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# PEGASUS

A NEWSLETTER FOR THE CAUX ROUND TABLE FOR MORAL CAPITALISM  
NETWORK LOOKING AT BUSINESS ABOVE THE CLUTTER AND CONFETTI



# *Pegasus*

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# Introduction

It has become commonplace in most sane quarters of the planet that for capitalism to survive and for us to survive capitalism, we need effective action to bring this economic system, the most successful in history, into some kind of control and oversight.

We need a capitalism that, as the Caux Round Table for Moral Capitalism (CRT) has been advocating for more than a quarter century, is governed by principles that place human beings over profits, that curbs the excesses of a system that too often reduces the world and everything and everyone on it to resources here to be used, abused and discarded when no longer of value. And we need a capitalism governed not by greed and the lust for wealth and power at all costs, but by the highest standards of sustainability and concern for all the systems' stakeholders, not just shareholders. We need, in short, a "moral capitalism," an economic system that answers to the angels of our better nature, not to the lust of insatiable greed.

In the now 25 years since the CRT issued its Principles of Business, much progress has been realized. The U.N. adopted goals for sustainable development (a process in which CRT was actively involved). Global compacts, however undermined by national rivalries and the resurgence of a kind of neo-fascism in many countries, have been forged to realize a reduction in carbon emissions and the replacement of fossil fuels with renewable sources of energy.

But much more must be accomplished as waves of drought, increasingly violent weather and loss of productive land have already triggered deadly wars, as well as mass migrations that further tax the resources of the developed world.

In this issue of Pegasus, we review two new publications that not only offer hope but also evidence of how universally accepted the need for a sustainable form of capitalism has become. The first, *Reforming Business for the 21<sup>st</sup> Century*, is an overview published by the British Academy Future of the Corporation. It lays out the changes we need to implement to make capitalism work for us, not the other way around.

The second and in some ways even more remarkable document, is *Impact Report 2018* released by the ABN AMRO banking conglomerate in the Netherlands. It takes the principles of moral capitalism and actually measures, with great candor, both the progress the company has made in achieving the goals of sustainability and stakeholder value, but also a frank assessment of where the organization falls short and must do more to meet its objectives.

Such a document is a rare and refreshing glimpse of the way that a growing number of capitalist organizations are taking the principles of moral capitalism seriously. Much has been done, but much more must be achieved. Yes, the hour is late and the river is rising (or drying up). But these two publications provide a welcome dose of hope in what at times may seem like a hopeless undertaking.

Richard Broderick  
Director of External Affairs  
Caux Round Table for Moral Capitalism

# Reforming Business for the 21st Century

by Richard Broderick

*“As an historian, the future may not be natural territory. Yet, the future of the corporation starts with its history and the corporation has a history of being a remarkable instrument for bringing people together to commit to a collective.”*

So begins Professor Sir David Cannadine in his elegant preface to *Reforming Business*.

Commissioned in 2018, the publication incorporates the findings of 13 papers composed by members of the British Academy, compiled by a staff of 10 and overseen by a steering group of equal number and a corporate advisory group comprising 25 individuals from the leadership of corporations, law, investment banks and NGOs. The publication is neither pro nor anti-corporate. Instead, it is an attempt to quantify in three sections of ascending complexity and detail the case for change, a framework by which to achieve that change and, lastly, the precise “levers of change” to realize the corporation needed for the 21<sup>st</sup> century.

Nor is the document a one-of-a-kind knockoff. It is the first of a series of publications the British Academy will produce on this subject, work that Cannadine observes “is vital now because of people’s increasing concerns” about growing inequality, plummeting faith in the so-called free market, uncertainty about the effect of new technologies on employment and the future health of the planet.

The study opens with an executive summary that sets out in concise and lucid terms the case for where and when we went awry in our management of corporate activity. These, in turn, are “intensifying the need for a reconceptualization of the corporation around purpose.” Corporations are formed around a nexus of purposes; they are why corporations are chartered and given legal and other protections that allow them to operate without constant disruption.

Alas, for a variety of reasons, we have come to accept the baneful idea – given its most active boost by the so-called Agency Theory of Milton Friedman – that the sole and irreducible purpose of every commercial corporation is to turn a profit, to focus solely on shareholder returns with shareholders envisioned by Friedman and his followers as the true owners of the corporation, even if shareholders may themselves be other institutions, like pension funds and investment firms that play no day-to-day role in the management of the corporation.

