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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

This November issue of Pegasus comes a bit late, yet it nonetheless has, I suggest, its own timeless importance. In this issue, we note the power of discernment, a power most often overlooked by those of our species in their decisions and in their ways of living. We live life, to speak generally, so frequently as if it takes place in darkness where we anxiously grope our way uncertainly here or there thinking we are in control, but bump into things. The darkness, perhaps, is only a self-made darkness coming from within our minds and hearts - a mental and spiritual darkness which shrouds our being with cloudy apparitions and encapsulates us within the small, fragile vessels which are all we really are in this world.

I am reminded of the lines by the American poet Robert Frost who once asked why people close themselves off from others and from the truth even:

*Before I built a wall I'd ask to know
What I was walling in or walling out,
And to whom I was like to give offense.
Something there is that doesn't love a wall,
That wants it down.' I could say 'Elves' to him,
But it's not elves exactly; and I'd rather
He said it for himself. I see him there
Bringing a stone grasped firmly by the top
In each hand, like an old-stone savage armed.
He moves in darkness as it seems to me,
Not of woods only and the shade of trees.
He will not go behind his father's saying,
And he likes having thought of it so well
He says again, 'Good fences make good neighbors.'*

And if we want to move out of the darkness, what should we discern?

That which is in our best interest, not just our self-interest narrowly understood, but a self-interest understood upon the whole which requires seeing, feeling, sensing the whole in which we are. Today, we might say we need most of all to discern the ecosystem which supports us and keeps us alive.

In this edition, Richard Broderick writes of what happened 100 years ago at the end of the First World War. In short, the victors in that war did not go beyond their fathers' sayings and drew up a peace treaty that brought on the Second World War. And millions more then died.

The German people were humiliated and responded under Adolf Hitler to those who showed them no grace with retaliatory violence. The Austro-Hungarian and Ottoman Empires were broken up in ways which brought on more conflict. War and distress in the Middle East until today largely flow from decisions made by the victorious Allied powers in 1919. In seeking self-interest narrowly understood, French and British leaders then fell far short of doing good and well.

What should have they discerned instead as they drew up the terms of that peace? In retrospect, it is easier for us to answer that question – the need for humility, grace and for respect for peoples over the ambitions of empire.

Secondly, this issue summarizes the event we organized in Minneapolis, in many ways the birthplace of our Principles for Business, on November 22nd, to mark the 25th anniversary of those principles. We were honored to receive a number of letters of appreciation for that work, which we include below.

Our principles rest on discernment. The last 25 years have revealed that they rest on wise discernment, now recognized by the Business Roundtable and World Economic Forum in its Davos Manifesto 2020.

The principles call for discerning stakeholder realities. The principles call for discerning how to conceive, design, make and deliver meritorious goods and services which “contribute to economic, social and environmental development.” The principles call for discernment as to “how to build trust by going beyond the letter of the law.” The Principles call for discernment as to what the law requires, how to make globalization responsible, how to protect the environment and how to avoid illicit extraction of advantage.

Discernment is not easy. It demands insight, which in turn demands a clear mind, one not myopic or turbid, confused by emotions, prejudices, illusions or misunderstandings. Clarity of mind can be achieved through being mindful and observant and through finding patterns – relationships, consequences, linkages and the flows, twists and turns of whatever just “is.” Prayer, meditation and reflection each enhances our faculty of discernment by cleansing our minds.

If we read the noted Jesuit writer Bernard Lonergan’s book *Insight*, we learn that discernment is more than reason, though not irrational; more than emotions, though not heartless; more than words, though expressed after the fact in words.

Discernment provides grounds for ethical judgment and moral behavior. It rises above structures and systems. It elevates individuals to leadership.

I close this introduction with another reference to Robert Frost, this time with respect to discernment:

*Two roads diverged in a wood, and I—
I took the one less traveled by,
And that has made all the difference*

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



Enlightened Self-Interest: The Treaty of Versailles and its Disastrous Outcome

by Richard Broderick

One hundred and one years ago this fall, at the 11th hour of the 11th day of the 11th month of 1918, the guns that had thundered for more than four years along the Western front, fell silent. The eerie quiet followed an appeal by Germany for an armistice to be followed by a treaty that would ensure the guns remained silent in perpetuity. And in 1919, 100 years ago, the European alliance adopted the Versailles Treaty.

