



Poverty and the New Economy: Promises and Challenges for Ontario

Executive Summary

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The emerging new economy presents us with both the yin and the yang of the future. On the one hand, new technologies are opening up new production possibilities and bringing opportunities to populations and regions that have been excluded from progress until now. On the other hand, those same technologies risk making workers and occupations obsolete, de-skilling large segments of the labour force and driving the growth of precarious work with negative impacts on our communities. Business has the opportunity to shape the path we will travel, through new and innovative ways of doing business. This report provides an overview of these forces and discusses the opportunities for a more inclusive economy to emerge.

A Shifting Socio-Economic Environment

Demographic, social, political and technological shifts are driving changes in the global, national and regional economy. The aging of the population and workforce is posing risks to long-term economic growth. At the same time, geopolitical shifts and advanced communications technologies have opened up a global market for both capital and labour. Technological change is also affecting the production process for both goods and services. These combined forces are contributing to growing social polarization and reduced social cohesion.

The impact of these changes is being felt in a variety of important ways. Economically, shifting patterns of production and consumption are providing both new

opportunities for economic growth as well as challenges to existing firms and industries. The emergence of a truly global workforce associated with the rise of virtual work is resulting in a global rebalancing of wages which may exacerbate current trends in inequality both within industrialized countries and between regions of the world.

For individual firms, this new economy is resulting in a significantly changed competitive context. The combination of global production and technological innovation tends to favour smaller, networked and agile firms over larger traditional organizations. In response, some firms are moving to substitute capital for labour while also moving to a more flexible labour regime. While this may provide short-term financial gains, there is concern it may erode long-term firm resilience.

For workers, the new economy presents significant challenges. First, the rise of a truly global workforce is reducing the bargaining power of labour while also challenging the policies and regulations that exist to support and protect workers. As companies move to substitute capital for labour and increase workforce flexibility, the quality of employment deteriorates, leading to the rise of precarious employment. Precarious employment is characterized by low wages, lack of job security, part-time and irregular hours and a lack of benefits. The rise of the precarious workforce is related to changes in technology and the shift to a service economy, as well as the related decline in unionization.

These changes are having important impacts on workers' lives. The evolving skill demands may render certain occupations redundant, or significantly change the nature of work of a particular job or occupation. These changes can lead to reduced job security and satisfaction, as well as compromised health and well-being. In addition to the impact of precarious employment on workers, there is a broader social impact arising from reduced social cohesion and concerns about the adequacy and sustainability of current social security programs based on traditional employment relationships.

The Promise of Shared Value and Inclusive Business

The paradox of the new economy is that, while it has disrupted traditional business and economic practices and, in so doing, has left workers and communities in greater degrees of precariousness, this new economy is also spawning innovative new approaches to business that provide a light at the end of the tunnel. Many organizations are coming to realize that the destabilizing forces which are creating vast inequalities and diminished human and social capital, are actually bad for business. There is a growing understanding of the inter-dependence of business and the social context in which it operates, giving rise to greater social purpose and social practice.

While many businesses have traditionally contributed philanthropically to their communities, what is emerging now is a greater sense that business can have a significant role to play in creating a positive social context through their core business practices. As inequality increases, there is growing emphasis on generating a different

kind of economic growth that distributes the benefits of growth more fairly and evenly. This concept of "inclusive growth" proposes two societal goals: creating opportunity for all segments of the population as well as better distributing the dividends of such growth fairly across society.

The possibility for inclusive growth arises from a new understanding that corporate and community interests are not in competition, but in fact complement each other. This idea is articulated in the emerging language of "shared value". Shared value refers to investments in long-term business competitiveness that simultaneously address social and environmental objectives. It is distinguished from "business value" which refers to investments in long-term competitiveness. At the same time, it goes beyond mere "social value" which refers to investments that address purely social and environmental objectives.

Recognizing the inter-dependence between business and society, shared value approaches focus on the "competitive context" of business. Focus on the competitive context leads firms to collaborate to upgrade the conditions of the local society. Ways to improve the competitive context include improving the quantity and quality of business inputs (e.g. labour through training); changing the rules of the game (e.g. policies and regulations); improving the sophistication and size of local demand; improving local availability of supporting industries; product and value chain innovation; and improving the social context (e.g. through up-skilling).

