

Pegasus



A newsletter for the Caux Round Table Network
looking at business above the clutter and confetti

—

Moral Capitalism At Work

6 West Fifth Street 300M
Saint Paul, MN 55102
1.651.223.2863
www.cauxroundtable.org

—

October 2013
Volume 3, Issue 9

Pegasus

Stephen B. Young 4 Introduction
Global Executive Director
Caux Round Table

5 Caux Round Table Statements on the
“New” Capitalism

5 Statement One: Global Dialogue

8 Statement Two: Conference on
Sustainable Development

11 Statement Three: Special Academic
Retreat on the “New” Capitalism

15 Global Capitalism Real Value Balance
Sheet

16 National Real Value Balance Sheet

17 Company Real Value Balance Sheet

INTRODUCTION

Last month, the Caux Round Table (“CRT”), in cooperation with the Thailand Chamber of Commerce and Thailand Development and Research Institute, hosted three inter-related discussion meetings in Bangkok to highlight constructive approaches on improving the outcomes of global free markets - of “capitalism,” if you will.

The first discussion, held on October 8th and 9th at the Sasin Graduate Institute of Business Administration, brought together invited thought-leaders from the CRT network to reflect on the proposition that a “new” capitalism has emerged over the last 15 years from the efforts of civil society and governments, with help from supportive business leaders, to promote corporate social responsibility in different arenas of business decision-making.

The work product discussed at that session is set forth below as Statement Three.

The retreat made a seminal contribution in reaching consensus on the ethical value, as well as the practical utility for business of creating “real” balance sheets for global capitalism, nations and firms. These expanded balance sheets permit more intentional management of tangible and intangible assets and liabilities - across the board of capitalism’s varied outcomes - in order to reach a better balance of wealth creation between asset enhancement and liability reduction. Sample balance sheet criteria are presented below on pages 15, 16 and 17.

After the retreat, a large conference on sustainable development was held on October 10th with some 1,000 people in attendance. The seminal contribution of presentations at the conference was to assert a priori need for “mindfulness” in approaching decisions about the directions business and capitalism should take. Conference participants agreed that “mindfulness” was a precondition for intentionally achieving genuinely sustainable development at every level of economic endeavor.

The conference also brought to center stage the principles of “mindfulness,” suggested by His Majesty King Bhumibol, and known in Thailand as Sufficiency Economy Principles. These standards of reasonableness, moderation, risk-resilience, adequate knowledge and integrity flow from Theravada Buddhist understandings about human endeavor and its consequences. The vision statement of the conference is presented below as Statement Two.

Thirdly, on October 11th and 12th, the CRT held its annual Global Dialogue for 2013. The vision statement, called *The Bangkok Agenda*, is presented just below as Statement One.

During the coming year, the CRT will reach out globally for additional thought-leadership contributions to this agenda and will undertake revisions as suggestions and advice are received.

Stephen B. Young
Global Executive Director
Caux Round Table

CAUX ROUND TABLE STATEMENTS ON THE “NEW” CAPITALISM

STATEMENT ONE: GLOBAL DIALOGUE

The Bangkok Agenda:
Reshaping Capitalism to Ensure Viable
Global Sustainability

We, the participants in the Caux Round Table’s 2013 Global Dialogue held in Bangkok, Thailand, believe that:

Our global future is being threatened by large and unsustainable imbalances in the outcomes of global financial intermediation and market dynamics. Despite significant recent progress in promoting corporate responsibility and better governance, unacceptably high levels of debt, unemployment, inequality, and environmental degradation still prevail in the global marketplace.

Poor governance, with its tolerance of crony capitalism and even profiteering from corruption, short-term strategic thinking and a serious vacuum in real leadership across all sectors continue to work against achieving a sustainable and prosperous world for us

all. These shortcomings must be offset and the imbalances they cause corrected if our longer-term prosperity and well-being are to be secured.

What then must be done? What steps must be taken? How do we fully capture the proven and unique capacity of free and fair markets to create wealth, deliver fulfilling employment, promote true justice, and lift the level of prosperity for all? How can we inform, energize and support policy and community efforts to bring about this positive change? How can we best harness the innovation and passion of the global business community to deliver these goals?