In November 1919, the U.S. Senate rejected American participation in the League of Nations, formed with an eye toward ensuring that future conflicts be worked out via negotiations rather than warfare. What was then known as “The Great War” would within 20 years lose its status and become the First World War, predecessor to the Second World War which would erupt following Hitler’s invasion of Poland in September 1939. The unimaginable horror wrought by the First World War – 20 million dead and missing in action, as well as tens of millions of casualties, followed by millions killed during the Civil War that would ravage the newly formed Soviet Union – wrought not peace, but another global war that would produce 50 million more deaths, as well as a reign of tyranny, state murder and famine that would convulse the eastern half of Europe for more than four decades.

How could this have happened? How could the War to End All Wars end up as the incubator for even greater violence and destruction? To a large degree, the answer lies with that Treaty of Versailles. Thirsting for vengeance and financial compensation, the allies, in particular France and England, imposed a draconian settlement on Germany, assigning blame for the war on that now ravaged nation and stipulating crippling sanctions that included terrible financial, territorial and military punishments on Germany. As if to underscore the purely vengeful character of the “treaty,” the German delegation was forbidden from even participating in the Versailles debacle until negotiations were finished, at which point the country was given no choice but to acquiesce on every point. As the maxim has it, “Those who do not learn from history are doomed to repeat it.” The Versailles Treaty offers dramatic proof of the saying’s validity.

True, the treaty was not all an unpleasant surprise to Germany. The nation's leaders who stepped in when the Kaiser abdicated knew there would be territorial adjustments on every border. France would retake Alsace-Lorraine, annexed by Prussia after the Franco-Prussian war in 1870. Belgium would also acquire a smaller patch of German land.

In the east, land assigned to a newly independent Poland was carved out of East Prussia, giving Poland access to the Baltic and cutting off Germany from Prussia. Germany lost its colonies; other clauses in the treaty targeted military objectives; Germany's merchant carrier fleet and its standing army were slashed with major restrictions on its tanks, planes, submarines and production of poison gas.



Even before the signing of the Treaty of Versailles, Germany had already fallen into turmoil with short-lived, Soviet style states formed in Bavaria and the area surrounding Berlin. These were duly put down with murderous violence by the Freikorps, paramilitary units made up largely of soldiers decommissioned from the German army. These units proved to be a fruitful source of recruits for the Nazi Party. Meanwhile, the loss of the Czar and its wealth, coupled with reparations beyond the country's ability to pay, plunged Germany into economic collapse, eventually resulting in hyperinflation, followed by the travails of the Great Depression.

Unquestionably, though, it was the “honor clauses” in the treaty, assigning blame for the loss and damage caused by the World War solely to the Germans, that truly inflamed the German population. The country's provisional government and army chief, Paul von Hindenburg, resigned. It would be several years before the new Weimar Republic could establish any semblance of control over the devastated nation.

The concept of ‘enlightened’ self-interest has long been debated by philosophers, economists, theologians, psychologists and other thinkers. It has been a particularly fraught topic in the economic sphere, where Homo Economicus, neoliberal theories have so permeated business education and corporate culture that there is little room for the subordination of self-interest for the sake of others or the longer-term good of society, according to John Knapp of Washington & Jefferson College.

Other-regarding actions, especially those that may entail a cost, are often seen as less than rational, he believes. The object of the “game,” after all, is to win and winning is defined as maximizing one’s immediate self-interest through actions that can be reliably measured and rewarded in the short-term, even if one acknowledges that actions based on a longer-term or wider set of considerations may (at least in theory) also serve one’s self-interests.

“If your project is looking at the longer-term geopolitical consequences of the actions of the victors at the Versailles negotiating table, it shouldn’t be surprising that decisions in politics, as in business, tend to be driven by the pursuit of short-term gains, as this is what the

system rewards,” Knapp says. Again, as noted, the rewards of enlightened self-interest tend to be realized over a longer time horizon, but this may require actors to forego some potential gains in the short run.



“Needless to say, for politicians and corporate executives alike, this may be easier said than done.”

To unpack this topic further, he says, we would want to look at the misinterpretation of Adam Smith as a justification for the unbridled pursuit of self-interest.

