut de l'entreprise is organizing this year's event in collaboration with its global network of business think tanks, composed of 12 think tanks which operate in more than 30 countries. In order to draw on international experiences to develop concrete proposals, here is a brief overview of their contribution to conduct a prospective and constructive reflection at an interdisciplinary international dimension about the future of the companies and their role in society in the 21<sup>st</sup> century.

Their completed works are on line: [www.isbtt.com](http://www.isbtt.com).

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## ▀ [US] Committee for Economic Development (CED)

### **Business Statesmanship and Sustainable Capitalism**

*The political and economic environment became less stable and less hospitable to American business. The challenge to capitalism today is the erosion of public trust in business, government and societal institutions, in a globalized world. Public support for business has waned, endangering the “social license” of business to operate. And there are strong calls for the system to evolve to meet the needs of today balancing private and public sector interaction. Indeed, long-term interests are served by responsible civically engaged corporations and corporate leaders. They help create societal conditions conducive to economic opportunity. Business leaders actually hold a key to market acceptance of corporate efforts to emphasize long-term growth based on well-functioning societal conditions.*

#### **Can corporate leaders help put America and American business back on track?**

To celebrate the Committee for Economic Development’s (CED’s) 75<sup>th</sup> anniversary in 2017, CED will renew our founding principles through a multi-year program that will test the viability of “sustainable capitalism,” an economic system based to date on private property, competitive markets, and the rule of law.

The issue we face today is whether this system can continue as it is. The political and economic environment today is less stable and less hospitable to business or, more broadly, the success of capitalism than at any time in memory. The challenge to capitalism today is the erosion of public trust in business, government, and virtually all societal institutions. In sum, public support for business has waned, endangering the “social license” of business to operate.

There are strong calls for the system to evolve to meet the needs of today, balancing private- and public-sector interaction. One commentator predicts that “21<sup>st</sup> century capitalism...will look more like an Asian-led hybrid of alternatives” and that “the rest of the world stands ready to define capitalism in new and strikingly different ways.” We are skeptical of that prediction but our research during our multiyear program will consider that possibility along with other potential outcomes and measures that may be needed to protect sustainable capitalism.

CED was founded in 1942 by prominent CEOs who were determined to have sound economic policies in place at the end of World War II. We are equally determined today to respond to threats to the future of sustainable capitalism which we believe to be critical to the future of a free society, steady economic growth, increasing standards of living, equal opportunity, and shared improvements in the quality of life.

Many claim that the loss of support for capitalism is due in part to the inability of business leaders to be effective in sustaining the system that sustains them. *New York Times* columnist David Brooks, for example, observed that “business leaders have been inept when writers, intellectuals and politicians attacked capitalism.”<sup>1</sup>

A significant part of our contemplated work will be an effort to understand why business has not been more effective stewards of capitalism, to determine what competitive, governmental and

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<sup>1</sup> David Brooks, “The Capitalism Debate,” *New York Times*, July 16, 2012

leadership pressures in all aspects of business—domestically and globally—may inhibit the ability or willingness of business leaders to address the societal issues that will in the long run be critical to their respective businesses.

In particular we will examine the issue of what political scientist Charles Murray calls “collusive capitalism,” that is, the corporate advantages created by the rules of regulators and legislators, by earmarks and subsidies<sup>2</sup>. Do these advantages inhibit the ability of business leaders to support the level playing fields so essential to sustainable capitalism?

We began this work in conjunction with the Governance Program at the Center for Strategic and International Services (CSIS) and the American Assembly of Columbia University to conduct a year-long effort with leaders from business, academia, media and non-governmental organizations to identify concrete actions that business leaders can take—in their own companies, or in collaboration with other companies, non-business institutions, or governments—to address threats to sustainable capitalism.

### ***The Role of Business Statesmanship and Corporate Engagement***

Business leaders should have no illusion that their company’s interests are independent of the strength of the surrounding society; business enterprise cannot stand apart from the system that supports it. The question we will ask is whether business leaders can act as stewards not only of their own companies but to some degree also of the overall society in which they operate. We understand that the jobs of corporate leaders are tightly focused on their companies and that oversight by directors, shareholders and government make it harder for a CEO to step outside the confines of immediate business concerns. We are hopeful, however, that it can be possible for CEO’s and other business leaders to take a broader view. The health of our society and domestic economy needs their help for the nation to regain civility in public discourse and develop common ground for sensible policies. CEOs in particular can credibly speak to issues that most directly affect the long-term health of their companies, including the nature of the markets they serve, the availability of well-trained workers, and the general economic and social environment.

To be a vocal societal leader, the CEO and executive team will need the strong backing of their board, shareholders, and other constituencies. Board members will have to share the CEO’s vision and fully support the goal of responsible business statesmanship. Shareholders, too, must realize that their long-term interests are served by responsible, civically engaged corporations (and corporate leaders) that help create societal conditions conducive to economic opportunity. Institutional shareholders representing individuals with longer-term economic goals hold a key to market acceptance of corporate efforts to emphasize long-term growth based on well-functioning societal conditions. Shareholders should reexamine their strategies from a long-term perspective, especially when their ultimate beneficiaries have goals linked to retirement, education, and other longer-horizon objectives.