First and foremost, government, business and civil society must fully embrace the reality that their prospects are fundamentally interrelated

and mutually dependent. Business, for example, can't be a power unto itself - autonomous from considerations of ecological and community well-being. And ethical and moral values cannot simply be subordinated to short-term interests and profits.

Even Adam Smith recognized that free markets do not automatically deliver effective mechanisms of good governance and accountability. Put simply, free markets by and in themselves do not always serve the common good, nor prevent corrupt behavior.

But the best solution to these shortcomings is not to jettison the modern free market economy itself, but to re-institutionalize the values that made this system successful in the first place. Wise stewardship, good governance, and concern for stakeholders are the necessary core values of any sustainable market economy.

We therefore call for a better, values-driven, balancing of the global financial system and market economy. This means ensuring that all market and business activities are underpinned and guided by a rich set of ethical principles. For the business world, the *Universal Principles for Responsible Business*¹ provides a comprehensive set of such principles.

As part of the needed rebalancing, the full spectrum of long-term risks and impacts which flow from current activities and actions must be recognized and managed. The true present value and real prospects of a company incorporate not just tangible assets and liabilities but also intangible ones – such as customer loyalty, employee productivity, supplier quality, credit worthiness, community approval, and environmental externalities. A total value view of a company's long-term, true 'sustainability' balance sheet consequentially



Attendees of the Caux Round Table 2013 Global Dialogue

needs to be embraced and managed – not just a narrow financial view.

To also assist in steering away from destructive self-interested and short-term thinking, incentives must be realigned so more enlightened and long-term thinking prevails. This means that the interests of all stakeholders, in the broadest societal and environmental sense, must be factored into policy, decision making, and performance score cards.

Additionally, the relentless and ultimately unsustainable pursuit of compound growth for growth sake needs to offset with other considerations of value. Political, business and community mindsets must therefore shift from a near total pre-occupation with quantitative growth to ones equally concerned over the quality and sustainability of growth. Perhaps the equilibrium of sufficiency rather than excess must be our goal.

This reshaping of the free market economy, however, leaves many practical challenges which the wider political, business and civil society communities will need to embrace together. Key amongst these challenges is a number of fundamental and interrelated questions:

- How can the management of sustainability issues, and hence the full spectrum of stakeholder risks, be reinforced on the part of boards as essential fiduciary duties?
- How can ethics and social, environment and governance risk management become mainstream topics in the education of current and future business and political leaders?
- How can equity and other financial markets be reformed so that long-term value creation, rather than short-term speculation, is supported and encouraged?
- How can reward structures be reshaped to avoid rewards for failure and the incentivizing of short-term and narrow self-interested management and behaviors?
- How can consumers shift their purchasing power away from unsustainable acquisition so that funding sustainable growth, incorporating principles of sufficiency, becomes the norm for business and society?

To address and answer these profound challenges and questions, major business, civil society, academics, policy making and regulatory groups must work together. We therefore propose to initiate a global process of consultation towards this end, leading to a global summit to map out the needed policy and reform steps to reshape the global market economy.

The stark reality is that if financial intermediation and the modern free market economy are not rebalanced to deliver more equitable, moral and sustainable outcomes, the clock will continue to tick towards the next global crisis. Every such crisis undermines the credibility of free market mechanisms to submerge them under enhanced political regulation, with the consequent loss of cultural creativity, social dynamism, and wealth.

¹ *The Universal Principles for Responsible Business originated as a Caux Round Table initiative and were developed to be consistent with and adaptable to all cultural and religious traditions.*

STATEMENT TWO: CONFERENCE ON SUSTAINABLE DEVELOPMENT

Conclusions and Recommendations

A complex global civilization is emerging around us that calls for a spirit of human solidarity energized through social justice and action for the common good. A new value-based view of capitalism is emerging that is inclusive and that promotes justice, moral economics and moderation. It is new mindsets and behaviors that can renew capitalism.

