Pegasus

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

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Moral Capitalism At Work

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Pegasus

INTRODUCTION

This issue of *Pegasus* comes on the fifth anniversary of the collapse of credit markets. As the years have passed, the conclusion has solidified in the public mind that the cause of the collapse was private sector behavior - excessive risk taking combined with intellectual arrogance and pride in selfish achievement. Private markets did not live up to Adam Smith's expectations that self-interest could promote the common good through an invisible hand of competition under the administration of prudent judgment.

The recommendations made by the Caux Round Table's Global Governing Board right after the collapse of credit markets is re-printed in this issue to make the point that proper remediation of low standards of behavior in financial markets is conceptually possible. What is missing is resolve to do what would make our world better.

In this issue, John Little provides us with a thoughtful examination of how to think about the core of this powerful conceit of self-referential agency. John speaks of trust as a force-field of successful capitalism, a hidden power. He relates in a new way the expression of this power in "money" giving money new dignity and new importance as a moral force. His concept of "minding" - both our own business and others - speaks to responsibility and good judgment. John thus provides away of thinking and speaking about how we can and should make decisions.

I suggest in a little graph how we might think of the goal of a moral capitalism as moving us towards a quadrant of both material well-being in this life and happiness.

But the issue starts with consideration of Syria - what standards should apply to governments as they execute their "trust" of holding power? Is impunity for those fixated on a path of dominion and abuse of the weak inevitable? There can be no discipline unless first there is common agreement on when standards have been violated. Thus the work to set standards - especially for those in power should never be abandoned.

Finally, this issue includes a comment by Steven N. Pyser, assistant professor at the Fox School of Business at Temple University, on his participation at a meeting of ECOSOC, one of the United Nations agencies that are constituted to shape a common global culture of justice and sustainable development.

Stephen B. Young
Global Executive Director
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BASHAR AL - ASSAD AND THE CAUX ROUND TABLE **PRINCIPLES FOR GOVERNMENT**

BY **STEPHEN B. YOUNG**
GLOBAL EXECUTIVE DIRECTOR
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Since the emergence of the modern, secular nation state after the 1646 Treaty of Westphalia brought an end to the wars of religion among Christians in Europe, the challenge posed by sovereign authority with respect to morality and ethics has been who can judge the supreme source of law in the realm?

Those who accepted that Kings were appointed by God left judgment to the divine. Those who were realists left it to the sovereigns themselves so that might would make right. Those who were democrats left it to the people to judge. But all seemed to agree that in international law no sovereign could sit in effective judgment of another. All were equally free to do as they pleased, except where treaties voluntarily entered into had created some form of law that constrained national self-determination.

But where sovereigns are not making the judgments, the conscience of humanity is free to set up standards by which to measure the successes and shortcomings of governments.

The fundamental premise that seems to hold for culture after culture is that government is a service function. It exists to provide security and happiness for people by restraining brutality and promoting public goods.

This principle has in recent years been advanced by the doctrine of a “responsibility to protect”, a project shaping international legal norms promoted by Kofi Annan as UN Secretary General. The thrust of this doctrine is to define circumstances when a ruling authority loses its right to claim sovereign legitimacy and thus remain free from interference from other sovereigns or international organizations. The doctrine of a responsibility to protect sets up conditions when action may be taken to restrain or even overthrow political movements and structures.

The basic principle is that “state sovereignty implies responsibilities and the primary responsibility for the protection of its people lies with the state itself. Where a population is

Syrian activists inspect the bodies of people they say were killed by nerve gas in the Ghouta region, in the Duma neighborhood of Damascus August 21, 2013. (Reuters)

suffering serious harm, as a result of internal war, insurgency, repression or state failure, and the state in question is unwilling or unable to halt or avert it, the principle of non-intervention yields to the international responsibility to protect."

In Syria today, there is internal war, insurgency, repression and state failure. The doctrine of responsibility to protect has come into force with respect to Bashar al-Assad's political organization. Syria no longer has a competent state; it is in a condition of state failure. When a government uses sarin nerve gas to kill those whom it should protect, it is no longer a legitimate government but only a usurper of rightful authority, a mafia, a warlord faction.

Another factual indication of state failure to protect is the flight of refugees. People flee when they are not protected by public authority. Hundreds of thousands have now fled Syria, a scale of refugee generation that establishes beyond all doubt the failure of state protection in Syria. Refugees in such conditions are generated by government policies which condemn the government as having failed in its fundamental responsibilities.

Having so failed it may not demand deference from other powers and respect from world opinion. It has turned itself into an out-law, a pariah within the global community of states. It may make no claim for assistance in its repression and abuse of sovereign power.

The Caux Round Table ethical Principles for Government parallel the reasoning behind the doctrine of a responsibility to protect. The Principles assert that government is a trust for the benefit of the people. Government is a trustee, which upon failure to meet its obligations, has no longer any claim to authority. Those under its power have no reciprocal obligation to defend and protect its legitimacy or obey its orders as lawful authority. The territory under its sway has become a war of all against all without any sovereign authority where might makes right.

The CRT Principles hold as follows:

FUNDAMENTAL PRINCIPLE

1. Public power is held in trust for the community.

Power brings responsibility; power is a necessary moral circumstance in that it binds the actions of one to the welfare of others.

Therefore, the power given by public office is held in trust for the benefit of the community and its citizens. Officials are custodians only of the powers they hold; they have no personal entitlement to office or the prerogatives thereof.

Holders of public office are accountable for their conduct while in office; they are subject to removal for malfeasance, misfeasance or abuse of office. The burden of proof that no malfeasance, misfeasance or abuse of office has occurred lies with the office holder.

The state is the servant and agent of higher ends; it is subordinate to society. Public power is to be exercised within a framework of moral responsibility for the welfare of others. Governments that abuse their trust shall lose their authority and may be removed from office.

Bashar al-Assad's administration has failed to govern by the second ethical principle for government:

1. Discourse ethics should guide application of public power.

Public power, however allocated by constitutions, referendums or laws, shall rest its legitimacy in processes of communication and discourse among autonomous moral agents who constitute the community to be served by the government. Free and open discourse, embracing independent media, shall not be curtailed except to protect legitimate expectations of personal privacy, sustain the confidentiality needed for the proper separation of powers, or for the most dire of reasons relating to national security.