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<sup>2</sup> Charles Murray, “Why Capitalism Has an Image Problem,” The Wall Street Journal, July 30, 2012

## ▀ [FINLAND] Center for Finnish Business and Policy Studies (EVA)

### **Revival of the Bourgeois mentality: the way back to the merits of entrepreneurial capitalism...**

*Entrepreneurship is the engine of wealth creation, the sunny side of capitalism. But entrepreneurship also has a dark side of predation, rent-seeking, and recklessness. The current economic crisis makes it clear that a government can behave as recklessly as any bank, and that regulation can create more problems than it solves. If sustainable growth is expected, structural reforms are needed to restrict the reach of governments, and the bourgeoisie must find its way back to the basic virtues of entrepreneurial capitalism, prudence, courage, and hope. While these are accepted and embraced in some sectors of society, in some others the anti-business mentality is still going strong.*

### **Back to basics – reconnecting with principles of market economy and virtues of entrepreneurship**

The financial crisis of 2008 inspired many lefties to dust off their 1960s anti-capitalist rhetoric. Free enterprise was once again seen as a failure, because it could not provide uninterrupted increase in middle class living standards. Big Government was asked to clamp down. However, the current economic crisis makes it clear that a government can behave as recklessly as any bank, and that regulation can create more problems than it solves. If sustainable growth is expected, structural reforms are needed to restrict the reach of governments, and the bourgeoisie must find its way back to the basic virtues of entrepreneurial capitalism, prudence, courage, hope and love. While these are accepted and embraced in some sectors of society, in some others the anti-business mentality is still going strong. The purpose of this article is to shed light on that mentality, and discuss what capitalism might learn from its critics, even from its enemies.

While most of the world has become, or is furiously becoming middle class, the bourgeois mentality is thinly represented and not well articulated. The aristocrats and ascetics, allegedly representing the peasant, dominate the chattering classes. The bourgeoisie has lost its confidence, not least because it has allowed itself to be influenced, even corrupted by the other mentalities.

#### ***The Bourgeois and the Rest***

In the struggle between mentalities, the bourgeoisie is pitted against the rest. The dividing line is prudence, the conception that value needs to be painstakingly created, that consumption needs to be preceded by production, that innovation can't be implemented without pain, and that the appreciation of others in a free market should determine who deserves what.

Politically the bourgeoisie is represented by classical liberalism and market conservatism. Its opponents on the right are the new aristocracy of crony capitalists drawing shame on the bourgeois enterprise. On the left, there are the resentful aristocrats demanding entitlements, the ascetics peddling decline, and the pitiful peasants asking for the right to exploit the commons. They depict the bourgeoisie as driven by simple self-interest, while the aristocrat and the ascetic see themselves as the proper guardians of the welfare of the peasant, and as the solution to global problems. Essential welfare and educational services for the poor can only be financed through taxes collected by the aristocrat, defined and rationed by the ascetic and produced by the clerks.

The bourgeois can point to the innumerable failures of state aristocracy, the undisputable shortcomings of ascetic do-goodery, and the futility of peasant rebellions. The main argument, however, is to show how bourgeois enterprise, when it goes back to the basics, can succeed where others have failed. The revival of entrepreneurial capitalism gains credibility from the emergence of the Fourth Sector in India and other developing countries.

***Put the bourgeois mentality into the service of people***

In developing economies where aid has failed to deliver development and the public sector is incapable of organizing efficiently, entrepreneurs take matters in their own hands. As Christopher Meyer has argued, a new form of mixed-value capitalism is emerging<sup>3</sup>. The First Sector is ordinary for-profit business, the Second is central and local government, the Third is charity. The Fourth is a hybrid of the First and the Third. It tends to steer clear from government money and influence.

The Fourth Sector entrepreneurs reject the aristocratic-ascetic top-down, do-good mentality and employ the tools of the bourgeois to help the poor. They do market research, listen to customers, work hard to understand how value is co-created in producer-customer interactions. Socially minded enterprises are accountable first and foremost to the customers who define their revenue stream, not to absent charitable donors. To fulfill their missions they need to expand and grow, therefore they need to control costs and show profit.

In Finland public primary care is mired with long waiting lines and poor service. Consequently several entrepreneurs see opportunities to develop innovative solutions, such as high-volume, low cost, rapid access dental care (Megaklinikka), family doctors on wheels (Doctagon), or outcome-based occupational healthcare (Hoffmanco).

The collapse of the Soviet economic model made it clear, that the public sector is not suited to the production of goods. Services are no different. In public organizations the aristocratic mentality demands that employees are entitled to their positions, no matter what they produce to the people. The ascetic mentality insists that the provider knows what is good, and people cannot be allowed to choose.

The bourgeois corporation emerged as an organizational solution to manage economic risk, capital accumulation, and efficient production. A governance structure based on shareholders, boards, and management needs to strike a balance between the claims of various stakeholders. Shareholders demand returns, but these will not materialize, unless customers are satisfied, competitors are kept at bay, and employees remain productive and motivated. The Fourth Sector demonstrates how a better organizational architecture can replace a worse one and put the bourgeois mentality into the service of people.

Capitalism is pragmatic and flexible. It learns from its critics and sometime absorbs them in its fold- for good or bad. The basic bourgeois mentality is based on the conception of value as determined in markets with free choice. Value creation requires prudence in production and concern for customers. Outcomes are more important than procedures. If you create value to your customers, they will reward you – and you earn it.

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<sup>3</sup> Meyer, Christopher with Julia Kirby (2012), *Standing on the Sun: how the explosion of capitalism abroad will change business everywhere*. Harvard Business School Publishing.