‘The values and behaviors of the industrial age are being overtaken by new humane values that demand moral engagement and deliberation to sustain social justice for all humanity. To be sustainable, development must use markets to serve communities and families through the empowerment of individuals. A civic mindset can build stronger economies that support the common good and social justice, avoid waste of resources, and do not exploit human potential. It is imperative that we learn to respect culture as the font of all values and mindsets. It is culture that gives us, each and every one, our personal identity and meaning to our lives. Without respecting culture, we cannot find the vision and the inspiration that we need to overcome our present challenges.

Our economic system has evolved in such a way that our civilization has become a destructive one – destroying our environment, and failing

to ensure social justice, human dignity, and cultural integrity for our communities. We are using resources at an ever-increasing rate, and are now at the stage of consuming nearly two planet Earths. In short, we are denying tomorrow’s child a tomorrow.

There is no ignoring that these are dark times, and that we need more sustainable forms of community and business to ensure a healthy civilization over the long-term. However, there is light in the darkness, and that is the human capacity for moral engagement. Sustainable development cannot rely on this moral capacity alone. Many current approaches to development are not sustainable. To ensure genuinely sustainable development, we must change our mindsets to adopt more appropriate guiding principles, such as the Sufficiency Economy Philosophy (“SEP”).

In the first place, SEP relies on wisdom and integrity which then enable the principles of moderation, reasonableness and resilience in guiding all our actions. The SEP can constructively underpin all sustainable development initiatives.

These three sufficiency principles make possible sustainability in all spheres of human endeavor. In addition, they recognize the



Stephen B. Young (center), Global Executive Director of the Caux Round Table, addressing the Global Dialogue on Sustainable Development

interconnectedness of and mutual dependency among economic, environmental, social and cultural forces.

Sufficiency Economy Philosophy nurtures meaningful change in our mindsets, behaviors and practices. Sufficiency Economy Philosophy is not in conflict with the dominant drivers of market capitalism. Indeed, by engaging in moral behavior, individuals, communities and societies are demonstrably led to greater wealth and happiness.

Capital formation guided by SEP takes the form of moral capitalism, that is, capitalism endowed with an ethical foundation and governance, driven towards sustainable profit and growth, and characterized by socio-ecological responsibility. Moral capitalism and enlightened self-interest, guided by the SEP calls forth the attributes of sustainable leadership and “Honeybee” capitalism. Building this new kind

of capitalism is critical to our very existence as a viable economy, as a global society, and as a human race.

Action steps to implement this new and improved application of capitalism should include all the relevant stakeholders who today have the power to bring about changed behaviors. For example, business schools can develop new curricula. The MBA profession can develop a code of ethics for itself. Managers can expand their professional development programs to learn about SEP principles. Investment analysts can develop new metrics for assessing the quality of companies and which link financial returns to SEP criteria. Civil society organizations can legitimate education and discussion of SEP values-based development. Major investment funds can continue to increase the emphasis they place on SEP values.

“Sufficiency Economy Philosophy values-based development at the organizational, community and national levels will pay for itself. But such development will not occur until our leaders internalize the new civic mindset.

Since there is no one right answer, only together will we be able to find the right new mindset and so build the sustainable future that we want. We do not live in a perfect world. But, using our capacity for moral engagement, we have the ability to achieve change. Applying SEP to our models for community, economic and business development, our generation can realize a sustainable future – for us, and for tomorrow’s child.

The necessary changes cannot be driven only from the top. People in local communities – women, men and youth – must be at the heart and soul of any sustainable solutions. These solutions will emerge when government, business, universities, and civil society partner with communities based on shared values of respect, learning and moderation. These values implicate a community-based development process in which those not from the community build on local know-how with external technology, expertise, and resources. Empowerment of communities first and foremost follows from the three sufficiency principles.

This requires a shift in mindfulness by partners outside the community towards respect for local knowledge, local people and local leaders. Communities and their residents are development assets and not liabilities. This perspective will put in place a firm foundation for sustainable development. And local

action aggregated across society will lead to systemic change.