The government of Syria is at war with the people in order to establish by force its control over them. In such a condition, it is not meeting and cannot meet the following expectations of legitimate government under the Principles:

2. The Civic Order shall serve all those who accept the responsibilities of citizenship.

Public power constitutes a civic order for the safety and common good of its members. The civic order, as a moral order, protects and promotes the integrity, dignity, and self-respect of its members in their capacity as citizens and, therefore, avoid all measures, oppressive and other, whose tendency is to transform the citizen into a subject. The state shall protect, give legitimacy to, or restore all those principles and institutions which sustain the moral integrity, self-respect, and civic identity of the individual citizen, and which also serve to inhibit processes of civic estrangement, dissolution of the civic bond, and civic disaggregation. This effort by the civic order itself protects the citizen's capacity to contribute to the well-being of the civic order.

3. *Public Servants shall refrain from abuse of office, corruption and shall demonstrate high levels of personal integrity.*

Public office is not to be used for personal advantage, financial gain or as a prerogative manipulated by arbitrary personal desire. Corruption – financial, political and moral – is inconsistent with stewardship of public interests. Only the Rule of Law is consistent with a principled approach to use of public power.

4. *Security of persons, individual liberty and ownership of property are the foundation for individual justice.*

The civic order, through its instrumentalities, shall provide for the security of life, liberty and property for its citizens in order to insure domestic tranquility.

The civic order shall defend its sovereign integrity, its territory, and its capacity to pursue its own ends to the maximum degree of its own choice and discretion, within the framework of international law and principles of natural justice.

5. *Justice shall be provided.*

The civic order and its instrumentalities shall be impartial among citizens without regard to condition, origin, sex or other fundamental, inherent attributes. Yet the civic order shall distinguish among citizens according to merit and desert where rights, benefits or privileges are best allocated according to effort and achievement, rather than as birth-rights.

The civic order shall provide speedy, impartial and fair redress of grievances against the state, its instruments, other citizens and aliens.

The Rule of Law shall be honored and sustained, supported by honest and impartial tribunals and legislative checks and balances.

6. *General welfare contemplates improving the well-being of individual citizens.*

The state shall nurture and support all those social institutions, most conducive to the free self-development and self-regard of the individual citizen. Public authority shall seek to avoid, or to ameliorate conditions of life and work which deprive the individual citizen of dignity and self-regard or which permit powerful citizens to exploit the weak. The state has a custodial responsibility to manage and conserve the material and other resources that sustain the present and future well-being of the community.

No government that goes to war with its people can stand as legitimate. War breaks all ties of mutuality and reciprocity, breaking society down into its least common denominator – power and oppression. War rests on the morality of compulsion only. As the Athenians told those defeated on the island of Milos: “the strong do what they will; the weak what they must.”

Under these circumstances, where is the moral sense that elevates our kind out of cosmic randomness and gives us meaning and purpose?

ON **TRUST** AND **VALUE**

BY **DR. JOHN LITTLE**, PH.D.

An Australian supermarket recently slashed its price across the country of 'home brand' milk. Its national competitors quickly followed suit. A price war had begun, virtually impossible to stop. Local competitive brands were driven off the supermarket shelves; their supply chains began to dry up and many farmers walked away. In some parts of the country the dairy industry has collapsed. Is this right and good? Certainly, the supermarket CEO considers it good. But not the dairy industry.

What we call progress may well have the seeds within it of its own decline. Whatever the circumstances, we all run the risk of being preoccupied in seeking wealth and enjoying its fruits, while forgetting that which would truly guide our wise stewardship.

The problem is not new, but is betrayed by an anxiety which arises as we become more conscious of a global fragility - cultural, social, economic and technical – and our general inability to fully understand what is going on, let alone do anything about it. The unprecedented ease of access to information and to each other through social media can contribute to a solution (think of the so-called Arab Spring). Equally, new media may displace or divert our attention from engaging with and reflecting on deeper truths and a common narrative framed through generations of trust and solidarity.

Tony Judt wrote in his recent book, *Ill Fares the Land*, about the bewilderment and loss not only of the meaning of words but of the very concepts that, for example, our forefathers held in common and took for granted. Our law-making and our political and institutional arrangements become truncated and lose coherence under the sway of untested economic nostrums and imperatives (the market knows best; competition theory) or worse, a very narrow utilitarian ethic that fails to take due notice of or give account of the true nature of the human person.

Madonna and Child by Il Sassoferrato

Sumantra Ghoshal, whose life's work was focused on the global business corporation, is perhaps more relevant to our concerns about business. Deeply and passionately aroused by the collapse of Enron, Ghoshal wrote a wide-ranging and perceptive analysis of business, in how it was taught and practiced. Through the wide lens of his analysis, he regarded as ineffective the moves by government and business schools to redress the problem of unethical practices in business, of which Enron was a clear example. Government's immediate response to legislate and business schools' introduction of new ethics programs would not touch, he asserted, the core systemic and deep problem, namely that bad theory had infected the minds of those teaching and running business. This was more serious, he claimed, than many in business were inclined to recognize, blinded as they were by prevailing modes of thinking and practice.

Ghoshal's analysis moved towards the foundations of thinking (of epistemology and philosophy), and somewhat predictably, were politely dismissed by prominent members of the Management Academy in its well regarded journal which published his paper posthumously. In my view, his commentators seemed unable to grasp the very paradigm that Ghoshal was critiquing. In this respect Judt was right. They seemed to have no notion of what he, Ghoshal, was saying. Their critique, on the other hand, provided them an occasion to offer their own theories as a 'corrective', rather than to take seriously, for example, Ghoshal's lament about the neglect of intentionality in theories of decision-making in business theory, and thence in its teaching and practice. In this neglect, he contested; there could be no real consideration of ethics and morality, whether in theory, in teaching or in practice.

I find myself agreeing with Ghoshal's diagnosis and, like him, significantly challenged by how to contribute to 'a fix' of the problem. In this regard, I have also been heartened by Benedict XVI's clarity and persistent call (especially in *Caritatis in Veritate*) about the need to restore the human person, in full measure, to business. For this, surely, is the crux of the problem, and the means to its resolution must approach a fuller appreciation and account of the *conscious and intentional* human person who chooses and acts. This is the challenge I will take up, in part, in this essay. From a holistic, person-focused view, I will treat of business as a living (metaphysical) entity creating value in and through the multiple and integral relationships of trust between the people who constitute it. The view is holistic in that one can find the whole in any part, evident, as I hope to show below, in the most basic business transaction. My view also takes ‘value’ to be a transcendental quality related to human desire – for what truly contributes to human flourishing - and not as descriptive of the set of financial measures usually associated with estimating business and progress in general.