## ▀ [CHINA] China Institute for Reform and Deveopment (CIRD)

### **The government cannot substitute the market**

*In China's more than 30 years' sustained and rapid economic growth since the start of its reform and opening-up, the government has played an important historical role. Nevertheless, the system of tax sharing between the central and local government, coupled with using GDP growth rate as the prevailing indicator for assessing the performance of the local government, has induced a crazy aspiration for economic growth and impulsion to increase investment, thus gradually shaping a government-led economic growth pattern. This growth pattern has not only led up to serious imbalance between investment and consumption but also accumulated many structural contradictions such as in distorted income distribution structure, irrational industrial structure, unbalanced urban-rural, regional, socioeconomic and lagging ecological development. In order to resolve these structural problems, China must change the government-led economic growth pattern.*

### **Changing the government-led economic growth pattern**

In China, the long existing difficulties in establishing a sound market economic system, irrational state revenue sharing system and the lagging of the reform of the administration system are important factors for the gradual shaping of a government-led economic growth pattern. At the beginning of its reform and opening-up and in the initial period of transforming its planned economic system into a market one, China was extremely short of capital, which could not be obtained from the market because the financial market was not yet in place. In this particular context, the government had to take economic construction as its central task by increasing savings, promoting capital formation, attracting foreign investment and concentrating all internal and external resources available on economic construction. This guiding principle has resulted in a gradual shaping of a government-led economic growth pattern, which kept the investment rate at a level of more than 40%, advanced economic growth and made an important historic contribution to the economic take-off in China.

This government-led economic reform approach has kept the systematic transition within controllable scopes and has largely prevented uncontrollable economic and social problems that could have arisen from too large abruptness and too much overreaching. The government-led economic growth pattern has the characteristics of regarding GDP growth rate as the super ordinate goal, taking expanding investment scale as the main route, taking land leasehold and promotion of heavy and chemical industry projects as main tasks of the government, and using administrative control of and administrative interventions in allocation of resources as the main measures. In short, the growth pattern has manifested a clear governmental tendency of growthism. The government-led growth pattern has been prone to take short-term policy measures to stimulate economic growth while neglecting long-term development goals, missing many reform opportunities to solve long-term and structural problems.

Prioritizing economic growth over social development, the government-led economic growth pattern has proved incapable of resolving social conflicts and social risks. Though the government-led economic growth pattern has played an important role in China's economic take-off, it has somehow distorted the relationship between the government and the market, accumulating

some long existing and hard-to-tackle problems and contradictions such as the lack of adequate balance, coordination and sustainability in economic development.

### ***Streamlining the relationship between the government and the market***

The most important experience China has accumulated in its more than 30 years' reform and opening-up is "liberating the market" and enabling the market to play the basic role in allocating resources, which has created enormous economic vigor and efficiency beyond comparison with its traditional planned economic years. At present, many contradictions and problems existing in economic life are mostly directly related with the government-led economic growth pattern. If this pattern were not to be changed, it would be high likely for the return of elements of the planned economic system, leading up to a deadlock or even reversal of market-oriented reforms in China.

Law of value should not be violated, and neither should be the law of supply and demand as the government should not make decisions for enterprises. More importantly, it should not control enterprises by administrative means. The law of competition should not be violated either: market economy is a competitive one with mechanisms of selecting the superior and ridding off the inferior. Therefore, the government should not protect enterprises out of non-economic considerations. For instance, it should not protect large but poorly operating businesses from going bankrupt simply because they are "too big to fail", it should not protect high technology enterprises such as photovoltaic enterprises from going bankrupt simply because they are too new to fail, it should not protect state-owned enterprises simply because the economic situation is too risky for them to fail. If the government does provide protection for the unfit players in all the three cases, it is sure to violate the law of market competition and delay the needed capacity clearing.

### ***Speed up transformations and reforms in the next 5-10 years***

In recent years, there has been a noteworthy tendency to attribute China's 30 years' economic miracle to the government-led economic growth pattern. We should be on high alert for this tendency because it may mislead China's reform. China's market economic system is still far from perfect and many reforms still have a long way to go. In the coming years, the economic transition and social transformation will remain arduous tasks for China. For instance, income distribution reform, fiscal and taxation reform, market-oriented reform of resources and factors, and reform of the monopolistic sectors are all in critical period and are waiting for breakthroughs to be made. Regarding the government-led economic growth pattern and proudly advocating this so-called China Model may take the badly needed attention away from deep-rooted systematic, structural and institutional problems.

The ultimate purpose of market-oriented reforms is to enable the market to play the basic role in allocating resources. And developing a market economy is the fundamental goal of China's economic system reform. It is the government's main task to enable the market to play the basic role. Macro control and regulation should be designed to enable the market economy to effectively and efficiently operate, and to promote fair competition; but not to directly intervene into market players with administrative means. And the effectiveness of the supervision and administration by the government should be reflected by the extent to which the market plays the basic role in allocating resources.

A relatively mature market economic system should be well established by 2020. The next 5-8 years is a critical period for China to improve its socialist market economic system. In this short period of time, all kinds of administrative monopoly should be fundamentally broken to create favorable policy and systematic climate for the development of private economy; a strategic adjustment of state-owned capital allocation should be conducted to make sure that state-owned capital is mainly allocated to areas of public welfare; and relative sound systems for collecting rents and dividends from state-owned enterprises should be put well in place to lay a solid foundation for putting a relatively mature market economic system by 2020.

## ▀ [JAPAN] Japan Association of Corporate Executives (Keizai Doyukai)

### **Sanpo yoshi: the key Japanese business philosophy, over the years...**

*Japanese businesses have unique corporate traditions. Many companies are more than 200 years old, and the oldest one was founded in 578. This great longevity is anchored in the Japanese concept “sanpo yoshi”, a key business philosophy based on a “triangle benefit” between the customer, the vendor, and society. “Sanpo yoshi” contribute to the solution of social issues, such as environmental preservation and poverty, and tackle other social challenges through the business activities responding to the needs of society. By overcoming challenges through innovation and serving the needs of local economies and communities, corporate executives are therefore required to be discipline, against extremely short-term profit or corporate scandals, that calls to reflect their own action in the mirrors of capital markets, employees and society.*

### **Reconsidering the *raison d'être* of Corporations after the Great East Japan Earthquake**

Now that two years have passed since the Great East Japan Earthquake, reconstruction, not restoration, is what is needed today. In the process, expectations toward companies are not limited to financial support, such as donations. They are that companies make strategic efforts that would become leading examples for solving social issues, creating employment by generating new business, and keeping business in the disaster stricken area.