It is necessary that we monitor our implementation of SEP and related development models. To do this well, new tools of measuring and monitoring the implementation of SEP and related development models are needed. These new tools will improve policy analytics so that governments will deliver higher quality results to the peoples of the world. As the former Thai Prime Minister Anand Panyarachun told us “success and sustainability in the next phase of development, both at the global and the community level, depends on our action today”.



Royal Thai Navy Convention Hall

STATEMENT THREE:

SPECIAL ACADEMIC RETREAT ON THE “NEW” CAPITALISM

On Sustaining Social Justice

- 1) Social Justice implies human flourishing. For social justice to occur individuals need supportive communities and communities need reciprocal participation commitments from individuals. Mutuality lies at the heart of social justice.
- 2) Recent advances in neuroscience and evolutionary biology establish with near certainty that all persons come into the world with a capacity for moral engagement with others. Fostering such moral engagement then promotes social justice.
- 3) In addition to moral engagement, social justice requires physical and material well-being, conditions which are reached through economic activity. A fundamental good provided by economic activity is work; activity which provides each human soul with a sense of accomplishment and meaning; activity which binds the person to vital engagement with the flow of life, making each person an agent of history and of the evolution of the cosmos. To have work both in its limited meaning of earning a living and in its more spiritual sense of contributing to something larger than the self, to make a difference, is necessary for social justice.
- 4) From the dawn of time, economic activity bringing always improving living conditions for our ancestors has promoted division of labor and mutual cooperative engagements. Gaining most when tasks are divided among workers demands trust in others and reliance on their capacities for performance and their good intentions. Violence, exploitation, oppression, and deceit undermine economic achievement.
- 5) Seeking better livelihoods occurs within systems of cooperation and production, systems set within the order of nature and within social and cultural institutions. Systems have their dynamic ecological realities of taking in and giving out, of exchanging resources consumed for outputs dispensed, of consuming and producing. System ecologies evolve to adapt to change, always seeking some higher of efficiency, satisfaction or equilibrium.
- 6) Economic activity is no exception. Economic practices have evolved over the millennia to embrace new technologies and new desires. Such evolution continues today. Nothing is carved in stone. What was a reality 20 or 100 years ago is no longer so true.

- 7) In the early centuries of the modern era, new levels of productivity and consumption were invented, subsequently given the name of “capitalism”. Capitalism emerged as a system of collecting financial means for investment in enterprise that would find new applications for scientific advances in knowledge in the production of goods and services and of organizing new collaborative systems of large scale production and corresponding means of distribution to large numbers of customers. These new productive and distributive systems evolved into, among other forms, the modern corporation with powers to raise financial capital, hire and assign employees, and bring products and services to markets.
- 8) Capitalism relied on supportive legal institutions such as private property and the enforcement of contracts. But economic



Tunku Abdul Aziz, Co-Chairman of the Caux Round Table, speaking during the academic retreat

enterprise was always subject to the full range of sovereign power which could hamper or encourage increased productive activity. As the scale of capitalist production and market impact grew, civil society reacted adversely to its negative consequences such as pollution and other forms of environmental degradation, risks to health and safety, and restrictions on returns to labor. In response to the concerns of civil society, sovereign power was then asserted to prevent or remediate these negative externalities. New laws and institutions forced evolution of business practices.

- 9) Business practices bring about evolution of culture, politics and society. The increasing scale of capitalism since 1980, loosely called “globalization” has not only

created the largest accumulation of liquid wealth in history, it has brought about the “global village” where communications are bridging heretofore communal idiosyncrasies creating a global commons of understandings, values, and expectations of social justice. This emerging global commons has taken human dignity as the test of social justice outcomes.