Certainly, business does focus on human values in the wants and needs it seeks to meet, and it does deliver remarkable results when it does this well. But equally, as in the case of Enron, things can go very bad when, in the pursuit of profit, deliberations about the human person, and its corollary of trust, is displaced from centre stage. Since this displacement occurs in minds of people, I suggest in this essay that a corrective measure can be found in our acts of self- reflection and deliberation. To this end, I will introduce the notion of minder and, through it, examine the role of trust in a simple business transaction. It will be clear from our discussion that trust involves a reciprocal act of self-giving (and self-making), and from this consideration, that business is primarily about giving and not (as stock-holders might think) about taking. Being reciprocal, genuine trust has, within it, an implicit recognition of notions of justice, fairness and equity and a willing aspiration to honor them. Being intentional, trust is the foundation of (and duly upholds) free, alive, sustained and dynamic relationship. As holistic, it reaches into human solidarity, grounding all human endeavors and connecting it to Life itself, however we might name that.

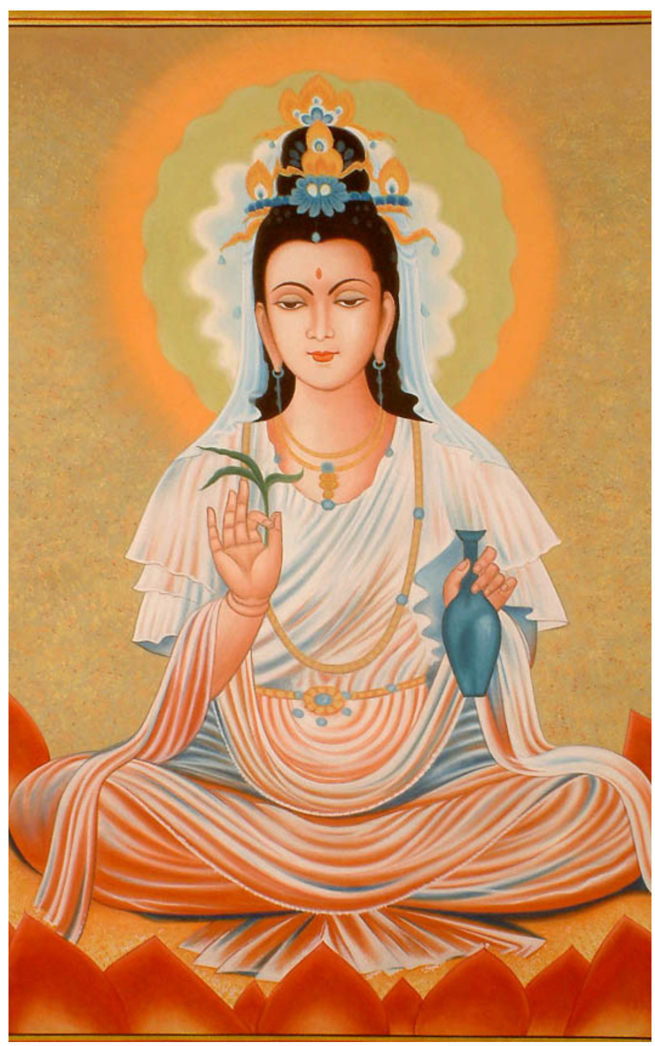
Trust lies beneath and behind all we do (think of a child’s relationship with a loving parent or good teacher), and remains unnoticed (in the subconscious or unconscious mind) until something happens to engage our attention should its genuine intentional quality appear to be breached. In business, our awareness of trust can be lost within the thickets of procedure and habit. Yet it remains as the key to the existence and prosperity of any business entity.

Consider a simple example, such as catching a bus. I have done it before; I know the route and the bus number. I do it largely by habit, and trust lies in the background, but nevertheless is operative in my self-minding. Here comes a bus, with the right number displayed. I alight and notice a new bus driver, to whom pay my fare and then take a seat, confident that my bus is going to my destination, perhaps wondering whether the driver is skilled and patient enough to deal with the peak traffic and the numbers of passengers soon to enter the bus. But in taking my seat and attending to my own affairs, I am *minding* my own business. But this *minding* occurs in two senses, so to speak.

Allow me to pause a little on this notion of *minding*. I use it in a way similar to the common notion of a political minder – someone who looks out for the politician’s interests, advises him or her on what action to take as situations arise, and generally manages the interruptions and requests being made by others. In self-minding (is this not the heart of us?), part of us keeps an eye on things, and looks for our own interests. And, as we shall discuss, the root of our own interests can be shown, on reflection about our own genuine deliberations, is solidity with the common good, or as some might call it, the integral human good.

To return: the first meaning of *minding* my own business (having taken my seat on the bus) is that of common use. I am managing myself, within myself – the direction of my gaze and attention, my thoughts and questions, judgments, deliberations, choices, and actions, words and gestures – apart from and in addition to my involvement with the bus. I may be reading a book, or talking on my cell phone, or simply and quietly reflecting or praying. In the meantime, I am 'taking a ride' on the bus. But note, for me to 'take' this ride, others must be first there to 'give' – of themselves, their skills and their time – in order to deliver the *promise* given by the bus company to meet my *need* for a safe, efficient and timely ride. But this my side of the case: for the company rightly expects of me to give some measure of myself – of my wealth (in the fare I offer) and perhaps a cluster of virtues, such as courtesy, good manners, honesty, non-violence, patience and tolerance. This then opens the second meaning of '*minding* my own business'.

This second meaning of *minding* my own business is how I mind – give due attention, reflection, deliberation and responsible choice - to my role in and relationship with the bus company. For as soon I enter the bus, I am taking on personal responsibility for my side of a relationship, namely my relationship with the bus here and now (with its driver and its passengers) and then, by extension, with the bus company to which I offer my fare. I have a *need* for transport, and the bus company *promises* to provide it. I therefore have a rightful *expectation* that, in return for my fare, the bus company will deliver me safely to my destination. I trust my body (and personal welfare) to its care, and in doing so, the company assumes responsibility to deliver me to my destination, safely, securely and on time. In minding this part of my own business – as a client of the bus company – I am possibly paying attention to the route the bus is taking and whether it is being handled safely by the driver, and meeting the general timetable. If I become aware that the driver is slack or unsafe, I may become dissatisfied and angry and feel driven to do something. My *self-minding* is activated: it probes the reasonableness of my feelings, assesses the situation and the risk of delay - and whether I can tolerate such risks; I consider my options and deliberate whether to act or put up with my discomfort. I may seek a conversation with the driver, and together we *jointly mind* the situation, perhaps to find



Quan Yin Boddhisatva , Goddess of Mercy together and agree a solution to whatever problem might have arisen in the journey.

