Management and Financial Well-being: Jobs, Goods and Services, and Profits
Chapter 3

The economic context in which managers operate is governed by the **political-legal environment***, which includes both the prevailing philosophy and objectives of the various levels of government, as well as their ongoing laws and regulations*. It includes legislation about things like workplace health and safety, consumer protection, pollution, international trade, anti-trust laws, tax rates, minimum wage rates, and many other issues. One chapter is not sufficient to discuss these issues in depth, but we can briefly introduce two typologies that provide helpful language to discuss these issues: documentational versus relational capitalism and acquisitive versus substance economics:

	FBL	TBL	SET
Capitalism: rewarding entrepreneurs for combining resources in ways that create valued goods and services	**Documentational capitalism:** emphasis on detailed written contracts, public financial reports, management rights, short-term maximization of financial performance	**Hybrid:** emphasis on relational contracts, long-term reputation and maximization of firm financial performance, costs of neglecting employee rights, needs of key stakeholders	**Relational capitalism:** emphasis on relational contracts, long-term reputation and financial firm performance, employee rights, the needs of all stakeholder groups
Economics: how goods and services are produced, distributed, and consumed	**Acquisitive economics**: managing property and wealth to maximize the (especially) short-term monetary value for owners	**Hybrid:** managing property and wealth to maximize monetary value for owners while reducing negative socio-ecological externalities for key stakeholders	**Sustenance economics:** managing property and wealth to increase the long-term overall well-being for owners, members, and other stakeholders

ECONOMIC WELL-BEING IN HIGH-INCOME COUNTRIES

Jobs—*that is, opportunities to get paid by an organization in return for doing work that produces goods and services*—are the first dimension of economic well-being. People generally expect managers to create jobs that allow them to meaningfully contribute to society and enable them to earn money so that they can purchase the goods and services they need to have a good life.

The SET approach shares TBL management's concern about the widening income inequality, but not only because of its effect on worker motivation, performance, and contribution to the firm's financial bottom line. SET management recognizes that income inequality is associated with other negative societal outcomes, including increased levels of anxiety, crime, homicides, obesity, and differences in how genders are treated. Income inequality is also associated with lower levels of mental health, life expectancy, social mobility, and social trust. The greater the income inequality, the lower the overall quality of life (interestingly, a widening inequality gap also worsens the quality of life for the rich). The SET perspective also questions the focus that FBL and TBL approaches place on productivity maximization, an emphasis that has created unintended negative societal externalities.

SET seeks to create jobs for people who may not find a job in productivity-maximizing FBL and TBL firms. For example, organizations like Greyston Bakery and BUILD deliberately hire ex-convicts or other groups of people who often find it difficult to get a job. These organizations may hire a person even if they need considerably more training than other candidates who are better qualified, because the goal is to help everyone to earn a living and contribute to society, not merely to maximize productivity. Some SET-oriented companies, like Montreal's Tomasso Corporation, pay their employees to volunteer in soup kitchens; these employees can then bring their volunteering experience into the company when making various decision (e.g., including who gets hired in the firm).

Goods and Services - Humankind needs goods and services in order to survive. Our ability to thrive is influenced not only by how the goods and services are created (e.g., jobs), but also by whether there are enough appropriate goods and services available, and whether they are affordable and sustainable.

Similar to TBL management, the SET approach seeks to improve organizational performance via innovative technologies that enhance socio-ecological well-being. However, unlike FBL and TBL approaches, SET management actively and deliberately challenges the thinking that more consumption and more sales and more revenue are necessarily better. SET asks questions such as: What if we already have too many goods and services on the market? Do we really need to purchase 68 new garments a year? Do we really need the 50% increase in square footage per person in our homes compared to what we had 50 years ago? Do we really need the latest version of an iPhone? Do we really need to own our own car? Can we live better with less?

Profit - The word profit is used here in its most general sense, namely to indicate that there is a "proper fit" (pro-fit) between the goods and services an organization produces (value creation) and the financial resources it is able to earn because of it (value capture).

While FBL and TBL supporters are justifiably proud of generating impressive financial profits, the SET perspective questions the unsustainable and insatiable pursuit of material and financial wealth. Instead, the SET approach favors measures of economic performance that take into account positive and negative socio-ecological externalities. For example, the developers of the GDP measure never intended for it to be used as a reflection of a nation's economic well-being. They note, for example, that GDP goes up when someone steals a car because the owner then needs to spend money replacing it. It also goes up when criminals are put in jail (which creates jobs at the prison), or when an oil pipeline bursts (and the pollution needs to be cleaned up). GDP also goes up when toxins in the air create illness and hospital expenses, and when mental stress creates the need for psychiatrists and medication. Rather than GDP, the SET approach suggests measuring economic well-being via something akin to the *Genuine Progress Indicator* (GPI), a measure of quality of life.