- 10) Respect for human dignity now constrains the autonomy of institutions – cultural, social, political and economic. Rights of dominion, once acceptable and legitimated by law and state practices, are being circumscribed. In the arena of capitalism, the evolution has been and continues to be towards a new, more complex, law of property. Decision-makers are less and



Dr. Naftali Brawer, CEO of the Spiritual Capital Foundation, speaking during the academic retreat

less tolerated when they seek to internalize positive advantages and externalize to society negative consequences. Property rights now come with encumbrances to take into account the needs and interests of stakeholders. It is as if the law of nuisance – *sic utere tuo ut alienam no laedas*: “so use your own so as not to injure another’s” – is expanding both at the hand of state regulation and through consumer advocacy on the part of civil society. The resulting practice is corporate social responsibility (“CSR”).

- 11) In October 2011 the European Commission put forward a new definition of CSR as “the responsibility of enterprises for their impacts on society”. To fully meet their corporate social responsibility, the commission advised that enterprises should have in place a process to integrate

social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of:

- maximizing the creation of shared value for their owners/shareholders and for their other stakeholders and society at large;
- Identifying, preventing and mitigating their possible adverse impacts.

- 12) The status of ownership encumbered by another’s interest is an ancient one. Security interests in property and mortgage liens on property have dignified heritages; equitable estates vest at some future time; constructive trusts have long been imposed where property has been used inequitably. Respect for separate but concurrent claims on specific property is an aspect of property

law which considers ownership more as a trust responsibility than as personal dominion.

- 13) A new capitalism is emerging which, under this new, more restricted understanding of ownership, puts stakeholder considerations front and center in business enterprise. This is a capitalism more and more guided by the innate moral sense of humanity.
- 14) Humanity's moral sense speaks through many religions. It is the "golden rule". It resides in the Catholic social teachings of human dignity, subsidiarity, solidarity, and goods encumbered with a moral lien in favor of society. It justifies reformed Christians in their ministry of seeking God's grace. It is expressed in Islamic guidance that humanity is a steward for the Lord, holding his bounty in trust. It motivates Confucian concern for virtuous self-restraint. It lies within Buddhist mindfulness that the self is always in transition.
- 15) As capitalism has grown in scale under globalization, its sub-systems have grown more complex and interdependent, making it more and more difficult to exercise unilateral dominion. Excess is disciplined through checks and balances imposed by markets, by governments and by civil society seeking to restore system sustainability. Excesses of mispricing and leverage arbitrage in financial services were punished with the collapse of credit markets in October 2008 followed by remedial legislation. The excess consumption of raw materials and hydrocarbons is being punished with rising prices as the inputs to capitalism – such as water - become more and more scarce and with climate change. Civil society is more and more rewarding companies that act now to reduce their carbon footprint or otherwise "go green".
- 16) Sustainability becomes more and more necessary as systems of production, consumption and finance become complex, in turn breeding new substructures not mindful of the needs of the whole and so pushing themselves towards excess. Sustainability is the necessary mindfulness that avoids excess and system failure. It is, in essence, a moral attitude not a business practice only.
- 17) Systems have both income statements and balance sheets. Their income statements track the flow of inputs and outputs; their balance sheets record their assets and liabilities. As the practices of capitalism turn toward enhanced responsibility for the common good, its assets and liabilities must be recast from traditional notions to new ones that include intangibles and externalities.
- 18) As with any productive, living system, the "new" capitalism has its capacities for doing good – "assets" – associated with risk factors compromising its potential for doing good – "liabilities". The "new" capitalism which has emerged under conditions of globalization seeks to minimize its liabilities and optimize the generative capacities of its assets – producing human flourishing and social justice. This is the mission of CSR.

GLOBAL CAPITALISM REAL VALUE BALANCE SHEET

Finance Capital

Tangible Assets

Net Present Value of future global GDP
(multiplier)
NPV of global payroll
NPV of global return on financial
assets
Total global equity
Available short-term liquidity global
Global Money Supply
Value of the Informal Economy

Tangible Liabilities

Global Credit Outstanding
Long term debt
Short term debt
NPV of illicit capital flows
Developed countries
Poor and developing countries

Intangible Assets

Total IPO funds raised
NPV of limited liability status
Average quality of financial institutions
(Magni country rankings)

Intangible Liabilities

Corruption index
Probability of financial market retraction

Social Capital

Tangible Assets

Average global GINI coefficient
Average global Human Development Index
Total employment
Men
Women
Birth Rate
R&D investment
Number of Patents Filed

