

**INSTITUTIONAL INCLUSIVENESS AT GOVERNMENT
AND COMPANY LEVEL: COMPARATIVE ANALYSIS**

**INSTITUCIONALNI UTICAJ VLADU I KOMPANIJE:
KOMPARATIVNA ANALIZA**

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Abstract

The issue of the quality of corporate governance and a concern for greater social responsibility are Institutionalism gives great significance to institutions, and on that basis evolved theory and practice of good governance and inclusive institutions. Inclusiveness refer to a normative sensibility, benchmark against which government institutions and companies can be judged and promoted.

Institutional hypothesis attributes the central role to institutions which promote investment in human, physical capital and technology. Differences in institutions are at the root of the differences in prosperity across the world.

World Bank Report the process of inclusion defines as: "1. The process of improving the terms for individuals and groups to take part in society. 2. The process of improving the ability, opportunity, and dignity of people, disadvantaged on the basis of their identity, to take part in society."

Good institutions are characterized with three attributes: 1. establish and protect property rights; 2. restrict social elites which strive to expropriate income and property of others members of society; 3. provide equal chances for employment, social security and civil rights to all individuals. Authors suggest, as fourth attribute, level of Institutional inclusiveness.

Inclusiveness should be used in evaluating overall performances both of government and companies. Inclusion in recent period becomes essential part of business strategy. The most competitive companies will retain talent through creating a culture of inclusion whereby they value and listen to the input of their employees: innovation is best achieved through diversity of thought; inclusive companies have the fastest rate of growth. Indices of inclusion at government and company level are needed to measure and assess performance of inclusive institutions.

Key words: *Institutions, Institutional inclusiveness, Good governance.*

Sažetak

Problem kvaliteta korporacijskog upravljanja i briga za sve naglašenijom društvenom odgovornošću podjednako pritiskaju zemlje tržišne ekonomije i zemlje u tranziciji. U stvarnosti zemalja u tranziciji proces korporacijskog upravljanja je, po nama, tek izašao iz faze „povoja“, što upućuje na zaključak da

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konačan ishod u smislu posljedica može da bude ambivalentan. U tom smislu, namjera nam je da u ovom radu iznova i argumentovano potenciramo pristup da se aktivnosti na razvoju i dogradnji institucionalne podrške spomenutog procesa ne smiju posmatrati samo kao reakcija na nepodnošljive sukobe interesa, skandale i korupcionaške afere koje je taj proces iznjedrio u zemljama tržišne ekonomije, već se mora istovremeno raditi da se prevlada ispoljeni jaz između zakonske regulative i moralnih normi, te primjene istih u svakodnevi.

Ključne riječi: korporacija, korporacijsko upravljanje, društvena odgovornost, poslovna etika, moral.

1. INSTITUTIONAL INCLUSIVENESS AT GOVERNMENT LEVEL

Institutional hypothesis attributes the central role to institutions which promote investment in human, physical capital and technology. "The institutions hypothesis claims that differences in institutions – how societies have organized themselves and shaped the incentives of individuals and businesses – are at the root of the differences in prosperity across the world. In other words, the institutions hypothesis is based on the notion that it is the way that humans themselves decide to organize their societies that determines whether or not they prosper.(Acemoglu, D., Liabson, D., List, J., 2015).

D. Acemoglu writes: "Predatory ("bad") institutions: as institutions that do not encourage investment and economic development. Developmental ("good") institutions: institutions that permit or encourage investment and growth."(Acemoglu, D., PE9524.pdf, p. 14.)

Social Inclusion in *World Bank Report* is defined in following way: "1. The process of improving the terms for individuals and groups to take part in society. 2. The process of improving the ability, opportunity, and dignity of people, disadvantaged on the basis of their identity, to take part in society."(World bank report: new frontiers of social policy, 2013).

Main findings of this *Report* are: "1. Excluded groups exist in all countries; 2. Excluded groups are consistently denied opportunities; 3. Intense global transitions are leading to social transformations that create new opportunities for inclusion as well as exacerbating existing forms of exclusion; 4. People take part in society through markets, services, and spaces; 5. Social and economic transformations affect the attitudes and perceptions of people."(World bank report: new frontiers of social policy, 2013).