The opportunity for inclusive growth and shared value approaches to business arise

from two distinct but related developments:

a) social purpose business and b) social business practice. A social purpose business is a type of business that focusses on the creation of social value using a business model. It can include a variety of business forms including social enterprises, cooperatives, non-profit organizations, public sector organizations and private for-profit companies.

Social purpose business refers to “what” the organization seeks to do. In contrast, social practice refers to “how” an organization operates and the social value generated through its normal operations. This can include internal and external practices that either seek to improve the well-being of workers within the organization, and / or seek to enhance the quality of life of workers and communities beyond the corporation through inclusive business strategies that seek to intentionally integrate low-income communities into the value chain. Internal business practices that promote inclusive growth include:

- Paying workers a Living Wage
- Reduced use of non-standard employees
- Ensuring predictability in scheduling
- Comprehensive workforce training for all employees
- Extending benefits to all employees
- Equity strategies to increase the diversity of the workforce and board
- Flexible employment practices that support worker’s needs for balance
- Material supports for workers such as housing, transportation and childcare.

Organizations can also engage in externally focused practices that promote inclusive growth such as:

- Social and ethical procurement
- Integration of low-income communities into the distribution chain.
- Providing products and services that respond to the needs of low-income consumers and communities
- Capacity development of the local context through investments in training, infrastructure etc...

There are several drivers that are leading to the increased adoption of such inclusive business practices. First there are significant reputational advantages that arise from such strategies. There are also, however, important competitive advantages. The increased connection between the organization and the community provides enhanced market knowledge and also provides a competitive edge in the recruitment and retention of labour and talent. The need to manage risk is a further driver, particularly risks associated to regulatory or supply disruptions.

Firms that have adopted such strategies tend to perform better financially in the long-term. This is related to various factors such as increased resource and market access, increased labour supply and productivity, enhance reputation, improved risk management, and lastly, an enhanced capacity for innovation.

Successful organizations who have effectively implemented such strategies share several common features, the most important of which is commitment from senior leadership who have provided the vision. They also have effectively embedded the strategy throughout the organization and have worked to build the capacity of the organization to implement the vision through a well-developed strategy and a strong program design. Successful organizations are also adept at collaboration, working in

partnership with government and civil society.

Yet, organizations also experience important barriers that need to be overcome. The most significant barrier is the short-term horizons of many stakeholders, most notably boards and investors. This can affect the confidence and commitment of the organization to embarking on or continuing a long-term strategy. One of the risks associated with long-term strategies is that short-term profitability may be impacted, particularly if the organization lacks the internal knowledge and capacity to work effectively in this new way. Organizations can also experience challenges from outside the firm, including a lack of local capacity to engage effectively with the organization, as well as a weak or uncertain regulatory environment.

Stakeholder Perspectives on the New Economy

While the idea of “shared value” or “inclusive business” has currency within the Ontario social and economic landscape, the language used to express these ideas varies. The ideas underpinning this understanding of the new economy are also expressed in terms of “sustainability”, “inclusive prosperity” and “corporate citizenship.” These concepts have gained traction due to the work of key individuals and organizations. In particular, the work of Richard Florida and Zeynab Pon has been instrumental. As well, networks such as the PEPSO initiative, the Better Way Alliance, the Ontario Living Wage Network, and the Centre for Learning, Social Economy and Work have served to drive this agenda as well as organizations like the Institute for Competitiveness and Prosperity and the Institute for Corporate Citizenship.

As with many societies, the idea of “shared value” and “inclusive business” emerged from the field of Corporate Social Responsibility but has grown beyond it. The move into deeper forms of CSR that lead to shared value is partly due to increasing concerns about the impact of growing inequality and reduced social cohesion, and the particular impact these trends are having on youth. Partly it has also been due to the importance of impact investing and the use of ethical (ESG) investment screens. This has supported new business practices as well as new forms of economic activity with the rise of social entrepreneurship. The growth of social enterprise itself is a response to both a new focus on social purpose among entrepreneurs as well as to a tightening funding environment for non-profit organizations that is driving them to increase their income generating activity.