“We would also find it helpful to consider Reinhold Niebuhr’s notion of tribalism, especially as he applies it to nation states and racial and ethnic groups, which argues that the more powerful a group becomes, the more it seeks to maximize its own interests at the expense of others (and the better it is able to rationalize doing so).”

How long will it take for this vital lesson to be absorbed by victors, as well as those defeated in life, as well as war? One hundred years beyond the disaster of the Treaty of Versailles, we still seem to be absorbing this critical lesson.

Minnesota Business Leadership: Pioneering a Moral Capitalism

A Personal Reflection by Richard Broderick

November 22, 2019

Minneapolis Club

The Caux Round Table for Moral Capitalism (CRT) marked a significant achievement with a luncheon on November 22 celebrating the 25th anniversary of its Principles for Business.

At the time of the principles' formulation, the CRT was almost alone in its call for the implementation of what the organization calls "moral capitalism." Since then, more and more organizations and individual political and business leaders have taken up the call, with some organizations offering reports measuring their service to stakeholder communities across the board, including areas where improvement is still required. The principles were also incorporated into the U.N.'s 17 Sustainable Development Goals (SDGs), adopted in 2015.

Some 100 guests gathered at the Minneapolis Club to hear presentations and witness awards to individuals and organizations that deserve special merit for their work toward sustainable development. Participants were welcomed by CRT Co-Chairman Brad Anderson, former CEO of Best Buy. During the event, special recognition was offered to members of the team that formulated the principles: Mike Olson, Chuck Denny, Ken Goodpaster, Bob MacGregor and Morrie Kaneko.

Douglas M. Baker, Jr. received the first annual Dayton Award for Distinction in Moral Capitalism. Mr. Baker is Chairman and CEO of Ecolab, the global leader in water, hygiene



Steve Young, Douglas M. Baker, Jr., Brad Anderson

and energy technologies and services that protect people and vital resources. Ecolab recently ranked #2 on Newsweek's annual Green Rankings list, #8 on Corporate Responsibility's list of Best Corporate Citizens and #26 on Barron's list of Most Sustainable Companies. The company regularly appears on Fortune's list of the World's Most Admired Companies and has been named to Ethisphere's list of the World's Most Ethical Companies for 13 consecutive years.

Baker joined Ecolab in 1989, following seven years in brand management at Procter & Gamble. At Ecolab, he held a number of marketing and general management roles in the U.S. and Europe before becoming President and CEO in July 2004. In May 2006, Baker added Chairman of the board to his duties.

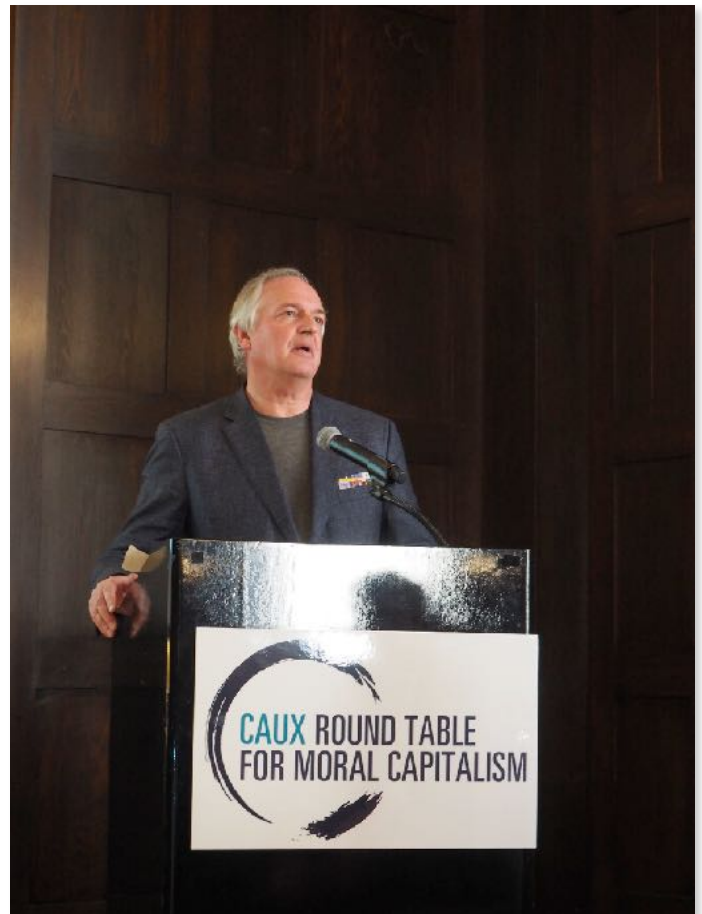
In addition to his Ecolab responsibilities, Baker serves on the board of directors of Target Corporation. He is trustee emeritus of the National Restaurant Association Educational Foundation, a member of the Committee Encouraging Corporate Philanthropy and is involved in a number of community initiatives in the Minneapolis-St. Paul area. Baker received a bachelor's degree in English from College of the Holy Cross in Worcester, Massachusetts and serves on the college's board of trustees.