Institutional hypothesis attributes the central role to institutions which promote investment in human, physical capital and technology. Institutional hypothesis can be illustrated with significance of institutions for economic development via promoting or inhibiting entrepreneurship.(Jaksic, M. Jaksic, M., 2007) "The institutions hypothesis claims that differences in institutions – how societies have organized themselves and shaped the incentives of individuals and businesses – are at the root of the differences in prosperity across the world. In other words, the institutions hypothesis is based on the notion that it is the way that humans themselves

decide to organize their societies that determines whether or not they prosper."(Acemoglu, D., Liabson, D., List, J., 2015).

Institutionalism, traditional and new one, gives great significance to institutions, and on that basis evolved theory and practice of *good governance* and *inclusive institutions* in its core: "The term 'inclusive institutions' does not refer to a clearly defined field of theory or policy within international development, but to a normative sensibility that stands in favour of inclusion as the benchmark against which institutions can be judged and also promoted."(Evans, W., Ferguson, C., 2013.)

World Economic Forum released *Inclusive Growth and Development Report*: "It presents a framework and a corresponding set of indicators in seven principal policy domains (pillars) and 15 subdomains (subpillars)".(The inclusive growth and development report, 2017, p. viii.)

Seven pillars are essential for inclusiveness at government (macro) level, while pillars 1, 2, 5 and 6 are important for inclusiveness at company (micro) level.

Diagram: *World Economic Forum* model of inclusive growth.

Figure 1: Inclusive Growth and Development Framework



<http://www.weforum.org/reports/inclusive-growth-and-development-report-2015>

Source: <http://reports.weforum.org/global-competitiveness-report-2015-2016/box-1-the-inclusive-growth-and-development-report/>, p. viii.

Seven pillars are essential for inclusiveness at government (macro) level, while pillars , 2, 5 and 6 are important for inclusiveness at company (micro) level.

2. INSTITUTIONAL INCLUSIVENESS AT COMPANY LEVEL

Inclusion as socio-political concept at macro level gradually spread towards business concept at micro level. This development is connected with evolution from *diversity* towards *inclusion*. Inclusion nowadays becomes important business strategy. "The most competitive companies will retain talent through creating a culture of inclusion whereby they value and listen to the input of their employees."(http://www.inclusion-inc.com/consulting/global_inclusion_index/, accessed 7.2.2018.)

Era of globalisation triggered inclusion based on following important processes: "Conducting business in a global economy requires "insider" understanding of diverse markets; Innovation is best achieved through diversity of thought; Inclusive companies have the fastest rate of growth; a new workforce born out of the digital age desires to participate and collaborate in the workforce."(http://www.inclusion-inc.com/consulting/global_inclusion_index/, accessed 7.2.2018.)

Best way to capture those important changes was to shift strategy away from diversity towards focus on inclusion.(http://www.inclusion-inc.com/_asset/k4r45s/Then-and-Now-Formatted.pdf, accessed 10.2.2018.)

Here are main findings of *Inclusion-inc.com*:(http://www.inclusion-inc.com/_asset/k4r45s/Then-and-Now-Formatted.pdf, accessed 10.2.2018.)

"Diversity efforts have not worked. Why?

1. Then: because almost without exception those efforts have focused on the wrong numbers – numbers of people of various types: numbers of women, numbers of people of color, numbers of members of every variety of protected. It's not about counting people.

Now. For businesses to success today in a competitive, global economy, they must be firmly focused on the business initiatives designed around inclusion that can result in more engaged, loyal employees.

2. Then: It Was About Command and Control

In the old business model leaders told people what to do. They set the rules and they held people accountable to those rules. It was a top - down world where everybody knew their place.

Now: It's About Engagement

Today's leaders recognize that their employees represent valuable capital, not because of their –horsepower, but because of their –brain power.

3. Then: Seniority Ruled

The world of command and control was generally inhabited by the senior executives:

leaders who reached an age of seniority and presumed wisdom.