Here, the business I am minding is that of my 'role and place' in the bus company. When I enter the bus, the driver effectively (in *his* self-minding) trusts me to participate in his company's enterprise; he offers the gift of bus transport having first judged my bona fide, (that I am not a terrorist) and that I am able to provide the correct fare for my journey. The company, in turn, delegates (trusts and, thus, empowers) the driver to do this part of his job competently and honestly and to take appropriate action, should he judge me untrustworthy.

Trust holds the reciprocal *values expected* of the persons in the relationship in creative tension and open to new possibilities of its expression and delivery of value. The bus driver expects passengers to pay their fare, not block the aisle nor disturb the peace! The passenger expects a safe and timely ride, and that the driver will attend to any relevant concerns passengers might have. The bus business succeeds to the extent that this primary relationship works, and is repeated time and again. Trust becomes embedded and largely unconscious but a hidden metaphysical factor underpinning the company's viability. It is the pact that binds the values implicated in the exchange.

A similar analysis can apply to the other critical stakeholders of the bus company. An invisible web of *self-minding* trust that the other will honor their side of the bargain applies equally to suppliers, staff, bankers, government bodies, road authorities, even competitors (that the bus does not stray from its route!) and reciprocally, by the company's governance, executive and operating staff (depending on how well they have been trained and made aware of their roles) towards them.

Trust enables the offering of reciprocal gifts of specific valued goods and services (that contribute to human flourishing) and is active (mainly in hidden self-minding) until the particular good or service is delivered to each party. Without it, relationship is illusory; without a relationship there is no business. Consider Enron's financial advisor, Arthur Anderson, following Enron's collapse. Their clients withdrew their trust when they understood that Arthur Anderson's advice had contributed to Enron's state of affairs. As they did so, AA virtually disappeared from the radar, though all the assets - the people, buildings, documents – remained and needed to be disbursed.

Trust enables us to walk in the shoes of the other. A business which takes no heed of its stakeholders – and what they entrust to it, explicitly or implicitly – faces serious danger. The captain of the Costa Concordia failed to honor the trust of his passengers that he would provide a safe passage on the sea. When sailing close to the Isola del Giglio in the Mediterranean, his self-minding judged (wrongly) that his local knowledge of the underwater hazards would enable him to override the computerized pre-programmed route. The CEO of BP, following its oil spill in the Gulf of Mexico, failed to show an empathic grasp of the trust given by the community that it would conduct safe and secure deep sea drilling. His comment reflecting the level of stress he was experiencing after the event, "I too need to get my life back", appeared to the community to be a mindless betrayal of trust given him and of the impact of the accident upon *their* lives.

The case of Bernie Madoff is, perhaps, different. As he admitted to his sons before they went to the authorities, his scheme was a lie from the beginning and could no longer be maintained. Trust was merely apparent, in which case, the self-minding of investors merits attention. Most were wealthy and prominent in business and social standing, especially amongst the Jewish community of New York. They were more likely to rely on others for due diligence; or they trusted too readily one of their own. Did the *promise* made to them (being select and special) of consistent, above-average return on their investment blind their better judgment? For those who did request a briefing on his methods, Madoff would refuse, maintaining the need to keep his approach commercial-in-confidence. Trust needs be open to genuine critical thinking and all relevant questions. For any effective and prospering business, the trust between board members and CEO is paramount – and board members need to be fearless in questioning, not as a sign of distrust but, with a view to genuine partnership, as a legitimate means of understanding, testing and backing the CEO's thinking and judgment.

The Global Financial Crisis was essentially one of the run-away breakdown of trust at the highest levels, namely *between* financial institutions as a result of their inability or

unpreparedness to penetrate how risk was being packaged in the financial products they had been trading. The obligations which flow from a trusting relationship (such as between the original home owners and mortgage brokers) were lost in the packaging – the metaphysical fabric had been severed, and it was merely time before the unreality of the trading was exposed. The global fragility of our financial arrangements that had displaced trust has become all too apparent.

The failure of government regulators in the case of Enron, Madoff and the GFC to provide timely and appropriate interventions and legal redress reveals further the slackness of minding, personal and institutional, that we face. A CEO recently confided to me that in his early years of running his business, trust between those with whom he did business was based on one's word. Today, that quality of trust has now become enmeshed and highly qualified within a thicket of legal documents. For an average person this kind of issue becomes apparent in what may appear to be a harmless insurance claim. Fine print and legalese may well exclude from cover what one took for granted as being covered. And for the insurance, *caveat emptor* is always its justification, not the responsibility to fully appraise the insured with clear, readable, policy information.

Furthermore, removed from personal acts of trust are those for whom the legal principle of incorporation enables them to erect barriers beyond which the law cannot go, whatever harm might be visited on stakeholders.

What place has money within these considerations? As trust is the hidden power within relationships, providing the sustaining fuel for creative collaboration that gets things done, money can be its tangible expression in space and time. Money is essentially offered by Caesar (or now the State) as a token for citizens to use in *full trust of State power* (Render to Caesar the things that are Caesar's) and promise. The State guarantees to 'back' its currency, offering laws and tribunals that ensure justice is done in the currency's dispersal and movement. Our rightful trust in using money would therefore extend to honoring the laws (including just taxation) that regulate its use. In this sense, it might be noted that money buried in the ground has no value. Only when it is involved in a transaction (when it moves and circulates) does its representative value 'take hold' and it becomes the means of 'getting things done'. By having money, I have *potential* power to purchase goods and services that I consider I need in order to flourish. In an exchange of trust, this potential power becomes real in being the exchanged equivalent for the goods or service being provided. When someone takes my money, they, in effect, trust that the money is not counterfeit – (or if I use a credit card, that the bank will honor the payment) – and that the value (purchasing power such as to be able to pay rent, or buy food) they acquire in its transfer for their own human flourishing, is preserved.

Where business becomes committed to making money for its own sake (a high return to investors at any cost) it has placed 'taking' ahead of 'giving' and has consequently lost sight of business's primary purpose, namely the collaborative task of producing a valued good or service (without direct harm to any stakeholder). A business is naturally fertile, for in delivering a valued good or service to a customer, it magically creates opportunities for other goods and services – to its employees (a job, a wage, a chance to grow, be creative and contribute to society), to its suppliers (a steady stream of work, fair prices, challenging opportunities also to be creative and innovative), to its financiers and investors (a measured risk and a growing return on investment, a chance to contribute to the prosperity of the nation..) and to the community (fair taxes, respect for and contributing to the quality of the environment). Admittedly the task of governance and executive to balance the respective needs and expectations of stakeholders and keeping one's promise to them is not straightforward, but requires deep and mindful deliberation at all times and a clear set of commitments, delegations, and accountabilities throughout the organization.