The recent earthquake disaster has made it more apparent that there is a limit to accommodating the various needs of the people by government led public service alone. At the same time, it is difficult for companies to solve single handedly the social issues that are becoming increasingly complex. Collaboration with diverse stakeholders across various sectors, such as individuals and NPOs, is essential for companies to take on social challenges and to allocate resources toward a sustainable development together with society.

The relationship between society and companies, which involves corporate ethics, globalization and localization, and culture and civilization, is an important matter concerning the desirable state of a new capitalism and the philosophy and values of the top executive. It is also a theme of significance common throughout the world. We hope this paper will be useful for top executives undertaking management standing upon their own philosophy and values in this era going through a major turning point in light of diversifying values.

### **Role of business in society and social contract**

Over its long history, Japan has experienced major economic ups and downs and social transformations, including the Meiji Restoration of 1868, which ended the Tokugawa Shogunate's reign of over 250 years and World War II, which totally devastated Japanese economy. However, businesses have survived and overcome all these hardships with resilience in cooperation with society as a whole. Traditionally, Japanese companies have emphasized the importance of developing relations of trust with stakeholders. Many Japanese companies have maintained their businesses for more than two hundred years, the oldest one was founded in 578.

The reason why Japan has so many companies with great longevity is based upon the following key business philosophy that has been passed down from the 17th century by Japan's commercial houses: *sanpo yoshi*, meaning that all three sides—namely, the customer, the vendor, and

society—must benefit in a transaction. This concept of the “triangle of benefit” has been adopted by many contemporary Japanese businesses.

Japanese businesses will continue to honor the spirit of *sanpo yoshi* and contribute to the solution of social issues, such as environmental preservation and poverty, and tackle other social challenges through their business activities responding to the needs of society.

Keizai Doyukai has initiated similar concept making: that is, a company as a public entity in society since its foundation in 1946 and crystalized its concept as “Market Evolution and CSR Management,” the theory and practice of CSR in 2003 and has since played an integral role in the dissemination and promotion of CSR in Japan.

The latest policy proposal entitled “Evolution toward a Corporation for Co-Creating Social Value — Aiming for sustainable, synergetic development of society and companies” has become public in June, 2012. After experiencing the financial crisis, which emanated from the United States, and Europe’s debt crisis, requests from society to companies have undergone an important change on a global basis “From the pursuit of short-term profits to coexistence and co-prosperity with society.” Its thesis is that now is the high time to reconsider the corporate *raison d’être*: “CSR management” is corporate management itself.

Japan is working on formulating a new strategy to depart from its long stagnation and to achieve sustainable economic growth. A company’s top executive, who has a role to play in the economy should now more than ever show leadership and promote reforms toward the “Corporation for Co-Creating Social Value” that aims for sustainable synergetic development with society.

To exist together with society, to work on creation with society, is the best and obvious choice for companies in terms of ensuring corporate survival and growth as well as pursuing innovation and value creation. Furthermore, it can be said that the role companies could play in creating social value is essential.

Top executives should face society directly, feel empathy, and take the initiative in pursuing management aimed at realizing synergetic development of society and companies.

## ▲ [AUSTRALIA] Committee for Economic Development of Australia (CEDA)

### **Incentivizing innovation: the role of public policy**

*Innovation is often perceived as world-first breakthrough technology underpinned by research and development but it is much broader and more pervasive than this. How business responds to the innovation challenge therefore is a major determinant of its capacity to lift productivity and to add to a nation's wealth. The question that remains critical to improved competitiveness and productivity through innovation is whether there is a role for government in developing public policy to support fundamental change and improved economic and social well-being, and if so what is the best way for government to provide this ?*

### **Incentivizing innovation: the role of public policy in driving innovation**

It is a given that countries need to innovate to maintain and improve living standards in an increasingly competitive global economy. Improving productivity and competitiveness through innovation and skills development to help create new business opportunities, growth and skilled jobs for the future are essential in achieving these objectives.

Productivity principally drives national prosperity in the long run. Innovation is a tool to facilitate growth in productivity, market diversity, exports and employment. Significant benefits accrue to business and, in aggregate, the economy and society, where a culture of innovation is pursued. Innovation also delivers greater resilience at a business and an economy-wide level, greater ability to handle shocks and changing business and economic conditions.

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### ***Australia's National Innovation System***

The Australian government, cognisant of the structural changes facing the Australian economy over the next decade, undertook policy work and research throughout 2008 to develop a 10-year innovation agenda- *Powering Ideas – An Innovation Agenda for the 21<sup>st</sup> Century*- released in May 2009. In doing so, it drew on numerous reviews that examined specific industries such as textile, clothing and footwear, automobiles, pharmaceuticals and higher education. Additionally it specifically examined innovation policy options including reviewing the existing innovation framework which provided the basis for a reform agenda.

The report identified a poor business innovation record and lack of collaboration between research and industry as the two major weaknesses of the innovation system. To address these weaknesses, the report identified seven National Innovation Priorities (NIP-s) which help to inform innovation activities and incentives provided by the government.

Tracking the performance of Australia's innovation system is essential in assessing its contribution to the nation's economic well-being. The Federal Government's Australian Innovation System Report (AISR) is used to monitor performance by analysing actual achieved targets against targets set in the innovation agenda.