Now: GenY Presents Significant Opportunity

In the 21st century everyone is a knowledge worker - especially *GenY* (the cohort born from the early 1980s to the early 2000s). They:

- Are more comfortable with technology
- Have never seen loyalty to a corporate culture pay off for their parents
- Tend to have greater comfort and familiarity with different ethnic groups
- Have limited patience with the status quo

4. Then: Business Was Local

In days gone by, people did business locally.

Now: Business is Global

Technology has fueled the global economy. It is no longer necessary for organizations to be physical within clearly defined geographic boundaries. Organizations can be virtual; they can be everywhere.

5. Then: Your Employees and Your Customers Looked Like You

Now: They Don't Look Like You Anymore!

There is a rapidly growing amalgam of *we* – a society populated by diverse individuals based on a wide range of characteristics including sex, age, race, religion, sexual preference, etc., etc., etc. How to get our arms around these changing demographics?"

Inclusion as business strategy at company (micro) level, "it is not only having diverse people for the sake of diversity. It means actively engaging them to bring them into the decision-making and brainstorming process."(Engelmeier, S., 2018)

Tim Nelson writes: "Research shows that when employees work with, and for, an inclusive leader, there are high-impact benefits, including improved collaboration, higher performance and productivity, greater engagement and loyalty, increased motivation, greater innovation and creativity, and enhanced potential to capture market share." (Engelmeier, S., 2018)

Price-Waterhouse-Coopers study explains culture - diversity - inclusion relationship as ladders to success. Next diagram present their relationship.(www.pwc.com)

Culture

The way people think, behave and perform in organizations;

Diversity

Increasing the richness of different talents, skills, perspectives, and experiences;

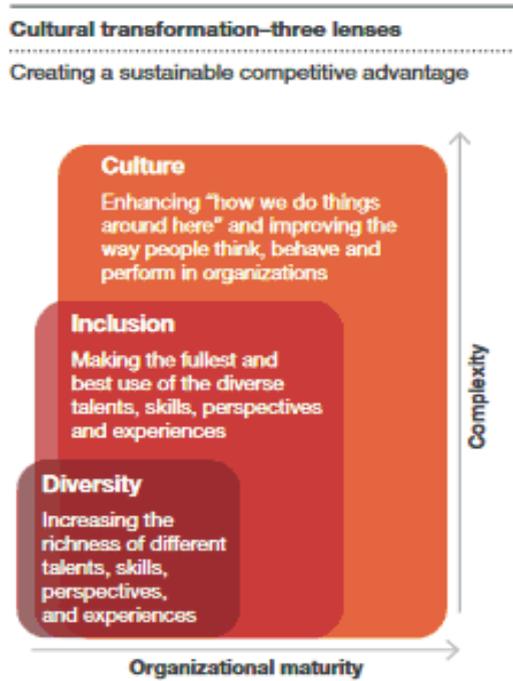
Inclusion

Making the fullest and best use of the diverse talents, skills, perspectives and experiences.

Evolution from diversity towards inclusiveness *Berlitz Inclusive Leadership* explain in following manner: "**Diversity** in the global context can be defined as visible and invisible differences, thinking styles, leadership styles, religious background, sexual orientation, age, experience, culture etc. **Inclusiveness** is the quality of the organizational environment that maximizes and leverages the diverse talents, backgrounds and perspectives of all employees. Diversity is the mix; inclusiveness is the lever."(Janakiraman, M.)

Diagram from a *Berlitz white paper* describe consequences of high/low level of diversity-inclusion matrix: (Janakiraman, M., p. 3)

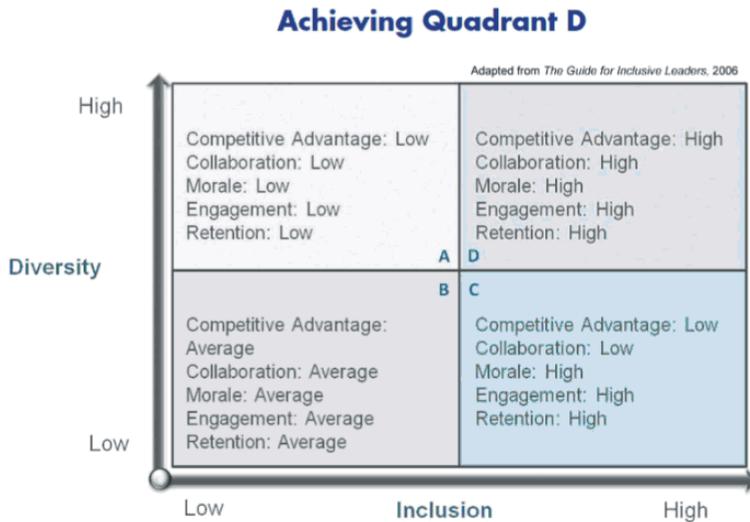
Diagram: Creating sustainable competitive advantage through diversity and inclusion, Cultural transformation solutions,