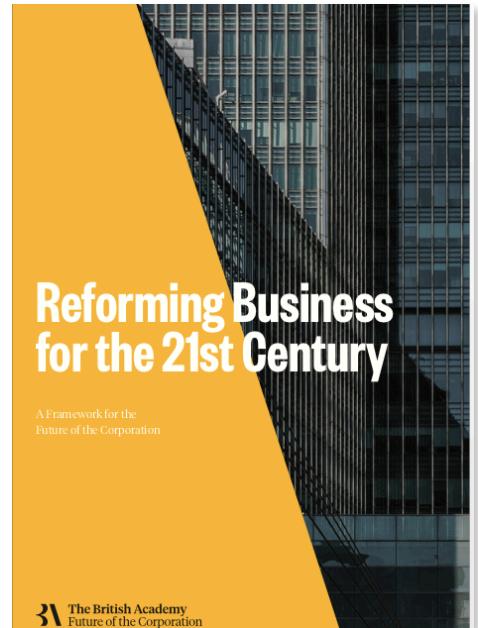
But as *Reforming Business* bluntly (and accurately) observes, profits are a product – and only one – not the purpose of a corporation. The corporate purpose should include public purposes that focus on creating reciprocal benefits accruing to both the corporation and its stakeholders, as well as society as a whole.

To achieve this objective requires commitments to “trustworthiness” and creation within the institution of an enabling “culture” – a clear and articulate set of values adopted throughout and at every level of the organization, from the board room down to the warehouse.

To get there will require focused action employing five “levers.” They are acceptance of the broader responsibilities of ownership, the framework of corporate governance, an approach to regulation, in particular “forward compliance” to help ensure a corporation’s embrace (and enactment) of purposes that incorporate clearly defined public or social purposes that are given equal footing in a corporation’s goals and purposes.

The fourth lever involves corporate taxation, an area of concern magnified by globalization that has hindered the power of nation states to levy taxes on the totality of income. The last and perhaps trickiest lever is investment – to wit, managing the balance between public and private investment to ensure support for long-term infrastructure investment that supports all of a corporation’s combined purpose. Attempts to achieve this balance are a good start, but are clearly not enough. It is particularly critical that this lever be applied to those junctures where private and public purposes need to aligned – and honored.

The study moves on to an introductory chapter that explores in greater details the terms presented in the executive summary. It argues the urgent need for reform and offers expanded discussion of corporate purposes, trust, culture of honesty, ownership, governance and regulation. And it points to the emergence of long-term investment as outstripping current and previous attempts at regulation, calling for more extensive government participation to ensure the alignment of corporate purposes with public purposes by the conscious inclusion of the latter in the “charters and articles of association” in those charters.



In “The Case for Change,” the report offers an historical overview of the evolution of corporate purposes, from the Code of Hammurabi through Roman law to the early chartered corporations like the East India Company up through the rise of the industrial corporation. At each stage of history, corporate purpose has explicitly included details of public functions, from minting coins, collecting taxes, the creation of universities and more.

Only since the end of the Second World War and at an increasing pace in the decades since has profit become emphasized over all other corporate purposes, even though, as we have seen, profits are not a purpose, but a product of corporate activity. This has occurred for several reasons – the evolution of ownership from families and founders to increasingly dispersed ownership to the emergence of the takeover market in the 1950s and then hedge funds in the past two decades, all justified by Friedman’s agency theory about the sole purpose of corporations being to return increasing profits to shareholders. In turn, this theory justified the separation of “owners” from “management,” which increasingly manage a corporation virtually free of accountability. The results have been predictable – and hardly pretty: a corporate system increasingly removed from public or regulatory control.

*Reforming Business* is just the first of more studies to come from the British Academy further detailing what must be done and the ways to accomplish those goals.

# ABN AMRO Impact Report 2018

If *Reforming Business* makes a persuasive case for change, a second and in some ways even more remarkable document records the honest attempt by ABN AMRO, a major banking and financial institution headquartered in The Netherlands, to offer a graphic assessment of its impact on a range of stakeholders, from customers, to employees, to the environment and beyond.

In a world in which we are all too accustomed to corporations and financial institutions patting themselves on the back and dishing up glowing self-assessments directed at public relations rather than honest self-revelation, *Impact Report 2018* breaks that mold and provides a glimpse of what is likely to become an ever more common phenomenon – an honest look at an institution’s impact upon the world with no attempt to avoid warts, shortcomings or realistic plans to improve in those areas, both where the organization is achieving its goals of benefiting stakeholders and where it still has work to do. All of it is monetized and expressed in graphs and overviews that translate this information into easy to understand terms.

