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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

Introduction by Steve Young	Page 2
A Principled Business World by Richard Broderick	Page 4
Principles For Responsible Business	Page 12

Introduction

Recently, U.S. Representative Joseph Kennedy III spoke favorably at the Harvard Law School of a “moral” capitalism. Here in Minnesota, where an initiative to articulate ethical principles for global capitalism was launched in the early 1990s, Congressman Kennedy’s approbation caused us to remember those who proposed the Caux Round Table for Moral Capitalism (CRT) Principles for Business.

Most of them have since passed on but two of the principal activists behind the initiative remain engaged with our work. They are Robert MacGregor and Charles M. Denny, both here in Minnesota.

We thought to avail ourselves of their knowledge about the origins of the Principles and simultaneously to honor their leadership. Now, 25 years later, when the world is caught up in discussions about corporate responsibility, social investing, climate change and sustainable development, their remarkable foresight and wisdom can be appreciated more in retrospect than it was at the time.

But as with all leaders of fine character, accompanied by the courage which does not yield to either passivity or discouragement, Bob MacGregor and Chuck Denny believed in working for long-term results. Their time horizons were far out in the future of humanity and they took heart in making progress, step by step. Bob, in particular, still says “Onward and upward!”

There is something very Minnesotan and also very American about their resolve, optimism and their willingness to put shoulder to the wheel and get things moving.

Our Editor of Pegasus, Richard Broderick, interviewed both Bob and Chuck about the creation of the CRT Principles for Business. His telling of their story is published in this issue.

But as in any work of great distinction, the fashioning of the Principles demanded the contributions of many. Moral imaginations from Japan and Catholic Social Teachings complemented the proposals coming to the CRT from Minnesota. The skills of committed Moral Re-Armament members Maarten de Pous in The Netherlands and Mike Olson in Minnesota were put to good use in facilitating, in the spirit of Mountain House in Caux, Switzerland, a meeting of the minds across cultures and religious traditions.

It is now our responsibility to carry on the work with confidence and high spirits,
encouraging all to rise to the occasion of high purpose and concern for the common good.

Onward and upward!

Stephen B. Young
Global Executive Director
Caux Round Table for Moral Capitalism



A Principled Business World

by Richard Broderick

Mauritius is an island nation located in the Indian Ocean about 2,000 miles east of Africa. In virtually every aspect, it conforms to the cliché “tropical paradise.” Its beautiful beaches attract visitors from around the world. Sailboats dot the horizon and almost everywhere you look there is a restaurant or café serving up dishes made of the ocean’s bounty or the island’s cornucopia of fruits and vegetables. It’s workforce of entrepreneurs, shop owners, textile manufacturers, food processors and distributors, guides and fisherman enjoy a standard of living that is unusually prosperous. For outsiders, meanwhile, it’s a place to go and forget, let the sun and heat and the warm ocean wash away worries and stress before heading back into the hustle and bustle of work and daily life.

It is, to say the least, one of the unlikeliest places on earth to have helped inspire first the Minnesota Principles for Business and then, eventually, the Caux Round Table for Moral Capitalism (CRT) Principles for Business.

Here’s how it happened.

Minnesotan Robert MacGregor, an ordained Presbyterian minister who after leaving the pulpit to pursue good works became a member of the Minneapolis City Council, leader of the Dayton Hudson Foundation and established the Minnesota Center for Corporate Responsibility (MCCR), among other undertakings. Later, he served as Co-Chairman of the CRT where he remains active. He was on assignment in Mauritius for the International Executive Service Board taking notes and offering advice on how the local

chamber of commerce might revitalize itself.

His task from the service was to help reorganize and strengthen the Mauritius Chamber of Commerce, the oldest and most distinguished chamber anywhere in the Indian Ocean. Among other things, MacGregor interviewed foreigners visiting Mauritius for business conferences, visiting with overseas sales representatives and working with local business and government leaders. Because, for all its beauty and wealth, the country was suffering the negative effects of many practices that plague smaller nations trying to compete with the world's larger manufacturers and distributors able to undercut prices local companies need to charge for their products and services. Mauritius was a tropical paradise but one resting on an uneasy base of a local business community under constant threat from bigger neighbors.



Robert MacGregor

“Walking along a marvelous sandy beach with an English sales rep selling emergency generators for hospitals, schools and businesses requiring uninterrupted electricity, this man launched into a tirade against the Japanese for their unfair trading practices,” MacGregor recalls. “He said his product was among the very best in the world but he was restricted from selling it in Japan even as his Japanese competitors insisted on selling their products in Europe and even subsidizing their machines in an attempt to drive the British out of business.

“Without saying the words, the issue of fair trade was raised.”

Other common practices came to light. Textile manufacturers moved to the island from Hong Kong to take advantage of low wages and unregulated working hours, for example.

