Mutuality, Mars, Milton and Man

Reflections I Mutuality in Business

Colin Mayer September 2015

About the Author

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Colin studied as an undergraduate at Oriel College, Oxford, and received his DPhil from Oxford University in 1981. He was a Harkness Fellow at Harvard University, a Houblon-Norman Fellow at the Bank of England, the first Leo Goldschmidt Visiting Professor of Corporate Governance at the Solvay Business School, Université de Bruxelles, and has had visiting positions at Columbia, MIT and Stanford universities. In 1994, Colin became the first professor at Saïd Business School, and was appointed the Peter Moores Dean of the Business School between 2006 and 2011. He was the first Director of the Oxford Financial Research Centre at the University of Oxford between 1998 and 2005.

Colin has served on the editorial boards of several leading academic journals and assisted in establishing prestigious networks of economics, law and finance academics in Europe at the Centre for Economic Policy Research and the European Corporate Governance Institute. He was a founding editor of the Oxford Review of Economic Policy and a founding co-editor of the Review of Finance.

Colin was a director and chairman of Oxera between 1986 and 2010, and was instrumental in building the firm into what is now one of the largest independent economics consultancies in Europe. He is a director of Aurora Energy Research Limited, an energy modelling company. He has consulted for numerous large corporations and for governments, regulators and international agencies around the world.

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Areas of expertise include:

- Corporate finance
- Corporate governance
- Corporate taxation
- The regulation of financial institutions
- The role of the corporation in contemporary society

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Mutuality, Mars, Milton and Man

Mutuality of business is a powerful concept that Mars is developing as a fundamental component of its business philosophy. It sits alongside four other principles that guide the conduct of its business – quality, responsibility, efficiency and freedom.

Mutuality within Mars is interpreted as the sharing of the benefits of the business to the mutual advantage of the different parties to the business and to the benefit of the business itself. It is regarded as a way of enriching the lives of those associated with the business as managers, employees, suppliers, customers and communities and of promoting corporate flourishing. It is viewed as a means of aligning the interests of the different parties with each other and the business as a whole. As such it produces a mutual benefit of the corporation and its constituents.

That mutual benefit derives from the greater engagement and association that individuals feel with the business. By having their interests recognized, there is a stronger sense of commitment, reciprocal interest and participation by all the parties to the firm than is the case in less mutual organizations.

With the assistance of Mars Catalyst, what has been to date a guiding principle has been turned into a reality through the implementation of specific pilots in which mutuality has not only been adopted but also used as a way of opening up new business activities. New markets are being tapped in parts of the world that were previously regarded as inaccessible. New sources of supply are being developed that were in decline or under threat. Mutuality of business is therefore a way of increasing both the demand for and supply ofthe firm’s products.

Furthermore, Mars Catalyst is accumulating evidence that mutuality of business really does generate mutual benefit for both the individuals involved and the business itself. It records significant increases in the human capital of participants, of social capital in the communities in which it operates, of natural capital of the sources of raw materials that are used and of the financial performance of the firm.

Underpinning this is the notion that, not only are these measurable outputs, but they are also the sources of the mutual success. By promoting human, social and natural capital, the business flourishes generating greater financial capital. It would be a less successful business if it were not a mutual organization. The contemporaneous development of human, social, natural and financial capital is the source of each components success. Without the others, none of them would display the growth and performance that is observed.

It is a powerful concept of doing business that is regarded as standing in marked contrast to conventional business models. Conventional business models are perhaps best synthesized in what is known as the “Friedman doctrine”. While the name of Milton Friedman is closely associated with monetarism, his most enduring legacy arguably lies elsewhere. It is more than fifty years since he first presented what has now come to be known as the “Friedman doctrine” in his book *Capitalism and Freedom*[1]. This doctrine states that social responsibility is a “fundamentally

[1] Milton Friedman (1962), *Capitalism and Freedom*, Chicago: University of Chicago Press.

subversive doctrine" in a free society and in such a society "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud".