ABN AMRO provides mortgage and banking services and lending to businesses. It is committed to creating “long-term value” for its stakeholders that include clients, employees, investors and society at large. It uses an integrated profit & loss (IPL) methodology that measures benefits (and shortcomings) the bank creates for stakeholders. Profit, in this case, is placed in its proper place – as a product, not the purpose, of a corporation. The value created for stockholders is translated into detailed figures measuring performance on many different levels and scales.



## Six capitals

Capital	Description	Example flows
	<b>Financial</b> All stocks consisting of a form of money and other financial assets	Taxes
	<b>Manufactured</b> All tangible assets and the value created by services	Increase in house value
	<b>Intellectual</b> All intangible assets	Data breaches
	<b>Human</b> All value relating to people, including health and competences	Well-being from employment
	<b>Social</b> All value relating to communities groups of people, including social ties, network and norms	Decrease in cash-related crime
	<b>Natural</b> Stocks of natural capital assets	Water pollution

In tables, graphs and flowcharts, the report measures the IPL of its six forms of capital creation: financial, manufactured, intellectual, human, social and natural, measured against a summary of IPL for each category. In sum, the study finds that ABN AMRO creates a net benefit for each of these categories with the exception of its overall impact on the intellectual and natural world.

The report does not stop there. It presents what it calls “value creation diagrams” for every stakeholder category, flowcharts that depict precisely how each capital category is distributed to stakeholders. The report concludes with a series of tables: an IPL statement, value creation statement, investor value statement and an external cost statement, almost 100 categories in all identifying where ABN AMRO’s value creation is positive and where it falls short in covering costs in each category – almost 100 categories in all that reveal precisely where the company is providing a net gain and where it is failing to do so. The graphs and tables provide a frank assessment of its operations without a hint of public relations gloss to confuse the issue. It’s all here, in black and white and sometimes in color.

The report is not a one-of-a-kind undertaking. The bank intends to continue to issue reports like this every year, revealing where it has made progress and where it still has work to do. One can only hope that the company’s forthright evaluation of its own performance will inspire other banks and corporations to undertake similar reports.

# A Very Constructive Inflection Point for Global Capitalism

by Stephen B. Young

Twenty five years ago, the leaders of the Caux Round Table for Moral Capitalism (CRT) from Japan, Europe and the U.S. published our Principles for Responsible Business to affirm that modern capitalism should seek the wellbeing of stakeholders. Yesterday, the Business Roundtable, composed of 200 CEOs, issued a statement affirming that core belief and recommendation of the CRT:

## Statement on the Purpose of a Corporation

*Americans deserve an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity. We believe the free-market system is the best means of generating good jobs, a strong and sustainable economy; innovation, a healthy environment and economic opportunity for all.*

*Businesses play a vital role in the economy by creating jobs, fostering innovation and providing essential goods and services. Businesses make and sell consumer products; manufacture equipment and vehicles; support the national defense; grow and produce food; provide health care; generate and deliver energy; and offer financial, communications and other services that underpin economic growth.*

*While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders. We commit to:*

*Delivering value to our customers. We will further the tradition of American companies leading the way in meeting or exceeding customer expectations.*

*Investing in our employees. This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity and inclusion, dignity and respect.*

*Dealing fairly and ethically with our suppliers. We are dedicated to serving as good partners to the other companies, large and small, that help us meet our missions.*

*Supporting the communities in which we work. We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses.*

*Generating long-term value for shareholders, who provide the capital that allows companies to invest, grow and innovate. We are committed to transparency and effective engagement with shareholders.*

*Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country.*

On behalf of the CRT board of directors, I welcome this statement as an inflection point in the evolution of modern capitalism towards achieving the common good. This validation of CRT efforts over many years now is reassuring. It is also an opportunity to continue forward with determination, good sense and high purpose in line with our principles to make them useful to all companies, large and small.



## AUGUST

*by Richard Broderick*

Lost month. Last of a line  
of identical green cousins,  
you come too late for me  
to love you. But when

you climb into my bed at night  
and take me in your hot  
embrace, how can I resist?  
Now hang out your pre-

harvest moon as a melancholy  
reminder: whatever we  
manage to pick, the greater bounty  
always remains on the vine.

from *Woman Lake* (New Rivers Press, 2000)



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