“The textile industry was rapidly expanding and in the process the contamination of chemicals employed in clothing manufacture and improved waste treatment started to pollute pristine tourist beaches. Many, many environmental issues came to the fore if you only bothered to look.” Water runoff from European-owned sugar and fruit farms was polluting the beaches. Sugar prices were set elsewhere and undercut the ability of local farmers to stay in business, not to mention turn a profit.

In time, MacGregor completed his revitalization report on the Mauritius Chamber of Commerce; it was unanimously accepted by its board. But his time in the island nation and his many conversations with residents and visitors left him with the strong sense that what the world needed was a universal standard of business practices, one that would be recognized globally and enforced as much as possible. The CRT Principles for Business were in the early stages of birth.

“This is one of the places where I got the idea that we needed a set of business principles for the whole world,” he recalls.

Meanwhile, there was already movement within the CRT to explore the possibility of general principles.

The organization’s origins can be traced to meetings held in 1947 and 1948 at Mountain House in Caux, Switzerland by Moral Rearmament (MRA) to shepherd reconciliation between France and Germany. In time, those talks gave birth to an agreement on transnational management of the coal industry, the first step in what would eventually become the European Union.

In 1986, Fritz Philips, then head of Philips Electronics, sought a similar reconciliation on issues of trade and competition between Japan and the West. After a few years, Philips was succeeded as convener of the CRT’s annual Global Dialogues by Ryuzaburo Kaku, then CEO of Canon, based in Japan. He had developed a business philosophy based on *kyosei*. *Kyosei* is a concept of mutual dependence and inter-sustainability.



Fritz Philips

Applied to business, *kyosei* underscores the need for a business to live through and for its stakeholders – customers, employees, owners, creditors, the local and global community; in short, every level of social existence touched by the business. The CRT also adopted the premise that ethics and honesty should govern capitalism and the way it does business.



Ryuzaburo Kaku

In 1991, Kaku came to a meeting at the Minneapolis Club where he presented his views on ethics and kyosei to a meeting of local business leaders. According to Mike Olson, a longtime MRA member and coordinator of the CRT, “Back then, the organization was mostly Europeans and Japanese. In order to get Minnesotans involved, we held two meetings – one in the Governors’ mansion, the other at the Minneapolis Club.”

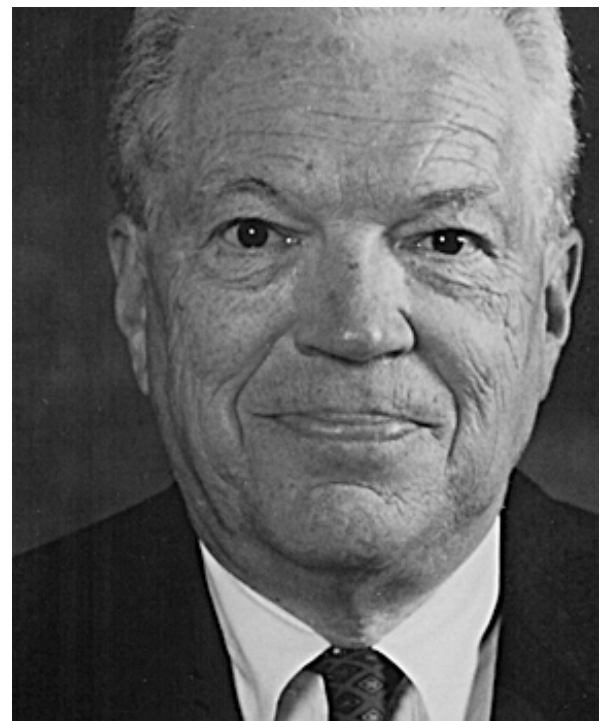
It was at the Minneapolis Club that Robert MacGregor first heard Kaku whose ideas reinforced his own sense that the CRT needed a list of principles for doing business.

So MacGregor got to work, taking lead in Minnesota of a team of executives, academics and business-savvy writers. Working through the long-established MCCR, he “carried out my vision of establishing a world standard for ethical business practices.” Soliciting participation from executives from Minnesota-based companies such as 3M, Honeywell, Cargill and ADC Telecommunications, whose head, Charles Denny, would himself become a leader in the movement, the group appointed a committee that, along with senior executives, included writers to handle written messages, meeting scheduling and minute taking.

“It would have been difficult to pick a better committee,” Denny recalls. “These were experienced practitioners, some of whom had encounters in the problematic areas we were addressing.” Most, MacGregor pointed out, had “the advantage of having worked for Minnesota firms,” recognized as forerunners of the Minnesota Principles.

After numerous drafts, the group composed a final version. It was modeled on the stakeholder concepts familiar to so many of the committee’s members.