Tangible Liabilities

Deaths from war and civil disturbance
Earnings from crime – drugs, human

trafficking, smuggling, fraud
Persons in poverty

Intangible Assets

Average global human capital score
Average global social capital accumulation
score
Average global freedom index
Rule of Law
Trust Index
Tolerance Index
Happiness index
Global Tourism

Intangible Liabilities

Children not in school
Human rights violations

Physical Capital

Tangible Assets

NPV of future returns on agriculture
NPV of future returns on extraction of
natural resources
NPV of future returns on ocean products
Fresh water gallons per capita
Plant and equipment
Transportation Infrastructure

Tangible Liabilities

Cost of natural disasters and drought
Cost of waste disposal and remediation
Cost of carbon removal
NPV of remediation of climate change
Depreciation costs of plant, equipment,
infrastructure

Intangible Assets

Clean Air
Clean Water

Intangible Liabilities

Pollution
Opportunity cost of hydro-carbon use

NATIONAL REAL VALUE BALANCE SHEET

Finance Capital

Tangible Assets

- Net Present Value of future GDP
(multiplier)
 - NPV of payroll
 - NPV of return on financial assets
- Total equity
- Available short-term liquidity
 - Money Supply
- Value of the Informal Economy

Tangible Liabilities

- Credit Outstanding
 - Long term debt
 - Short term debt
- NPV of illicit capital outflows

Intangible Assets

- Total IPO funds raised
- NPV of limited liability status
- Average quality of financial institutions
(Magni country rankings)

Intangible Liabilities

- Corruption index
- Probability of financial market
retraction

Social Capital

Tangible Assets

- GINI coefficient
- Human Development Index
- Total employment
 - Men
 - Women
- Birth Rate
- R&D investment
- Number of Patents Filed
- Tangible Liabilities
- Deaths from war and civil
disturbance
- Earnings from crime – drugs, human
trafficking, smuggling, fraud
- Persons in poverty

Intangible Assets

- Human capital score
- Social capital accumulation score
- Freedom index score
- Ease of doing business index score
- Rule of Law
- Trust Index
- Tolerance Index
- Happiness index
- Tourism

Intangible Liabilities

- Children not in school
- Human rights violations

Physical Capital

Tangible Assets

- NPV of future returns on agriculture
- NPV of future returns on extraction of
natural resources
- NPV of future returns on ocean
products
- Fresh water gallons per capita
- Plant and equipment
- Transportation Infrastructure

Tangible Liabilities

- Cost of natural disasters and drought
- Cost of waste disposal and remediation
- Cost of carbon removal
- NPV of remediation of climate change
- Depreciation costs of plant, equipment,
infrastructure

Intangible Assets

- Clean Air
- Clean Water

Intangible Liabilities

- Pollution
- Opportunity cost of hydro-carbon use

COMPANY REAL VALUE BALANCE SHEET

Finance Capital

Tangible Assets

- Net Present Value of future income
 - NPV of payroll
 - NPV of return to owners and investors
- Total equity
- Other financial assets

Tangible Liabilities

- Credit Outstanding
 - Long term debt
 - Short term debt
- Other tangible liabilities
- Losses from litigations

Intangible Assets

- NPV of limited liability status
- Cost of capital

Intangible Liabilities

- Bankruptcy risk

Social Capital

Tangible Assets

- Capitalization multiplier for governance
- Capitalization multiplier for R&D
- Tangible Liabilities
 - Litigations

Intangible Assets

- Brand value
- Employee loyalty score
- Trust Index
- Tolerance Index
- Happiness index

Intangible Liabilities

- Cost of Officers and Directors
- Insurance

Physical Capital

Tangible Assets

Plant and equipment

Tangible Liabilities

- NPV of remediation of climate change
- Depreciation costs of plant, equipment, and infrastructure

Intangible Assets

Intangible Liabilities

- Pollution
- Opportunity cost of hydro-carbon use

Designed by Nik Yahya Nik Rushdi