The report discusses trends in innovation in Australia and where possible benchmarks Australia's performance against other OECD countries. Given the importance of Asia to the economy this is

perhaps an issue that requires further consideration in future reporting to make meaningful, more wide-ranging comparisons.

What the Report seeks is to offer robust, practical and relevant measures of innovation with a focus on skills and research capacity, business innovation, links and collaboration, and public sector innovation.

### ***Innovation challenges and opportunities***

With this myriad of government strategies, plans and jurisdictional overlap in place to support innovation, it is useful to consider two significant opportunities that serve as useful examples of where innovation and practical outcomes intersect. As with most advanced economies, an ageing population is a key factor influencing the government's policy and innovation agenda. There is enormous scope for healthcare innovation in the coming decades to help meet Australia's ageing population challenge.

Opportunities for advancements in medical technology are significant. The expansion of access to care through interactive internet consultations, supporting telemedicine and addressing health shortages through internet based care are some of the ways that services are expected to be offered to address the medical gap between urban and regional Australians. In the future, regional patients could have access to online services that provide the ability to consult with their specialist and local doctor simultaneously via video conference. Greater comfort as well as possible time savings and reduced cost are achievable.

The National Broadband Network (NBN), Australia's first national wholesale-only, open access communications network, has the potential to change the way business is done by helping companies overcome the barriers of distance. Access to high speed broadband is expected to give businesses the opportunity to increase productivity, save time and money and the ability to compete on a global scale. Opportunities for businesses to hold virtual meetings or liaise with suppliers across Australia online - potentially saving time and costs associated with travelling- are envisaged through the use of this technology.

What is clear is that there should be a role for government, but that role should not increase compliance burdens on business, should ensure that the taxpayer gets an appropriate return for any taxation concessions granted and that research programs return positive commercialization returns.

There is no doubt Australia can do better in applied research, collaboration and commercialization. There is equally no doubt that productivity improvements and enhancements can only come through improved innovation, whether it be by the application of scientific or technological breakthroughs or the application of managerial improvements that reflect flexible, modern and innovative approaches to work.

## ▀ [LATIN AMERICA] Business Council of Latin America (CEAL)

### **“Multilatinas”: a combination of development, public policies and corporate strategies**

*The development process of Latin America requires coordinated modernization of the State and civil society. Since the 80s, countries that adopted institutional practices based on the principles of democracy and free enterprise have observed the growth of entrepreneurship and business models adapted to environments of greater macroeconomic stability and openness to the external environment. In the second half of the 90s and throughout the 2000s, a new corporate pattern including skills and expansion strategies in certain favorable conditions - increased mobility of trade, finance and technology; standardization of corporate governance; sophistication of domestic capital markets - converged and revealed a new regional and global political actor: the Latin American multinationals, or “multilatinas”.*

#### **The global Latin American corporations became major players**

Today, many of the global Latin American corporations are amongst the largest companies in the world, competing on equal terms with companies from developed economies both in developed and in other emerging and developing countries. Social and economic transformations, changes in the institutional environment and entrepreneurship of Latin American business persons constitute a new scenario that although indicate major challenges ahead, points to positive changes for the region.

Multilatinas are companies born and raised in Latin America, headquartered there that emerge as major players in the international business scenario. They configure a rearrangement of private and public economic power relations: the phenomenon of transnational corporations based in emerging countries, challenges some of the stylized facts that have prevailed in the traditional international political economy interpretations of the distribution of global power, such as the premises of dependency theory: North-South and center-periphery logics ; financial and technology flows that settled the basis of global capitalism since the eighteenth century.

#### **How economic and social development changed societies in Latin America**

In the past 20 years, social development changed societies in Latin America, transforming the region into a conducive environment to private sector growth. Some policies have had significant impact in the reduction of poverty and the expansion of the middle class, with the consequent enlargement of the regional consumer market. Credit access also concurred to the enlargement of the consumer basis. The increase of funding sources has boosted consumption, heating the housing market and consumer goods. Sound macroeconomic policies, after two decades of rampant inflation in the 80s and 90s, boosted income distribution. At the same time, price stability provided predictability and efficiency to productive investments, thus allowing to its increase.

In the past decade, Latin America became attractive to investment in general. Stable growth with a composed average GDP per capita above 3% per year, coupled with unemployment rates close to 6.5% in average for 2011 and 2012, have raised attention of investors. Local businesses

rebounded and foreign investors also poured in. Strengthening national institutions with economic policies was essential to contain contagion of the 2008 global financial crisis. This role was fundamental in creating the most suitable bases for keeping up with the expansion path of Latin American companies. Sources of foreign direct investment diversified, reducing the region's historical reliance on U.S. investment, and increasing the interest of other regions such as Asia, especially for China. More significantly, sustained growth and economic stability enabled investors to obtain financing at cheaper costs, allowing the private sector better conditions to plan their investments.

### ***Economic liberalization and privatization policies opened a new stage for private businesses***

The beginning of the internationalization of Latin American economies is often associated with movements in the 70s and 80s, of South-South foreign investment among emerging economies. In this first phase of internationalization, investment was mostly intra-region, based on the concept of regional markets as mere extensions of domestic environments, due to geographic and cultural similarities. The second moment, that starts in the 80s and lasts until the beginning of the 2000s, is marked by successive crises in the economies of the region and a long lasting process of trade liberalization, which has deepened significantly in the 90s. A new time for Latin America takes shape. Economic liberalization and privatization policies opened a new stage for private businesses. Encouraged to consolidate their positions domestically, several Latin American companies blossomed, under favorable conditions of access to funding, reaping off most of its comparative advantages and natural efficiencies, enter a new phase of internationalization.