“The remarkable results of the CRT Principles for Business would never have occurred without Mike Olson opening the door and prodding to get the



Charles Denny

drafting process completed and the idea placed on the CRT agenda,” says MacGregor.

As it turned out, getting the plan on the agenda was just the first step of a tricky, but ultimately fruitful process.

In 1993, MacGregor and colleagues were given an opportunity to present the Minnesota Principles to the CRT in Switzerland. During the meeting, Kaku also shared a paper that incorporated the notion of *kyosei*.

At the end of their presentations, the speakers were thanked but no action was taken. Some suggested that both presentations, one made by MacGregor and the other by Kaku, needed more time for study and digestion. Others, like the Minnesotans present, pushed for adoption of the Minnesota Principles as the CRT Principles for Business. The chairman of the meeting voiced concern about trying to adopt both sets of principles in one session.

Just before adjourning, Neville Cooper announced the CRT had endorsed both sets of principles, although as a world standard adopted and promoted by both sides, the organization was going to have to find a way to reconcile the differences between the Minnesota Principles and *kyosei*. The two parties would bring a final product and present it at a future CRT meeting.

“The Minnesota Principles were a great impetus to creating an international approach that would transcend cultural boundaries, recalls Maarten De Pous of Holland and an early member of the CRT who helped coordinate activity in several different managerial positions. “But the Minnesota delegation wanted to get things done and get them done now. To broaden their horizon took some doing but it was part of the ultimate success of the project.”



“This proved to be yet another challenge we had to undertake,” says MacGregor, referring to the time in synthesizing and adapting ideas in the Minnesota Principles and kyosei versions. A flurry of long distance calls and letters were exchanged. Trying to schedule meetings from different continents and busy work schedules was another hurdle, MacGregor recalls.

“Each region wanted to discuss the contents with all the CRT members,” MacGregor says. At last, a date was set for a follow up meeting but it was canceled.

At the next meeting of the CRT, the blended text and ideas of the Minnesota Principles and kyosei, along with ethical concepts based on Christian principles, especially on the proposals set forth by Pope John Paul II on the need for capitalism to be a moral system, were unanimously adopted by CRT participants and emerged in 1994 as the World Standard of Ethical Behaviors.

As noted by Richard Broderick above, the 1994 CRT ethical Principles for Business were not just American, and specifically, Minnesotan. They incorporated and brought forward to this day standards of mutually and inter-dependence common to many cultures and wisdom traditions. In particular, they employed from Japan the moral vision of Kyosei as brought to the CRT by Mr. Ryuzaburo Kaku, Chairman of Canon.

At the same time, the CRT asked everyone at the meeting to do their part in disseminating the final product to as many academic and business audiences as possible. Kaku invited the CRT to meet next time in Japan where Charles Denny was invited to present the principles to a large public audience.

“The conflict between Minnesota, Japanese and European concepts of moral capitalism deepened the outcome of the principles,” argues De Pous. “If things had gone another way, who knows what the impact might have been.”

Back in Minnesota, the steps to disseminate the CRT Principles for Business were kicked into high gear with MCCR and its Asian and Europeans partners promoting the document and its ideas far and wide. The MCCR published a book about the origins of the principles. The principles have been distributed to business organizations and trade associations around the world and translated into many languages. The MCCR and other participating organizations received calls from business leaders, scholars, authors, magazines and newspapers from around the world.

“There was a real interest in the principles,” MacGregor recalls. “We put them on the internet and other budding social media.” The story about the principles was also published in a magazine supplement and sold thousands of copies. The Hong Kong Ethics Development Center created a bilingual English-Chinese version of the document, quickly followed suit by a company in Lebanon with an English-Arabic edition widely distributed in the Mideast and North Africa.

In his article on Kyosei published in the July-August issue of the Harvard Business Review, Mr. Kaku wrote:

Many companies around the world believe that they have a moral duty to respond to global problems such as Third World poverty, the deterioration of the natural environment, and endless trade battles. But few have realized that their survival actually depends on their response. Global corporations rely on educated workers, consumers with money to spend, a healthy natural environment, and peaceful coexistence between nations and ethnic groups. ... But how, many have asked, can global corporations promote peace and prosperity and at the same time remain true to their obligation to secure a profit? The answer, in my experience, is kyosei, which can best be defined as a “spirit of cooperation,” in which individuals and organizations live and work together for the common good. A company that is practicing kyosei establishes harmonious relations with its customers, its suppliers, its competitors, the governments with which it deals, and the natural environment.

The enthusiastic acceptance of the principles should not have been a big surprise. At the time of their publication, the world was still pondering how the post-Cold War capitalist economies would handle the challenge of no longer facing a mortal challenge.

We are still living with the ramifications of that and related questions.