It has been an influential doctrine that has been used to justify business practice and government policies around the world and has been the basis of a business education that has moulded generations of business leaders. Indeed virtually every MBA course begins from the premise that the purpose of business is to maximize shareholder value and everything, and the rest of the course, follows from that. It reflects the power of ideas to influence behaviour to a point that many people now believe that the Friedman doctrine is a law of nature from which, like it or not, we are unable to escape.

At the end of Chapter 8 of *Capitalism and Freedom*, Milton Friedman provides an explanation: "A major complaint made frequently against modern business is that it involves the separation of ownership and control -- that the corporation has become a social institution that is a law unto itself, with irresponsible executives who do not serve the interests of their stockholders. This charge is not true. But the direction in which policy is now moving…..is a step in the direction of creating a true divorce between ownership and control and of undermining the basic nature and character of our society. It is a step away from an individualistic society and toward the corporate state."

In other words, corporations are the instruments of individuals, their shareholders, and ""business" as a whole cannot be said to have responsibilities…"only people can have responsibilities".[2] And the responsibilities of those running business are clear. "In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom."[3]

At first sight, mutuality would appear to be antithetical to the Friedman doctrine. First, the concept is embodied in an institution, the Mars Corporation, which is distinct from the owners of the business – the Mars family. Second, mutuality is not just about making money. It is about doing what is good for the different parties to the firm including the societies within which Mars operates. Third, the management of the business is encouraged to promote interests other than the financial gains of the owners of the business. It would therefore appear to be exactly the social animal that Friedman denounces.

However, that positioning of mutuality of business as standing in contrast with the Friedman doctrine is not quite as clear as it might seem and potentially damaging to the acceptance of the concept. First, there is no separation between ownership and control associated with the adoption of the mutuality principle. It is being done because that is what the Mars family believes to be right. It has its origins in a statement that Forrest Mars made in 1947 and if the Mars family did not think it right, it would not happen.

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[2] Milton Friedman (1970), "The Social Responsibility of Business is to Increase its Profits", *The New York Times Magazine*, 13 September.
[3] Ibid.

Second, while mutuality is not just about making money, it is about making money as well as creating benefits for others. Where it does not make money, it will not happen. Those who advocate mutuality in Mars are quite clear that it is not charity. It is not about improving the position of parties to the firm to the detriment of the firm's own performance. In that regard it enhances the profitability of the business. Is it profit maximizing? Arguably yes, because, as described above, it is perceived to be a superior to other less mutual approaches to doing business. Would it be adopted if it were less profitable than other more profitable strategies? Arguably no, because that would be deemed to be charity in the sense that if the business was more profitable than the business and the family could give away more profits to philanthropic causes.

So this is not just doing good by doing business but also doing best for the business by doing good. As such there is no conflict with the Friedman doctrine and it raises potential contradictions to argue there is because, in so doing, it is being suggested that there is a conflict between profit and mutuality.

The insight of mutuality of business is not its outcome but its process. It is a way of doing business that is different from what is currently widely practised. It can be best characterized as the development of unconventional business partnerships with NGOs, civil societies, governments and commercial organizations to create relationships that promote otherwise infeasible business activities. It is a form of innovation – not technological or product innovation – but business method innovation, which derives from relationships that previously did not exist.

Find new ways to markets that were previously inaccessible; introduce new methods of training farmers; source natural resources in novel forms. These are innovations that others have not done and by creating new approaches, the business establishes local monopolies and monopsonies that just like technological innovations are very profitable. Furthermore by being business innovations that target the poor, disadvantaged and unemployed, they also yield substantial human and social gains.

This, it is suggested, is one of the insights of the first year of the Oxford-Mars partnership. It is not so much that it is overturning the traditional concept of the firm but it is pointing to a new way of promoting the success of the firm that recognizes that the Friedman doctrine is an empty paradigm. The social business that Friedman derides is a source of the commercial success that he extols. It is understanding how to deliver a social business in the efficient way in which commercial enterprise operates that is the source of both social wellbeing and commercial success. It is cementing the two together that Friedman could not envisage business doing and which mutuality of business exemplifies.