The award presentation was followed by remarks from Paul Polman, Chairman of the International Chamber of Commerce and former CEO of Unilever. He spoke very personally on the need for business executives to lead their companies, society, culture and politics in order to secure a sustainable future for humanity.

Mr. Polman is now Co-Founder and Chairman of IMAGINE, an activist corporation and foundation that promotes the implementation of the SDGs through transformational leadership. Polman is also Vice-Chairman of the U.N. Global Compact. A leading

proponent that business can and should be a force for good, he has been described by the Financial Times as “a standout CEO of the past decade” whose role in helping to redefine the relationship between business and society has been “path-breaking.”

As CEO of Unilever, he demonstrated that a long-term, multi-stakeholder model goes hand-in-hand with excellent financial performance. He was a member of the U.N. Secretary General's high-level panel that developed the SDGs and continues to work with global organizations and across industry sectors to make the case for the 2030 development agenda. Paul founded the Kilimanjaro Blind Trust which supports visually impaired children across Africa by unlocking literacy for life.



Paul Polman

Closing remarks were given by Mark Ritchie, President of Global Minnesota and a member of the CRT board of directors.



Remarks by Brad Anderson
Minnesota Business Leadership: Pioneering a Moral Capitalism
November 22, 2019
Minneapolis Club

Welcome. We are very pleased that you have joined us for this anniversary event. We welcome Paul Polman, who exemplifies in so many ways the excellence we admire in a senior business executive.

In this room in 1991, Chuck Denny, then the CEO of ADC Telecommunications, chaired a presentation by Ryuzaburo Kaku, then Chairman of Canon Inc. Mr. Kaku spoke of the Japanese business ethic of Kyosei or symbiosis, whereby each company thrives due to reciprocal engagement with its stakeholders.

Inspired by Mr. Kaku's approach which they found very similar to their own value-based understanding of successful business enterprise, several Minnesotans, including Chuck Denny and Tony Anderson of HB Fuller, decided to present a set of ethical principles to the Caux Round Table which met in Caux, Switzerland. Those principles had been worked out by a group here in Minnesota, including Bob MacGregor and Professor Kenneth Goodpaster of the University of St. Thomas.



Brad Anderson

The Caux Round Table had been first convened in 1986 under the auspices of then Moral Re-Armament, now Initiatives of Change. Michael Olson, a former international lawyer for the Dorsey firm, made the introduction to the Caux network.

The Caux leadership, including Mr. Kaku, Neville Cooper from the U.K., Olivier Giscard D'Estaing of France, with staff support from Michael Olson here and Maarten De Pous of The Netherlands, took up the Minnesota proposal and in 1994 published the Caux Round Table Principles for Business, the first and still only set of global ethical guidelines for business drafted by business executives.

We are here today to mark the 25th anniversary of that initiative.

I especially want to thank our sponsors listed on the back of your table program.

Brad Anderson
Co-Chairman
Caux Round Table for Moral Capitalism
Former CEO
Best Buy

Acceptance Remarks
Douglas M. Baker, Jr.
Dayton Award for Distinction in Moral Capitalism
November 22, 2019
Minneapolis Club

Thank you. Thank you so much to the Caux Round Table for this important recognition. I'm truly honored to be the first recipient of the Dayton Award. I'd like to acknowledge several extra special attendees: my parents, my wife Julie, my colleague and Ecolab's President, Christophe Beck, and David MacLennan, Chairman and CEO of Cargill and also an Ecolab board member. It's appropriate that I have family, friends and teammates here because I would never be here without them.