SET management also makes a distinction between two types of profit: conventional and genuine. **Conventional profit** *refers to the difference between a firm's financial expenses and its financial revenues* without taking into account negative socio-ecological externalities (e.g., it does not account for the $2 trillion in negative ecological externalities associated with the world's 3,000 largest corporations). **Genuine profit** *refers to the difference between a firm's financial expenses and its financial revenues after taking into account its socio-ecological externalities.*

ECONOMIC WELL-BEING AT A GLOBAL LEVEL: FREE TRADE VERSUS FAIR TRADE

The SET approach to jobs

At the level of the global economy, the SET approach is reflected in the jobs created by the best practices of fair trade, which tries to ensure that workers in low-income countries are paid a fair price for the products they produce. Fair trade helps consumers to respect producers, and provides transparency so that consumers know the working conditions of producers. Fair trade allows consumers in high-income countries to use their purchases to reduce income inequality, while benefitting the environment by providing eco-friendly products. The mission of the World Fair Trade Organization is "to enable producers to improve their livelihoods and communities through Fair Trade." Although they can be challenging to put into practice, key principles of fair trade include: paying a fair price (vs. paying the lowest price the market will withstand), gender equity (vs. allowing women to be persistently underpaid), healthy working conditions (vs. sweat shops or child labor), mutual respect between producer and consumers, and environmentally friendly practices.

The SET approach to goods and services

SET management has misgivings about conventional international free trade agreements for two reasons. First, free trade benefits the rich more than the poor. While it is true that free trade agreements have been associated with impressive growth in the global economy, it is not clear that

PROFIT

Income distribution: GPI increases when relatively poor people receive a larger portion of national income, and decreases when their share declines.

Crime: Unlike GDP, which grows with costs of crime e.g., legal costs, property damage, and healthcare), GPI subtracts these costs.

Resource depletion: Unlike GDP, which ignores externalities like the depletion and degradation of forests, farmland, wetlands, and nonrenewable minerals, GPI treats these as costs.

Pollution: Unlike GDP, which often double-counts pollution (first for the costs incurred in creating pollution, and second for the costs of cleaning up pollution), GPI subtracts costs of water and pollution based on their damage to the environment and human health.

Long-term environmental damage: GPI recognizes the negative financial externalities associated with carbon emissions.

Leisure time: GPI goes up with increases in leisure time, and down with decreases.

this has been a win-win proposition. The disparities between rich and poor have been increasing, both within and across countries, and the wealthy have benefited more from globalization than the poor. For example, 95% of the economic benefits of globalization go to the richest 5% of the world.

Second, international trade agreements may undermine national sovereignty, as illustrated by instances where a government is prevented from making changes that would improve domestic ecological or social conditions. For example, when Denmark tried to introduce an environmentally-friendly law requiring that all beverages be sold in returnable containers, it was struck down by the EU because it inhibited the free movement of goods (e.g., Denmark's new law would prevent sale of beverages in non-returnable bottles produced by businesses from other EU member countries).

Rather than support tariffs, quotas, and subsidies that allow the relatively rich and powerful companies and countries to maintain or gain further economic advantage, SET management is more likely to favor subsidies for low-income countries to develop their economies, and for practices that benefit the natural environment.

The SET approach to profits

The goal of SET management is to reform the flow of money so that it is better aligned with sustenance economics. Perhaps the most notable reformer is Nobel prizewinner James Tobin, who in the 1970s anticipated some of the difficulties that have arisen from the deregulated flow of capital, and suggested a simple 1% tax on all foreign currency transactions. This 1% tax would ensure that financial transfers were based more on "real" changes in production and market opportunities, instead of gambling based on the acquisitive economics of investors. In other words, the Tobin tax favors SET investors who are interested in the long-term, and penalizes FBL traders who are looking for quick profits.

Despite the lack of a Tobin Tax, there is other evidence that the SET principles are gaining influence. For example, globally about $23 trillion (over 25% of professionally managed assets) is invested in accordance with responsible investment strategies where investors invoke criteria that go beyond financial profit. This practice is called socially responsible investing (SRI), where investment decisions are based on financial and ethical considerations, including an organization's social, environmental, and governance performance. This style of investing reflects investors' non-financial agendas for organizations, knowing that financial performance may not be maximized. SRI investors desire a fair financial return on their investment, but also recognize that their financial concerns must be balanced with treating other stakeholders fairly.