The 2000s opened a new era for global Latin corporations. Driven by historically high commodity prices, many companies started to go abroad. Much of the internationalization strategies of Latin American companies was based on foreign acquisitions. Backed by good capital reserves, with knowledge about a large and highly competitive market in strategic sectors for the region, global latinas faced no major obstacles to step in Europe and the United States, as well in other emerging markets. Outcomes of international strategies of Latin American companies have been quite uneven across countries. Brazil, Mexico and Chile excel, thanks to sound domestic policies that support internationalization. In pace with the multiplication of internationalized companies, the range of multilatinas widened considerably. Brazilian companies occupy 7 of the top 10 positions in terms of geographical coverage of their activities. Benefited by governmental incentives such as those provided by the Brazilian development bank, BNDES, which provides financial support to Brazilian companies aim at internationalize, Brazil has been expanding and consolidating its position in the international market.

Internationalization was central to increase competitiveness of Latin corporations facing challenges of economic opening that started in the 90s and the rise of China and Asia-Pacific in the 2000s. Large global are – by definition – global, that is, their scope is the world. Latin American enterprises thus have pulled the processes of internationalization of their home countries, integrating them in a more interdependent and globalized economy.

### ***Profile of Multilatinas - in search of diversification***

Multilatinas are concentrated mainly in Brazil and Mexico. From the vantage point of each company, some factors are common to most multilatinas. Entrepreneurship, strategy, adaptability and different world views are present in most success stories. Casanova (2009) identifies five factors that explain the emergence, growth and current status of multilatinas: (1) long-term

visionary leaders, (2) a strong survival instinct, (3) ability to navigate in turbulent waters, (4) strategy of internationalization as a means of balancing domestic market risks, (5) and innovative business models.

Multilatinas excel mostly in sectors in which Latin America has held comparative advantages: mining, petrochemical, construction, and especially food and beverages. Recently, service sector began to stand out, such as airlines, telecommunications and technology of information providers. Concentration in traditional sectors did not prevent innovation: in agribusiness, with modern cropping techniques and seeds development, for instance. In industry, Brazilian Embraer assembler of medium and small sized aircraft stands out as one of the most striking examples of technological and marketing excellence. Deep water oil extraction by Petrobras is second to none in terms of state of the art offshore drilling.

***Public and private sectors should act together for sustainable development, enhancing competitiveness through technology-based innovation***

One of the main challenges the region faces is to facilitate doing business. Latin American countries are pressed to figure out new patterns of development, in line with the trends of the 21<sup>st</sup> century. Ideally, it should combine the entrepreneurial drive with the improvement of political, social and economic indicators, plus policies to induct innovation. Public and private sectors should act together in order to foster alternatives for sustainable development, enhancing competitiveness through technology-based innovation. Yet few multilatinas can be labeled innovators. How to compete in areas of knowledge and technology intensive is one of the greatest challenges for Latin America, and this can't avoid an intense and well-articulated relationship between universities, enterprises and governments.

The global financial crisis of 2007-2008 seems far from its end. The crisis altered the correlation of forces in the global economic and political aspects. Countries which were aware of it - notably China - learned how to take advantage of the weakness of the central economies as an opportunity to internationalize its productive models. In Latin America, local corporations stood out when, amid the financial turmoil and the shrinking of traditional consumer markets, realized that their national financial sectors were under lower rates of exposure. Enlarging domestic markets and, in the case of operators of commodities, with external demands - particularly from China and East Asia – in expansion, the relative loss of value of Europeans and Americans assets offered a renewed opportunity for the expansion of multilatinas, mainly by acquisition of competitors, facilitated by affordable financing rates. This was the case, for example, of the Brazilian AmBev, which acquired three icons of American consumer culture: Budweiser, Heinz and Burger King.

Explaining why multilatinas became a success story from emerging countries requires a combination of national development, public policies, behavior of specific economics sector and corporate strategies. Based on expanding domestic markets, in relatively solid financial systems and favorable relations with its national governments, Latin American corporations with propensity to internationalize probably will keep up in the short and medium term with their strategies of becoming global and expanding abroad, either because their own logic so indicate, either because the European retraction will give room to new players.

## ▀ [GERMANY] CES-Ifo

### Innovation and Regional Economic Development

*Economic activity often has distinct geographic patterns even within a country. As Enrico Moretti points out, differences between US states are larger than between the United States itself and South American developing nations. This state of affairs usually calls for correcting policy measures, whereby the aim is to put one's country, as a region of the world, into at least an equal, and ideally better, developmental footing vis-à-vis the rest of the globe, and every region within one's country itself at an equal footing with the nation's remaining regions. What drives these differences in economic activity across regions within the same country? In addition to different geographic characteristics, regional economists have identified agglomeration economies as a driving force behind spatial patterns in economic activity.*

#### **Innovation and Regional Economic Development: A Policy Perspective**

After numerous studies (Gennaioli, La Porta, Lopez-de-Silanes, and Shleifer 2013, among others), the factors that explain outstanding regional development point to innovation, entrepreneurship and the share of high-skilled workers as the motors for regional economic growth, in particular in post-industrial economies that can no longer compete on the basis of labor costs or access to resources. For instance, the fastest-growing regions in Germany exhibited a 40 percent higher annual growth rate of GDP per worker over the period 1998–2004 than the median German region (cf. *German Regional Accounts*). As another example, the share of employees with a tertiary degree is more than twice as large in the top 5 percent of German regions than in the median region (cf. *German Social Insurance Statistics*). Enormous spatial differences in innovative activity and entrepreneurship are also observable in the country. Munich, for example, generated more than 1,400 patents in the year 2000, whereas the median city registered only 50 patents (cf. *German Patent Atlas*); similarly, Munich generated more than 135 new business startups per 10,000 workers in the year 2000, whereas Hamburg registered only 80 startups per 10,000 workers (cf. *Establishment File of the German Social Insurance Statistics*).