Minnesota has a proud history of purpose-driven business leadership. It's humbling to receive an award that recognizes the best traditions of Minnesota business over the decades, since the Minnesota business community has set such a high standard. From the very beginning of our state's history, enlightened business leaders have supported the community and collaborated around issues critical to long-term prosperity: income disparities, transportation and infrastructure, education and job growth. The Dayton family is a big part of that tradition.

The Dayton family had amazing success – the five grandsons of founder George Draper Dayton expanded the family business from a single department store to a national retail force. And at the same time, they had a company and family legacy of giving, particularly to the arts.



Douglas M. Baker, Jr.

Today, that company is known as Target and Target employs more than 360,000 people, 20,000 plus here in Minnesota and since 1946 has given 5% of their profits to the communities they serve, which adds up to millions of dollars each week. I am a proud member of their board.

Another company I am proud to be associated with is Ecolab. We have a very clear purpose: to make the world cleaner, safer and healthier, protecting people and vital resources.

My main responsibility as Chairman and CEO of Ecolab is to make sure our company achieves that purpose.

At Ecolab, my work is guided by three tenets:

- Live up to our potential – God gives us gifts, our gift back to God is how we use them.
- Lead with courage...including the courage to look at yourself and learn.
- Integrate purpose, value and profit . . . meaning work to intertwine financial success and social benefit.

And we have. We have delivered for shareholders. Over the last 15 years, our sales have quadrupled and our market value is 8x. We have great financials. When I became CEO back in 2004, sales were \$3.8 billion. Today, they are \$15 billion. Our market cap was \$7 billion. Today, our market cap is more than \$55 billion.

Back then, we had 20,800 employees. Today, we provide employment to nearly 50,000 people worldwide, serving customers in more than 170 countries.



Douglas M. Baker, Jr.

We have great technology and continue to innovate. Today, we have more than 9,400 patents.

But I am even prouder of Ecolab's significant positive impact on the world and how we have integrated our success with our impact. Because our impact is huge.

At Ecolab, we truly have a noble purpose. Our work helps ensure safe food, clean water and healthy environments.

Last year, we helped produce more than a quarter of the world's processed food and 44% of the global processed milk supply. Our hygiene and sanitation solutions helped prevent more than 1 million foodborne illnesses.

We helped generate 22% of the world's power 40% of all nuclear power.



Douglas M. Baker, Jr.

While doing this, we reduced our customers' environmental footprint, helping conserve more than 188 billion gallons of water, eliminate 2.4 billion pounds of CO2 emissions and reduce 54 million pounds of waste.

Our team is proud of our mission, our results and our impact and I am proud of them.

I'd like to share with you a few thoughts on business, the Caux Round Table and the current public narratives about business, which can be polarized and shallow.

"Business," or free enterprise is neither the devil, nor is it perfect.

It has been a huge force for change, largely for the better . . . the globalization of business and the introduction of free enterprise to China has lifted more than 1 billion people out of extreme poverty in the last 20 years.

Our system has enabled the U.S., with 4% of the population, to generate 25% of the world's GDP.

We also know that the benefits of free enterprise are not perfectly distributed, nor equally available. It's the latter part that needs to be addressed, as it has a major impact on distribution too and the Dayton legacy, the Minnesota business legacy suggests the business community has a responsibility here.

And it's important we take on that responsibility, because the big challenges require business to step up. It cannot happen without us.

To put it in perspective, the Fortune 500 generates nearly \$14T in revenue.

U.S. non-profits represent almost \$2T annually and in 2018, the U.S. government spent just over \$4T.

My father-in-law used to say, people with big problems go to people with big noses for help. Let me offer a minor edit . . . people with big problems should go to big enterprises to help because to feed 9 billion people, to create a carbonless society, to halve our water consumption and to bring the rest of our brothers and sisters out of poverty are scale problems.

Scale problems require innovation and scale to solve and large enterprises will be needed to shape a positive future.

These challenges cannot simply be recognized. They need to be addressed.

So, with that, I want to thank the Caux Round Table for this recognition, but more importantly, for being a constant reminder that we have both great opportunities and great responsibility and they are both ours to meet.

Douglas M. Baker, Jr.
Chairman and CEO
Ecolab



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