Source: www.pwc.com/us/peopleandchange, From: If You're Focused on Diversity, You're Wasting Your Time, posted on Tue, Feb 6 2018 8:27. Shirley Engelmeier, http://www.inclusion-inc.com/blog/2018/02/06/414/if_youre_focused_on_diversity_youre_wasting_your_time#.Wnq8R3xG2M8.

The upper left quadrant (A) shows high diversity but low inclusion. The lower left quadrant (B) represents low diversity and low inclusion. The bottom right quadrant (C) shows high inclusion but low diversity. Quadrant D shows high inclusion and high diversity. "Organizations that practice inclusion as well as diversity (Quadrant D) are able to experience high levels of collaboration, engagement and retention, which provide a competitive advantage. Organizations that practice inclusion as well as diversity are able to experience high levels of collaboration, engagement and retention which provide a competitive advantage." (Janakiraman, M., p. 3) Companies positioned in field high diversity/high inclusion are well adapted, flexible and prepared for fast and permanent changes, as their 1. competitive advantage, 2. collaboration, 3. engagement, and 4. retention are high.

Diagram: Diversity-Inclusion matrix.



Source: https://www.berlitz.com/SiteData/docs/BerlitzWPI/2b6dd531f5ed23d1/BerlitzWP_InclusiveLeadershipFinal.pdf, p. 3.

3. THOMSON REUTERS DIVERSITY AND INCLUSION INDEX

Diversity and Inclusion (D&I) index and ratings by Thomson Reuters ESG data, measure the relative performance of companies against factors that define diverse and inclusive workplaces. (<http://thomsonreuters.com/en>)

Diagram: Diversity and inclusion top 100 companies.

THOMSON REUTERS IX GLOBAL DIVERSITY AND INCLUSION INDEX

The following table shows the constituents in the Thomson Reuters iX Global Diversity and Inclusion Index as of 30th June 2017.

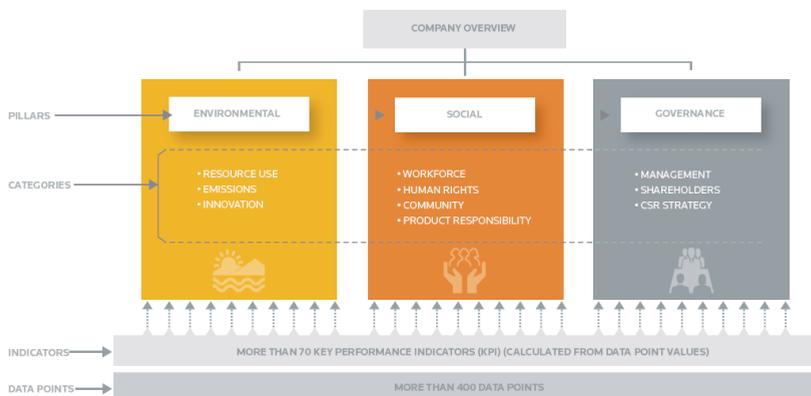
COMPANY RANK	COMPANY NAME	OVERALL D&I SCORE
1	Contact Energy Limited	84.25
2	Gap Inc	81
2	Johnson & Johnson	81
4	DiGi.Com Bhd - <i>New</i>	80
5	Diageo plc	79.25
6	Colgate-Palmolive Company	79
6	Novartis AG	79
6	Roche Holding Ltd.	79
9	Kathmandu Holdings Ltd	78.75
10	Cisco Systems, Inc.	78.5
11	Natura Cosmeticos SA	78.25
12	Accenture Plc	78
13	Medtronic PLC	77.5
14	Eli Lilly and Co	77.25
14	HERA SpA	77.25
16	Nedbank Group Ltd.	76.75
17	Unilever NV	76.25
18	Allianz SE	76
18	Bank of Montreal	76
20	Bristol-Myers Squibb Co	75.75
20	Norsk Hydro ASA - <i>New</i>	75.75
20	Procter & Gamble Co	75.75