Caux's principles of business, and particularly its self-assessment tools, reflect this requirement of corporate policy setting, implementation and monitoring of outcomes. But conscience is personal and acts in the here-and-now: its corporate equivalent requires each person, at their particular level, to appropriate clearly the trust dimension implicit in their work. This appropriation and self-minding, can shift their deliberations towards what it is that they are giving, on their side of the bargain, rather than an exclusive focus on what they are taking.

Social and political fragility is particularly evident where trust breaks down between people of different beliefs, races, tribes, backgrounds, social standing. In the absence of trust, physical power and coercion are used to get one's way, collaboration being non-existent. Recovery of trust can only come about through 'breaking the word', by opening conversation, by extending the hand to the other as a sign of 'self-giving', and by genuine dialogue that seeks to understand the other. In this way, business provides, in all its dealings, opportunities to bring to the fore the vital, life-giving role of trust.

It remains in this short essay to reflect on the notion of value implicit in trust. Business adds value to peoples' lives – that is its proper nature – and flourishes when it honors trust. How do we 'connect the dots' between the various values offered in any particular business's goods and services with the 'larger good' or set of values that correspond to what has been called the 'common good'? In Judt's terms, has our self-interested search for material wealth and prosperity narrowed our focus on what is the true worth of things? Has it distorted our view of what we are actually doing when we engage in business? To move from a mindset of pure self-interest to that of solidarity challenges the general business paradigm. Many may put aside their 'better' selves when they enter business – for there, the rule of the game appears to be to look after No.1. But even to do so, one relies on others, enters into trusting relationships to deliver (fairly) what No. 1 desires and wants. One implicitly acknowledges notions of justice and fairness, though one's self-minding (as conscience) can play many tricks on one.

The question, 'what am I doing and is it fair?' can arise spontaneously in self-minding, but equally ignored and brushed aside, or given a curt response, such as 'everyone is doing this – its how things are done; otherwise you go under'. A telling example was offered by one of Enron's traders, after the event, and when he had realized, too late, his contribution to the fiasco. Although encouraged by the corporate culture to ask 'why?' as a stimulus for the best minds of the company to challenge orthodoxy, to 'break out of the box' and to be creative, he suppressed his own question about *why* he was doing *what* he was doing, for he knew he did not want to know the answer. His self-minding was indeed very astute!

In any thorough (self-minding) deliberation that precedes business choice, we attend to feelings that arise, we make sense of what they may be indicating, we attend carefully to the situation we may be facing, we ask of ourselves all relevant questions that could bear in upon consequences and risks to ourselves and others that opportunities present, and more particularly, we make a reasoned judgment about the values implicated in our choice. The legal philosopher, John Finnis, argues that there is a common set of 'goods' (the integral human good) from which our deliberations on particular needs and wants take their bearings. He proposes that we can identify these in our own deliberations, as 'ends' we naturally seek: preserving life itself; being skilled in what we do; acquiring knowledge; sexual association between man and woman for mutual support and procreation; achieving harmony within oneself (a good conscience), with others (evident in friendship) and with higher sources of meaning (such as in religion).

In conclusion, five keys for cultivating self-minding in our relationships (of trust) are practical and accessible to all: 1) be open and, with courage, ask the hard questions; 2) be attentive to the data, including our own feelings and inner voice; 3) be clear in one's understanding; 4) be reasonable in one's judging; 5) be responsible in one's choosing and acting. Thus, I would suggest, through giving due recognition of intentionality in the make-up of oneself and others, one will be better placed to contribute to good business decisions and to progress in human solidarity and flourishing.

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TRAJECTORY OF MORAL CAPITALISM

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I owe the idea for this graph to Kurt Lieberman, the CEO of Magni Asset Management here in Minnesota. Magni has pioneered country index funds that use a Caux Round Table approved metric on high standards for country management of fiscal and financial institutions.

One axis is a continuum from sadness at the bottom of the graph to happiness at the top. The other axis is a continuum from lack of material possessions and wealth on the left to plenty and wealth on the right.

The trajectory of Moral Capitalism is from poverty and sadness on the lower left quadrant to happiness with wealth in the upper right quadrant.

The graph presumes that happiness and wealth are positive enhancers of human flourishing in everyday life.

There are strong arguments from wisdom traditions that, on the individual level, happiness can be superficial and illusory and material possessions a source of worry and a distraction from spiritual and psychological well-being.

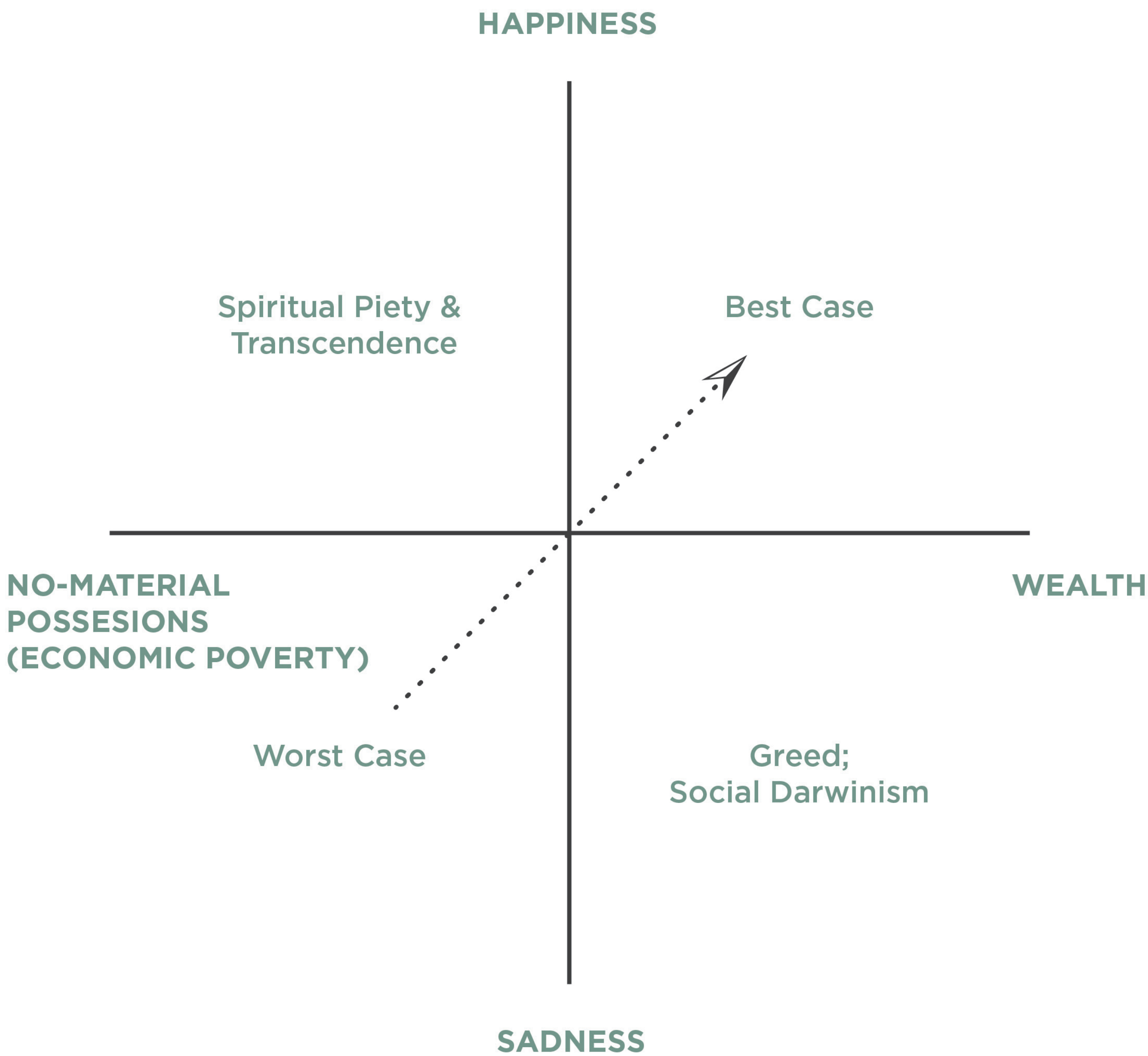
But, from the perspective of engagement with the vicissitudes of living, material possessions support the activation of efficacious human dignity and so the experience of self-actualization, a form of happiness.