In addition to different geographic characteristics, regional economists have identified agglomeration economies as a driving force behind spatial patterns in economic activity. With remarkable prescience, Marshall (1890) divided agglomeration economies into three types:

- (1) economies resulting from access to a common high-skilled labor market and shared public goods, such as infrastructure or educational institutions (e.g., Moretti 2004);
- (2) economies from saved transportation and transaction costs due to the regional proximity of firms along the supply chain (e.g., Ellison, Glaeser, and Kerr 2010);
- (3) economies resulting from an overall industrial atmosphere conducive to knowledge spillovers or human capital externalities, which are emphasized in the regional context by Jacobs (1969) and in the growth context by Lucas (1988, 2009).

These externalities result from people interacting and learning from each other such that knowledge is transmitted across people at little or no cost (Audretsch and Feldman 1996).

Policymakers respond to pronounced spatial disparities with interventions aimed at reducing them. The U.S. government, for example, is estimated to spend approximately \$30 billion annually on this type of program, with state and local governments additionally spending \$12 billion (Kline and Moretti 2012). These policies are even more important in Europe, where EU funds (€347 billion budgeted for the period 2007–2013) are used to support economic activities in regions with low average income (Becker, Egger, and von Ehrlich 2010). However, in a spatial general equilibrium model (Roback 1982; Glaeser and Gottlieb 2009) with perfect mobility in which high prices and low amenities offset high wages, there is nothing equitable about taking money from rich locations and giving it to poor locations. Subsidies to poor locations will be offset by higher prices, and the primary real effect will be to move people into economically unproductive areas. The spatial equilibrium concept thus suggests that any argument in favor of policy aimed at “growing” specific locations needs to be more rooted in efficiency, i.e., internalizing externalities, than in equity (Glaeser and Gottlieb 2008).

Many of these policy interventions take the form of infrastructure investments (Kline and Moretti 2011). Like a general-purpose technology (Harris 1998; Helpman and Trajtenberg 1998), infrastructure may open up new opportunities and fundamentally change how and where economic activity is organized. Along this line, Atack, Haines, and Margo (2008) show that the emergence of the railroad network in the U.S. Midwest fundamentally changed the size distribution of business establishments. For example, the arrival of the railroad increased manufacturing establishment size since this form of transport extended the geographic limits of the market.

There is a growing body of literature that emphasizes the importance of culture to regional economic development (Tabellini 2010), and culture may well differ between a country’s regions. “Culture” is, of course, multi-dimensional, but it is generally agreed that it includes individual values and beliefs, such as trust and respect for others. The concept of culture is closely related to the concept of social capital (Knack and Keefer 1997), which can best be described as an individual’s informal network, which also relies on trust between individuals and facilitates market and non-market exchange, as well as knowledge spillovers.

Furthermore, a deeper understanding of the determinants of innovation as a key driver of economic development may be helpful to explain regional differences in economic development. Modern growth models emphasize the outstanding importance of human capital for innovation. Countries at the cutting edge of technology can achieve growth only via innovation, and innovation can flourish only in the presence of state-of-the-art skills and competencies (Vandenbussche, Aghion, and Meghir 2006). Modern growth models also emphasize the role of the entrepreneur. In these models, human capital is allocated between work and entrepreneurship (Lucas 1978). Lazear (2004) describes the entrepreneur as a “jack-of-all-trades,” that is, as someone with a balanced portfolio of wide-ranging skills and competencies. Thus, it is likely insufficient to look only at individuals’ formal education in assessing the innovative capacities of a region.

### ***Policies to foster regional economic growth***

Policies aimed at facilitating knowledge flows by means of local cluster formation, providing infrastructure that facilitates the exchange of information, and attracting high-human-capital individuals *do* have an effect on innovation and economic growth. For a cluster to be successful, a number of elements must come together in a coordinated manner: Provision of physical infrastructure, such as roads, airports and the like, as well as communications infrastructure, in particular fast internet access; educational institutions oriented towards fostering the entrepreneurial spirit and working in close cooperation with companies; ready access to research facilities for educational institutions, companies and individuals; a good range of cultural offerings and urban amenities; availability of venture capital; and adequate legislation that makes it easy to set up businesses, provides clear bankruptcy laws, and is devoid of entrepreneurship-hindering clauses such as non-compete commitments.

## ▀ [SPAIN] Circulo de empresarios

### Overcoming the economic crisis by Entrepreneurial Spirit

*The spirit and initiative of entrepreneurial people will be the key to overcoming the current crisis and paving the way for Europe to become a dynamic and competitive economy. The current economic crisis makes it essential to take measures focused on the construction of a more flexible, competitive model. This is a profound transformation that is completely unfeasible without the initiative of people with entrepreneurial spirit, with preferences towards an entrepreneurial initiative that will turn their ideas into sources of wealth for society as a whole. Thus the promotion of entrepreneurial spirit will have to be created from the awareness and responsibility of society as a whole. We all have to get involved in helping the educational system, the institutional framework and businesses themselves organise themselves in a way that promotes the establishment of entrepreneurial culture.*

#### **Entrepreneurial Spirit: Crucial for Tackling the Economic Crisis**

Entrepreneurial people generate and promote innovation and they also contribute with greater flexibility and capacity of adjustment to the economy as a whole. This makes entrepreneurial spirit an irreplaceable part of the growth engine, and driver of job creation. Without it, the objectives of competitiveness and prosperity are simply unattainable for society.