Source: <https://financial.thomsonreuters.com/content/dam/openweb/documents/pdf/financial/diversity-and-inclusion-top-100-companies.pdf>, accessed Feb. 7 2018.

The **Thomson Reuters iX Global Diversity and Inclusion Index** is a benchmark for evaluating and rating companies which promote environmental, social and governance (ESG) values and principles in the running of their businesses. Thomson Reuters ESG database cover 4500 publicly listed companies from around the globe. (<http://thomsonreuters.com/en/press-releases/2016>)

Diagram: ESG model.

ESG Comprehensive Model and Sample Measures



Source: <http://thomsonreuters.com/en>, Diversity-Inclusion-Index-Faq.pdf, p. 12, 13.

Diagram: ESG metrics in detail.

ESG METRICS COVERING SUSTAINABILITY REPORTING



Source: <http://thomsonreuters.com/en>, esg-research-broschure.pdf., p. 3.

Diagram: ESG measures.

Appendix: ESG Measures Used

DESCRIPTION	PILLAR	BENCHMARK
The percentage of employee satisfaction as reported by the company.	People Development	Industry
Does the company describe, claim to have or mention processes in place to improve the skills training of its employees?	People Development	Industry
Does the company describe, claim to have or mention processes in place to improve the career development paths of its employees?	People Development	Industry
Average hours of training per year per employee.	People Development	Industry
Total training hours performed by all employees.	People Development	Industry
Does the company claim to favor promotion from within?	People Development	Industry
Does the company claim to provide regular staff and business management training for its managers?	People Development	Industry
Training costs per employee in US dollars.	People Development	Industry
The score of the company in the HRC corporate equality index from the Human Rights Campaign Foundation.	Inclusion	Country
Does the company claim to provide flexible working hours or working hours that promote a work-life balance?	Inclusion	Industry
Does the company claim to provide day care services for its employees?	Inclusion	Country
The score of the company in the HRC corporate equality index from the Human Rights Campaign Foundation.	Inclusion	Country
Does the company claim to provide flexible working hours or working hours that promote a work-life balance?	Inclusion	Industry
Does the company claim to provide day care services for its employees?	Inclusion	Country
Percentage of employees with a disability (either mental or physical).	Inclusion	Country
Does the company report on policies or programs on HIV/AIDS for the workplace or beyond?	Inclusion	Country
Custom indicator for Board Member Cultural Diversity	Diversity	Country
Does the company describe, claim to have or mention processes in place to drive diversity and equal opportunity?	Diversity	Industry
Has the company set targets or objectives to be achieved on diversity and equal opportunity?	Diversity	Industry
Percentage of women employees.	Diversity	Industry
Percentage of new women employees.	Diversity	Industry

4. Conclusion

Comparative analysis of inclusiveness at government (macro) and company (micro) level can be summarized in following table:

Attribute	Government level	Company level
Unit	Institution	Company
Inclusion-meaning	The process of improving the terms for individuals and groups to take part in society.	The process of improving the terms for workers to take part in company
Fundamental principle	non-discrimination, diversity, inclusion	non-discrimination, diversity, inclusion
Goal	inclusion of individuals aiming at improvement the ability, opportunity, and dignity of people, disadvantaged on the basis of their identity, to take part in society.	inclusion of workers that result in more engaged, loyal employees
Pillars	WEF seven pillars	WEF pillars 1, 2, 5 and 6
Benefits	restrict social elites which strive to expropriate income and property of others members of society; provide equal chances for employment, social security and civil rights to all individuals	improved collaboration, higher performance and productivity; greater engagement and loyalty; increased motivation; greater innovation and creativity; enhanced potential to capture market share

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