The moral and legal motifs of human rights similarly presumes that seeking happiness and material well-being is due each individual.

The graph indicates that the lower right hand quadrant - where wealth is not associated with happiness - represents an undesirable outcome of raw greed and some degree of personal unhappiness. The insight associated with this quadrant is that there are ways of gaining wealth that do not bring personal happiness. One thinks of the Dickens' character Ebeneezer Scrooge who has his gold coins but no love. The quadrant also reflects a common observation that many seek and obtain wealth under some psychological compulsion that identifies wealth with selfish urges such as the need for power in order to dominate others.

Then, in the upper left quadrant the graph represents a state where wealth and material possessions are not valued. This position traditionally has been associated with meditative practices and pietistic satisfactions. Personal happiness is, in this environment, sought and found in intra-psychic states of awareness and appreciation of reality.

Finally, the upper right quadrant represents the desired outcome of a good capitalism, one that contributes to social justice and human flourishing. The graph assumes that for happiness to be associated with wealth, the way that such wealth is earned must be congruent with the better angels of human nature. It must be a pursuit of wealth that is ethical, responsible, and sensitive to stakeholder concerns and interests.


HAPPINESS
Spiritual Piety & Transcendence
Best Case
NO-MATERIAL POSSESIONS (ECONOMIC POVERTY)
WEALTH
Worst Case
Greed; Social Darwinism
SADNESS

ECOSOC DEBRIEF – PARTNERING FOR INNOVATIVE SOLUTIONS FOR SUSTAINABLE DEVELOPMENT

BY **STEVEN N. PYSER**
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The current economic climate and questions about viability and nature of recovery are a call for examination of roles that government, public, private and philanthropic entities should play in addressing global sustainable development challenges.

This author was invited and attended the United Nations Economic and Social Council (To learn more about ECOSOC, http://www.un.org/en/ecosoc) (ECOSOC) event "Partnering for Innovative Solutions for Sustainable Development" as a Fellow of the Caux Round Table (CRT) on 24 April 2013, United Nations Headquarters, New York. The theme "Partnerships Promoting Development" encouraged participants to "Collaborate, Reciprocate and Innovate!" This article provides a working understanding of ECOSOC and an event debriefing with observations and impressions. It concludes discussion of common ECOSOC and CRT attributes and a look to the future.

ECOSOC organized this partnership event in collaboration with the International Telecommunications Union (ITU), the World Intellectual Property Organization (WIPO), UNESCO, UNICEF, the UN Global Compact, the United Nations Office for Partnerships and the Global Partnerships Forum. ECOSOC brought together some of the most influential leaders from government, the private and non-profit sectors, and civil society to discuss how partnerships can propel sustainable development innovation to new heights.

About ECOSOC and CRT

"Conversation is the catalyst for innovation." - John Seely Brown

ECOSOC's website identifies itself as a founding UN Charter body established in 1946 with concern about the world's economic, social and environmental challenges. The Council is the place where these issues are discussed and

United Nation's headquarters, New York

debated, and policy recommendations issued. ECOSOC has broad responsibility for some 70% of the human and financial resources of the entire UN system, including 14 specialized agencies, nine "functional" commissions, and five regional commissions. ECOSOC functions and powers are stipulated in Chapter X of the Charter of the United Nations. The Council holds several short sessions and many preparatory meetings, round tables and panel discussions with the members of civil society throughout the year, to deal with organizing its work.

The CRT is an international network of principled business leaders working to promote a moral capitalism. The CRT advocates implementation of the CRT Principles for Business through which principled capitalism can flourish and sustainable and socially responsible prosperity can become the foundation for a fair, free and transparent global society. The CRT principles support community collaboration and partnering by bringing about responsibility, accountability, and trust

Event Agenda and Deliverables

Timely discussions focused on how partnerships in Science, Technology, Innovation and Culture can influence economic and social development and environmental conservation. The forum was a structured interactive dialogue, where participants reviewed emerging strategies for creating a culture of innovation. The all-day event featured two policy dialogues in the morning and four simultaneous, two hour 'Partnerships Clinics' in the afternoon. Outcomes from the forum, including 'key messages' from the dialogues and policy options for Member States, were reported to the Council's high-level segment during its substantive session in July 2013.

The Opening Plenary offered a welcoming address by His Excellency Mr. Néstor Osorio, President of the Economic and Social Council, in his capacity as Chairman of the Economic and Social Council (ECOSOC) In his speech (*The full text of Ambassador Osorio's remarks at this ECOSOC event available at http://www.colombiaun.org/English/Ecosoc%20Eng/Presidency/24_april_2013_presidency.html His biographical notes, http://www.un.org/en/ecosoc/president/bio.shtml)*, Ambassador Osorio drew attention to the need to identify more appropriate policies and best practices to acquire the tools to force the benefits of science, technology, innovation and culture to create jobs, end poverty, reduce inequality and address the many challenges of sustainable development *(Collection of Ambassador public statements related to ECOSOC, see generally, http://www.colombiaun.org/English/Ecosoc%20Eng/Presidency_2013_ECOSOC.html)*.
Then, opening remarks by Mr. Ban Ki-moon, Secretary-General of the United Nations and a keynote address by Mr. Mo Ibrahim, Chair, Mo Ibrahim Foundation set the stage for the work of the assembled group.