In summary, mutuality of business is not about outcomes in terms of allocation of power or income but process and conduct. In other words it relates to efficiency not distribution and may be consistent with any distribution that lies between profit maximization and pure philanthropy. It is not consistent with any party being made worse off but the gains do not have to be equally distributed and control can, unlike in a mutually owned business, remain with the shareholders. Indeed in the case of the Maua programme, a large proportion of the gains accrue to the company, Wrigley, in the form of enhanced profits as against the entrepreneurs as income, and the entrepreneurs do not participate in the design of the programme.

There are significant advantages to viewing mutuality of business in these terms because it is then consistent with many and possibly most business forms. It is as applicable to stock market listed companies whose interests are driven by profitability considerations alone as it is to family firms whose values are determined by those of their owners and can encompass a broader distribution of value between the different parties to the firm. This is not to say that the distribution of the pie in terms of income and power is not important in determining its size but there will in general be multiple allocations that grow the pie.

What this implies going forward that a mutuality of business programme should be doing is not trumpeting the view that profits and shareholder value are bad and social business is good but that the two are conjoined. The mutuality programme is demonstrating how this is done in practice through creating unconventional business relations that unite the bottom of the pyramid and the middle of the diamond with the largest and most commercially successful corporations in the world.

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Saïd Business School

Saïd Business School at the University of Oxford blends the best of new and old. We are a vibrant and innovative business school, yet deeply embedded in an 800-year-old university. We create programmes and ideas that have global impact. We educate people for successful business careers, and as a community seek to tackle world-scale problems. We deliver cutting-edge education programmes and ground-breaking research that transform individuals, organisations, business practice, and society. We seek to be a world-class business school community, embedded in a world-class university, tackling world-scale problems.

Mars Catalyst and the Economics of Mutuality programme

Mars' approach to business has been guided by Five Principles – Quality, Responsibility, Efficiency, Freedom and Mutuality for a long time. Together they inform and guide the actions of all Mars associates every day as they do their jobs and interface with the outside world.

The origins of the Mutuality principle go back to 1947 when Forest Mars Snr who led and grew the business through the 1920's to the1960's, wrote a letter to all the then 500 associates of the company that said that the sole purpose of the company was to create a mutuality of benefits with all stakeholders that the company touched from suppliers to customers as well as governments and competitors and naturally associates and shareholders. This far-sighted thinking, that the company could only be successful if everyone around the company was being successful, has been a cornerstone of our business philosophy ever since.

Mars has therefore always been interested in how it can best live up to this principle and find new ways to drive mutuality with all stakeholders it touches. This led, a number of years ago, to Mars leadership tasking Mars' economic research unit, Catalyst, to start new work into unexplored territory for business to identify critical drivers of mutuality and to develop and test through business pilots new metrics and management practices that can help boost mutuality in business situations. This work has been called the Economics of Mutuality.

This work has established promising links between increasing social, human and natural capital (that can be measured with simple & stable metrics) and thereby increasing financial capital – demonstrating how a company can do both good and well at scale. A number of pilots have now been completed in the area of micro–distribution, the employees of Mars and in agricultural development that suggest that these relationships are true in different places and situations.

The Oxford Mars partnership

On the back of these promising findings, a multiyear partnership with Oxford University's Said Business School was established in 2014 to focus on the development of a business management theory for the Economics of Mutuality with corresponding teaching curriculum, new management practices, and case study research. The research programme has combined the pursuit of normative questions – what is mutuality and how should it be enacted? – with grounded, ethnographic research on current thinking and practices. This has led to the development of field experiments and case studies examining how large corporate actors conceive of and pursue responsible business practices, and how these relate to their financial and social performance.

The broader idea being to demonstrate that businesses based on mutuality, that look to ensure all stakeholders are successful, can be more successful than businesses that focus on just their shareholders.

The intent going forward is to continue to research this topic and create a broader platform where other companies and academic institutions can share their learnings and experiences to advance the collective understanding of how to drive mutuality in business.

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