In addition to a clear and comprehensive set of guidelines about how business should be conducted, the principles offer a vision not just of a better economic system but also of a better world we can all help create. Since the late 1990s, the CRT has gone beyond kyosei in looking to other older frameworks of moral behavior in Islam, Christianity and Buddhism and not only incorporating those ideas into documents but also citing them as the subject of global and local dialogues, like the meeting that took place earlier this year at the Vatican to look at the Covenants, Muslim texts about a wide variety of moral, social and political issues, some of which date back to the Prophet Muhammad or his immediate followers.

The principles underscore, Charles Denny proposes, that “you can strive to make your community and therefore your country and therefore the world a better place.”

Mr. Jean-Loup Dherse of France introduced as well similar recommended practices from Catholic Social Thought. In particular, he recommended perspectives put forward by Pope John Paul II in his 1991 Encyclical *Centesimus Annus* as follows:

Profit is a regulator of the life of a business, but it is not the only one; other human and moral factors must also be considered which, in the long term, are at least equally important for the life of a business.

... people work with each other, sharing in a "community of work" which embraces ever widening circles. A person who produces something other than for his own use generally does so in order that others may use it after they have paid a just price, mutually agreed upon through free bargaining. It is precisely the ability to foresee both the needs of others and the combinations of productive factors most adapted to satisfying those needs that constitutes another important source of wealth in modern society. Besides, many goods cannot be adequately produced through the work of an isolated individual; they require the cooperation of many people in working towards a common goal. Organizing such a productive effort, planning its duration in time, making sure that it corresponds in a positive way to the demands which it must satisfy, and taking the necessary risks – all this too is a source of wealth in today's society. In this way, the role of disciplined and creative human work and, as an essential part of that work, initiative and entrepreneurial ability becomes increasingly evident and decisive.

It is a strict duty of justice and truth not to allow fundamental human needs to remain unsatisfied, and not to allow those burdened by such needs to perish. It is also necessary to help these needy people to acquire expertise, to enter the circle of exchange, and to develop their skills in order to make the best use of their capacities and resources. Even prior to the logic of a fair exchange of goods and the forms of justice appropriate to it, there exists something which is due to man because he is man, by reason of his lofty dignity.

Says Robert MacGregor, “Capitalism is in crisis but we have the best proposal for restoring capitalism. We have to look back to Adam Smith who stressed that we are all born with a moral sense. And that is what we stress in the CRT Principles for Business. We are all equipped with a conscience and this is what we all must bring to the business world.”

“The CRT Principles for Business reflect two approaches,” says Steve Young, the CRT’s current Global Executive Director. “There’s a very open-ended, volunteeristic, American style and an old world emphasis on tradition and ethics. The combination is what gives the principles such a broad appeal.”

PRINCIPLES FOR RESPONSIBLE BUSINESS

Seven core principles underlie the Caux Round Table for Moral Capitalism approach to responsible business practices. They are rooted in the recognition that neither the law nor market forces are sufficient to ensure positive and productive in every sense of the term conduct.

Principle 1: Respect stakeholders beyond shareholders. A responsible business has responsibilities beyond its investors and managers.

Principle 2: Contribute to economic and social development.

Principle 3: Build trust by going beyond the letter of the law.

Principle 4: Respect rules and conventions.

Principle 5: Support responsible globalization.

Principle 6: Respect the environment.

Principle 7: Avoid illicit activities.

STAKEHOLDER MANAGEMENT GUIDELINES

These guidelines supplement the Principles for Business. They provide specific standards for engaging with key shareholder constituencies. These constituencies are a key to business success and sustainability. In turn, they are the principle beneficiaries of ethical business practices.

Key Stakeholders

Customers: A responsible business treats its customers with respect and dignity.

Employees: This key body of stakeholders owes its well-being to the way employers treat them. Living wages, respect for health and safety and fair wages are all key to a company's long-term success.

Shareholders: A responsible business acts with care and loyalty toward its shareholders.

Suppliers: A responsible business must treat its shareholders with respect and truthfulness. This includes fairness and directness in pricing, licensing and payment.

Competitors: Fair competition is a key to increasing the wealth and stability of an economy. Businesses must promote socially and environmentally responsible behavior with all parties, while avoiding anti-competitive arrangements, respecting tangible and property rights and refusing to acquire commercial information through unethical means.

Communities: Businesses affect public policy and human rights in which they operate. They must do what they can to promote human rights, work with initiatives designed to promote community improvement and sustainable development and support social diversity.

Outro

In his Encyclical, the Pope addressed the question of whether Capitalism is good or bad. He replied: it depends on moral criteria:

If by "capitalism" is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative, ... But if by "capitalism" is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality, and which sees it as a particular aspect of that freedom, the core of which is ethical and religious, then the reply is certainly negative.



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