Mr. Ali Velshi, Host, Al Jazeera, America served as skilled moderator of Policy Dialogue 1 and Policy Dialogue 2. His trademark journalistic acumen, energy and exemplary critical thinking and communication skills allowed deeper dives into panelist contributions. The conversation moved forward seamlessly as Mr. Velshi named and framed relevant issues to reveal actions steps. This process allowed dialogue to emerge between Member States and all invitees across multiple sectors.

The first dialogue, "Partnerships for Sustainability", examined innovation trends with potential to transform lives and reduce poverty. Partnership models and initiatives were explored. The overarching question was "How can we create an enabling environment for innovation, creativity and entrepreneurship?" The second dialogue, "The Changing Face of Technology and Innovation", looked at examples of innovations from the South, for the South. These dialogues considered how partnerships could convert innovative ideas into business opportunities.

There was a choice to attend one of four afternoon breakout sessions:

- Session 1: Innovative partnerships to address research and treatments for NTDs [WIPO]
- Session 2: Mobiles for midwives: An innovative approach for better health information systems [ITU and UNFPA]
- Session 3: Innovation and Technology: Development and dissemination of innovative design solutions to address extreme poverty [UNESCO]
- Session 4: Breaking barriers: Innovative partnerships creating exponential change in access to quality learning [UNICEF, in collaboration with the Government of Denmark]

The Closing Plenary included reports on outcomes of Partnerships Clinics.

Economic and Political Context

The Financial Crisis and Great Recession of 2008-2009 caused significant harms, sent economic reverberations throughout global commerce and supranational organizations. Unprepared internal and external business stakeholders were shocked by sudden onset of these events.

Major financial markets are becoming more refined and efficient. Yet, the economic recovery is far from complete with significant work ahead. We see calls for proactive steps to transform international business through new business models and forms of international trade. Disruption is in play through leveraging remediation by technological enhancements and empowerment of people through multistakeholder networks, social networks, business networks and community engagement.

Sovereign nations have responded to new economic risks by raising barriers to protect their interests and attempting to weather continuing economic fallout. Moving forward, leaders and policymakers need to understand complex economic systems and develop best practices to avoid reoccurrence and potential economic collapse.

Experts and effected publics question the efficacy of the free market system and *brute capitalism* – the stereotypical form of the economic model where profits trump public interest. Resulting economic instabilities and implications are still emerging as countries move to remediate harms and strengthen their economies. The CRT offers a supportive business model with principles for pursuit of *ethical capitalism* including the idea that capitalists owe a responsibility to stakeholders as well as shareholders.

Event Observations and Impressions

The CRT Principles and ECOSOC's concerns and dialogic approaches toward the world's economic, social and environmental challenges are congruent frameworks for positive change. Businesses *can* run beyond purely capitalistic activities for realizing profit and contribute to creative solutions that support and develop economic growth, social inclusion and environmental conservation.

The subject matter experts presented an effective model for engagement of attending publics. Invitees were provided with facts, issues and context for solutions. The event design recognized levers and barriers facing attendees. In collaborative space, attendees were offered interactive and engaging opportunities to be innovative. There was a most welcoming invitation for discussion of possibilities and encouragement to collaborate with all invitees. This encouraged an empowering and creative solutions-based mindset. Facilitated question and answer in policy dialogues and partnership clinics allowed for knowledge sharing and applied innovative thinking. It is possible to replicate and scale this event without losing quality and secure transformative results.

Guiding principles of the CRT and ECOSOC emphasize economic development through continuing friendship, understanding and cooperation. Both organizations provide tools and engagement of interactive dialogue that activate higher-level intelligences such as trust, integrity, empathy, and good judgment. Similarly, individuals, business, governments and NGOs can use these principles on a common respect for the highest moral values and responsible action in their own spheres of influence and principles.

Next Steps

It is necessary to address and begin to reconcile private interest with the public good. This can occur with diverse stakeholders while following collective goals through collaboration and common activities playing different roles with different purposes.

As we emerge from the global financial crisis, ECOSOC and the CRT have core principles and missions for positive change. Their work is aligned uniquely to bring groupings of civil society, the private sector, the public sector, the media and other stakeholders for a common purpose to respond to the ECOSOC call for Partnering for Innovative Solutions for Sustainable Development.

Gathering some of the most influential leaders from government, the private and non-profit sectors, and civil society can create fertile ground for workable solutions including reconciling private interest with the public good through partnerships. This approach can provide opportunities to integrate profit and principle into business models with a plan for economic development and practical, sustainable and scalable solutions for a better future and world.

FIVE YEARS ON AND STILL WANDERING IN THE **WILDERNESS OF REFORM**

BY **STEPHEN B. YOUNG**
GLOBAL EXECUTIVE DIRECTOR
CAUX ROUND TABLE

In mid September 2008 global credit markets began to collapse as a result of imprudent, self-destructive practices on the part of the leading Wall Street financial houses. This failure of good judgment on the part of financial industry professionals made the point yet again that markets are no guarantor of sustained wealth creation. They act with limited rationality as to pricing and valuations.

In October 2008, the Global Governing Board of the CRT, meeting in Madrid, issued an analysis of the causes of the crisis along with suggested reforms.

The statement reads as follows:

PRESS RELEASE

31 MARCH, 2009

Seven Point Reform Plan to Restore Trust in Business and in the Global Financial System

The Caux Round Table (CRT) today laid out a seven point reform plan to restore trust in business and the global financial system and to ensure financial system stability. The CRT, which is an international network of business and professional leaders working to promote moral capitalism, urged the G20 leaders to immediately implement these essential reforms.

"Capitalism's so called immune system of laissez-faire market discipline has failed the test and the underlying causes of this systematic breakdown - greed and narrow self interest - must be addressed", said Lord Dan Brennan QC, the Chairman of the CRT and past

Chairman of the Bar of England and Wales. "Business leaders, governments and regulators alike must act now if we are fully to deal with the greatest threat to capitalism and global prosperity since the Great Depression. The CRT's seven point reform plan lays out fundamental reforms that are needed to restore trust and confidence in business and ensure financial system stability", Lord Brennan said.

