Tom Lawrence on Economic Inequality and Business Organizations

***Dr. Tom Lawrence* is the W.J. VanDusen Professor of Management at the Beedie School of Business. He recently visited the Asper School of Business and *delivered a talk* on social innovation. We sat down with him to ask two questions.**

Thanks for joining us Tom. How does economic inequality affect business organizations?

Tom Lawrence: The relationship between business and economic inequality is complex. This is because, on the one hand, economic inequality creates significant opportunities for businesses, as they thrive on economic inequality. Economic inequality is the basis for all kinds of price segmentation, product segmentation, development of monopolistic competition within different markets, and different firms tailored to different markets.

But on the other hand, economic inequality creates significant problems for business in terms of dealing with social tensions and organizational tensions associated with some people having a lot more money, power, status, opportunity, mobility, health opportunity than other people. And so, businesses are forced to try to, not necessarily diminish that inequality, although they might, but try to manage it in some way in terms of their work force, their customer base, their stake holders, and the communities they operate in. Traditionally, one of the ways they tried to manage inequality is by hiding it. And so, by making pay differentials secret, by eliminating transparency in terms of pricing differentials and so on. Increasingly, that's not an option for businesses. As information flows more freely, as pricing decisions become more transparent, as more pay differentials become more public, businesses have to manage in different ways and there are huge challenges associated with that.

Should business organizations try to decrease inequality, and how can they do it?

Tom Lawrence: Whether businesses should or should not try to reduce economic inequality is a hard question because there is no debate, I don’t think, that large differences in income or wealth or access to wealth at a societal level have significant and even dramatic negative consequences.

The question is really whether business is an appropriate actor to be involved or lead a process aimed at reducing that inequality. This is because of, particularly in North America, the built in motivations associated with business that are likely to corrupt the process of reducing inequality. On the other hand, business organizations are a necessary actor. Inequality is born at a global level out of structures that are transnational, they are not the province of any governmental institution, and they are not controllable by transnational institutions, like the UN. And the powerful actors at the global level, in terms of income inequality, in particular, really are corporations. So if it is going to be addressed, if it is going to be diminished in some significant ways, it’s not going to be addressed without the involvement of corporate actors.

Thank you Tom!