There are four broad areas where action is needed.

#### **1) Social recognition of entrepreneurs**

- Development and establishment of a clear political-administrative and social awareness regarding the importance of entrepreneurial spirit. All public and private institutions must get involved in promoting entrepreneurial spirit as a key element in the country's competitiveness.
- Widespread awareness of the huge economic and social value of business initiative and spirit.
- An effort by institutions, civil society and the media to convey a true picture of the vast benefits associated with enterprise, to help bring all European society on board.

#### **2) Integration of entrepreneurial spirit in education**

All education systems must include the following objectives in their teaching methods, organization and content:

- Conveying basic values for personal, social and economic development – hard work, responsibility, recognition of merit, etc. – which are also at the very heart of entrepreneurial spirit.
- Encouraging creativity, initiative, responsibility and independence.
- Teaching the necessary skills and knowledge for business initiative, making entrepreneurial spirit the cornerstone of the education process.
- Specifically tailoring curricula to include subjects aimed at creating entrepreneurial spirit.
- Teachers must be entrepreneurial in their own activity. It would be positive for persons with business experience to go into teaching.

### **3) *Institutional support for the creation of a favorable environment***

Institutional support for the creation of a favorable environment, especially in areas with the greatest impact on entrepreneurial spirit and on its capacity to generate prosperity:

- Reducing and rationalizing regulatory burdens on entrepreneurs.
- Boosting competition, efficiency and flexibility in all markets where over-rigid regulation is an issue, including the labour market.
- Reinforcing legal security and ensuring adequate legal treatment of the circumstances of entrepreneurial activity, such as insolvency.
- Improving tax incentives for entrepreneurial activity.

### **4) *Business leadership in promoting entrepreneurial spirit***

- Companies must encourage entrepreneurial spirit within their own organizations, with innovative internal administrative and management systems that tend to align employees' objectives with those of the company.
- They must be intra-entrepreneurial, in other words, they should launch new businesses from the companies themselves, for example by outsourcing or creating spin-offs.
- They must seek to attain optimum scope and achieve cooperation with other companies. Entrepreneurship, like innovating, is helped by the existence of appropriate networks to which companies themselves belong (incubators, technology parks, etc.).

By taking the right measures in these four areas, combined with other structural reforms and the active involvement of society as a whole, entrepreneurship will help to reinvigorate the economy.

### ***Entrepreneurial spirit and competitiveness***

The entire global economy has been witnessing, since the last quarter of the 20th Century, a radical transformation of the elements that determine the competitiveness of countries. The old world map of specialisation patterns has seen a massive shift, caused by technological changes and economic consolidation. As a result of this, the most advanced economies have progressed by following the path of innovation towards a new developmental phase. A new competitive model has been defined, in which entrepreneurial spirit and corporate activity have the necessary dynamism to drive growth. Recognition of this new reality brings with it the need for policies and measures to support entrepreneurial spirit, as the European Union has been proposing for a decade. In turn, for the correct design and implementation of these policies it is necessary to understand the factors that have an influence on the entrepreneurial spirit of people and on their ability to generate value through entrepreneurial actions. These factors are not only related to personal qualities, but also to the socio-cultural and institutional environment where economic agents interact.

### ***Promote entrepreneurial spirit among citizens***

The entrepreneurial spirit of the citizens of a country is one of the keys that opens the door to improving the competitiveness of their economy. Many of the economies that are now ranked as the most competitive in the world are also countries with great entrepreneurial dynamism, characterised not only by a high corporate turnover rate (the opening and closing of businesses), but also by the arrival of innovative products and services onto the market. In our closest economic

environment, the growing attention being paid to competitiveness has also meant an increasing emphasis on the need to promote entrepreneurial spirit. Due to unstoppable technological progress and growing economic integration, knowledge and innovation have become the central elements of the new competitive paradigm. And with them, human capital has also grown, which is an important factor for prosperity at any time or in any place and that encompasses knowledge, skills, aptitudes, experience and all personal qualities that enable people to carry out activities that generate value.

The figure of the entrepreneur must be defined within this framework, where we can see the embodiment of market forces: competition, innovation, creativity, achievement etc. People with entrepreneurial spirit and skills play an essential role in any dynamic economy, since they are the creators of innovation, elements of flexibility and therefore valuable driving forces in the generation of wealth and employment. For the above reasons, entrepreneurial spirit is considered one of the building blocks upon which the competitiveness and prosperity of any country is based. Entrepreneurial spirit appears as one of the variables that experts in the field place at the base of the competitiveness pyramid.

Economic opportunities logically influence the decision of an individual when putting an entrepreneurial initiative into practice, which is sometimes a new company, or the decision by an entrepreneur to take risks and to expand. However, a growing number of economic opportunities do not mean that there will automatically be more entrepreneurial initiatives: this also depends on entrepreneurial spirit, that is, on the preferences of citizens, on skills and on the available alternatives, as well as cultural and institutional characteristics and the demographics of the environment. In short, several factors, which we can define as socio-cultural and institutional, define the dynamic of a society regarding its degree of entrepreneurial spirit.

The current economic crisis makes it essential to take measures focused on the construction of a more flexible, competitive model. This is a profound transformation that is completely unfeasible without the initiative of people with entrepreneurial spirit, with preferences towards an entrepreneurial initiative that will turn their ideas into sources of wealth for society as a whole.

The promotion of entrepreneurial spirit will have to be created from the awareness and responsibility of society as a whole. We all have to get involved in helping the educational system, the institutional framework and businesses themselves organise themselves in a way that promotes the establishment of entrepreneurial culture.