The CRT's seven point reform plan takes responsible capitalism from the fringes of business behavior and firmly entrenches it at the heart as to how good business is done. Importantly, the proposed reforms address the key underlying causes of the crisis and the critical need to restore the soundness of financial institutions which remains of first importance for a successful market economy.

"Failures to properly assess risk and a dysfunctional and shortsighted system of incentives and remuneration have been at the heart of the problem", said Dr Stephen Young, Global Executive Director of the CRT.

"Compensation of senior executives, traders and fund managers was, and still is in most cases, built on narrow self interests and decoupled from long-term wealth creation. Rewards rose with excessive risk taking and have been provided in ways that have largely shielded senior corporate officers and fund managers from liability for their decisions", Dr Young said.

"Also at the core of the problem has been a failure of governance. Boards of directors were not sufficiently encased in an environment of sound risk management, responsibility, transparency and ultimate accountability. And financial regulation failed to offset the inherent dysfunctionality of the markets", Dr Young said.

Lord Brennan noted that "despite the need for urgent action to address the underlying causes, there are inadequate reforms on the table. Business leaders and boards are largely silent, and politicians, regulators and central banks are flat out putting out the fires."

"The CRT's proposed reforms represent essential steps in rebuilding a market immune system of accurate pricing, risk management and valuation transparency, and ensuring ethical and responsible capitalism", Lord Brennan said.

The Caux Round Table's Seven Point Reform Plan to Restore Trust in Business and in the Global Financial System

1. Require board directors to consider interests beyond shareholders, which may affect the company's success, by codifying the principle of "enlightened shareholder value" in company law.

Proposed reforms:

- o Require corporate board directors to disclose all material risks and uncertainties to the future development, performance and sustainability of the company and its business in the annual report.

- o Specifically, require corporate boards to disclose annually the material risks and impacts flowing from:
  - - workplace and employee issues;

- customer, product and service issues;
- supply chain matters;
- environmental risks; and
- social and community issues and concerns.

2. Require minimum standards of corporate governance knowledge and expertise for corporate board directors.

Proposed reforms:

- o Require corporate board directors to have the skills and expertise to:
  - responsibly execute their duties of trust and profit, given business is not without consequence for society;
  - versee the full spectrum of financial, governance, social and environmental risks to the company; and
  - ensure business practices meet minimal ethical standards.

3. Require corporate boards to have a dedicated board committee responsible for risk oversight across the full spectrum of risks - financial, governance, social, environmental.

Proposed reforms:

- o Require the Board Risk Committee have an independent chair and a majority of independent directors on the committee.

- o Require corporate boards to commission independent assurance reports annually on the effectiveness of their company's risk management processes and to disclose the assurance report findings.

4. Regulate executive remuneration structures to ensure that they are consistent with prudent risk management, align with long-term wealth creation, and do not reward poor performance.

Proposed reforms:

- o Require corporate board directors to make annual disclosures (and at the time of the appointment of any CEO) detailing:
  - conflicts of interest and other risks embedded in both short-term and long-term executive performance incentives, including how the Board proposes to manage such risks; and
  - the degree to which the remuneration structure aligns executive interests with those of shareholders, including during times of company stress and underperformance.

- o Require all equity linked remuneration to be in the form of common equity escrowed for a minimum period of five years, regardless of continued employment.

- o Prohibit Board members and key executives from borrowing or hedging against the common equity they hold in the company, unless there is full and timely disclosure of all such borrowing or hedging.

- o Cap termination payments at one

year's remuneration unless there is prior shareholder approval of a higher amount.

5. Implement stronger and globally co-ordinated financial and banking regulatory reforms to prevent systemic risk build-up or market manipulation.

Proposed reforms:

- o Harmonise regulation and co-operation of financial supervisors / regulatorsacross the G20, including cross-border supervision of globally significant financial entities, to enhance financial system stability and close opportunities for regulatory arbitrage.

- o Broaden regulatory coverage to all financial entities and transactional activities that pose material systemic risk to financial stability.

- o Strengthen capital adequacy of all systemically important financial institutions in line with their underlying risk profiles.

- o Weed out or strictly regulate market products, behaviours and activities that are not consistent with the principles of market stability, long term value creation, and a fully informed market.

6. Regulate all financial markets instruments and investment activities that materially impact on financial system stability and on superannuation and pension system viability.

Proposed reforms:

- o Broaden regulatory coverage to all financial entities, products and transactional activities that pose material risks to financial stability or to superannuation and pension fund viability.

- o Enable regulators to intervene in and control excessive speculation and risk accumulation in all systemically important financial markets and instruments.
    - Market participants, including derivative and hedge funds, required to disclose trading and other information necessary to adequately access market and systemic risk.

- o Establish fully regulated exchanges for credit derivatives and other systemically important instruments.

- o Require registration and ensure regulatory oversight of credit ratings agencies whose ratings materially impact on financial and investment markets.
    - Review the practice of paid ratings and consider possible reform to ensure independence of ratings.

7. Reform and adequately resource the IMF and other multilateral institutions to ensure they are effective forces for economic and social justice globally.

Proposed reforms:

- o Ensure the IMF and other international financial institutions and multilateral development banks are resourced to assist emerging and developing economies in dealing with the flow-on from the global financial crisis.

- o Broaden Financial Stability Forum membership to all G20 members and strengthen its role including via the development of an early warning system for threats to global financial stability.

- o Strengthen measures to oppose and prevent trade protectionism while renewing initiatives within the World Trade Organization towards a global free trade agreement.

End

* * * * *

You will note that during the past five years reforms have not gone as far as the CRT recommended. Boards of directors are not yet positioned to be thoughtful risk managers, regularly assessing the consequences of

stakeholder relationships with their firms. At the international and national regulatory level,the principal reform has been to increase requirements for capital on the part of financial firms, dealing with their capacity for risk management through an incentive of owners to

protect their investments but mostly to have a source of non-public funds to use in the event of failure of risk management. Since 2009 global banks have increased their capital on hand by 3% or some US$500 billion.

The problem of liquidating "too big too fail"

Two employees of Christie's auction house maneuver the Lehman Brothers corporate logo. (England.Oli Scarff/Getty Images) *financial houses so that a collapse from imprudent risk taking will be contained within the contractual networks of any such firm has yet to be solved.*

A "Volcker rule" preventing financial institutions from gambling with funds given to them for use in productive investment has yet to be put in place.

Thus global markets are still vulnerable to failures of mispricing and allocation of funds to non-productive trading arbitrage.

Designed by Nik Yahya Nik Rushdi