Stakeholders identified the following sectors where there is more energy, innovation and adoption of shared value and inclusive business practice: Green Energy, Food Security, Technology, Telecommunications, Finance, Health and Social Services, Hospitality, and Consulting.

Barriers and enablers that were identified by stakeholders that contribute to practice adoption include, first of all, a lack of knowledge among firms about how to proceed effectively. This is related to concerns about short-term profitability. A lack of leadership and capacity to implement these strategies is a further hindrance. There is also a need for a shift in paradigm, particularly in the non-profit sector which often provides highly precarious work, to move from a cost to investment understanding of human resources. The shifts required to increase

adoption of inclusive practices can be supported by effective government policy and programs. Key questions remain for this emerging sector including its ability to bring social innovations to scale and, second, the degree to which it actually benefits the intended individuals and communities.

Social Impact Organizations in Ontario

Social Impact Organizations are those that have either a social purpose or engage in social practice. Social purpose organizations are those that explicitly aim to create social value as a business objective. This includes cooperatives, social enterprises, and public authorities. Social practice organizations are those that intentionally aim to create social value through their business practice. Inclusive business practices can include equity policies, living wage policies, or social and ethical procurement practices, among

others. Such organizations may be public, private or non-profit. Some organizations are formally identified as social practice by virtue of their affiliation or accreditation with networks or accrediting bodies.

Understanding the intersection between the dimensions of social purpose and practice is important for assessing the potential impact of the new economy. It is possible for an organization to have a high social purpose yet not engage in significant inclusive business practices. This is the situation of many non-profit organizations that lack employee benefits or provide inadequate compensation. On the other hand, there are also many private corporations that operate purely for-profit with no overt social purpose, yet engage in strong inclusive business practices. Based on this possible intersection the following typology can be constructed.

		Social Purpose	
		High	Low
Social Practice	High	Social enterprises, co-ops, public sector or social purpose businesses engaged in shared value, inclusive business practices	Private benefit companies engaged in shared value, inclusive business practices.
	Low	Social enterprises, co-ops, public sector or social purpose business that do not deliberately engage in shared value, inclusive business practices.	Private benefit companies that do not engage in shared value, inclusive business practices.

A review of Ontario organizations in 2018 identified 2,299 that could be considered Social Impact Organizations. The largest

number of these were social enterprises, followed by cooperatives and living wage employers. A smaller number were either

BCorps, members of the UN Global Compact, or recognized as being one of Canada's Top 100 Employers. Most SIOs are located in smaller communities (<100,000), with cooperatives and social enterprises being particularly predominant in smaller centres. BCorps, Top100 employers and Global Compact members, however, were more typically located in larger centres. Living Wage employers, meanwhile, were predominantly located in mid-sized urban centres. The top SIO industries include Retail Trade, Recreation and Leisure, Health and Social Services and Other Services.

In 2018, a survey of these organizations was conducted. The most frequently reported strategies being employed by organizations included:

- Workplace diversity or equity policies and initiatives
- Flexible workplace practices
- Social / ethical procurement
- Triple Bottom Line / Sustainability policy
- Living Wage policy

Respondents indicated that the key driver of their inclusive business strategy was direction and vision from senior leadership

or the board. Employee and customer expectations were also important considerations, as well as brand reputation. Interestingly, the factors with the least influence on strategy adoption were the risk of litigation, industry trends, or advocacy campaigns.

The benefits of such strategies identified by respondents included improved employee relations, enhanced reputation and increased competitive advantage. Identified community benefits arising from these strategies include enhanced community leadership, improved quality of life, and an improved competitive environment. At the same time, respondents also indicated various costs associated with strategy implementation including time, increased production costs and related financial impacts. Key enablers to practice adoption identified by respondents included the financial health and growth of the company; sufficient and additional resources; improved internal skill and capacity; and changes to the policy / regulatory environment that would better support organizations moving to adopt inclusive practices.

ABOUT THIS REPORT

This report is produced by the Canadian Poverty Institute as part of an ongoing research initiative on Poverty and the New Economy being undertaken in collaboration with the Ontario Trillium Foundation.

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