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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 issue of *Pegasus* leads with two questions for business and opinion leaders:

- What do we understand as the proper relationship between moral and legal behavior?
- What do we recognize as the proper tension between private and social benefits?

Over time, the role of a member of a corporation's board of directors has had several, often contradictory, iterations. From window dressing for a company and the CEO, to the conscience of the corporation, the argument made here is that without the ability to properly understand self-interest, the board member is simply an externality to the company and society.

In the first article, we argue that over the last half century, it would seem that board members have lost many of the ethical (personal) and moral (social/natural) guideposts that once defined our cultural landscape. We've replaced those principles and in so doing, have exposed a selfish, post-truth wasteland. While holding the role and responsibility of local and national opinion leaders, we find ourselves buffeted about by the vagaries of individual and societal norms that confuse sexuality with love; consumption with production; money with wealth; style with substance; celebrity with character; feeding with communion; and appearance with beauty.

We have attempted to relate the role and responsibilities of board members to the principles of moral capitalism. That said, there is a deeper intellectual demand placed on board members not only from research in the science of commerce, but more importantly, from the humanities and the emerging disciplines of nonlinear projections and choice analyses.

In Michael Wright's essay, he makes the data driven claim that:

Performance is the residual of behaviors. This human principle guides business leaders on where to focus their energy and get the most out of the people driven activity that is business. If we were to look at our performance as stewards of the planet, the impact of our inventions and our treatment of fellow humans, even a passing observation suggests we need a closer look at the elements of our thinking that are affecting our behaviors. There are too many to cover in one article, but what follows are two that stand out in our volume at velocity world.

Every board member and CEO needs to read and understand what Wright is saying about SPEED and COMPLEXITY in the business world.

We also include in this edition an article by Steve Young, our Global Executive Director, on purposeful boards of directors, which was recently published by the Singapore Institute of Directors, as well as an announcement about the 2021 Dayton Award, which was awarded earlier this month.

Michael Hartoonian
Associate Editor
Pegasus



Directors of Moral Systems

Michael Hartoonian

*A business that makes nothing but money,
Is a poor business.*

Henry Ford

A director's role must be framed in moral accountability. Moral accountability simply means to do not only the right or expected thing, but the good thing, as well. Moral accountability is acting on the principle that something is 'right' if it is morally and legally predicable and consistent with social norms and civil behavior. Going beyond the right, 'good' is doing that which enhances the life of those taught to possess it. Individuals in leadership roles have the duty of imparting these notions of right and good to others. Thus, a member of the board of directors is, in essence, a moral teacher, a teacher who understands words credited to Emerson: "I can't hear a word you say, what you are is speaking too loudly."

Over the last half century, it would seem that many of the ethical (personal) and moral (social/natural) guideposts that once defined our cultural landscape have been replaced by a selfish, post-truth wasteland. Today, we find ourselves in a world buffeted about by the vagaries of individual and societal norms that confuse sexuality with love; consumption with production; money with wealth; style with substance; celebrity with character; feeding with communion; and appearance with beauty. More importantly, as business leaders, we seem to no longer understand patient capital, proper self-interest, our generational covenant or how wealth is created. Board members seem to forget that the CEO is not a king or queen. Even though she might wine and dine you and your family at some exotic island retreat, you are not beholden to anything but your character. For the director, the question is not: what is my job? The question is: what is my life's work?

In all humility, we have a great deal of work to do.

Given this situation, what should the director know? Let's start with T. S. Eliot's:

Choruses from "The Rock"

...The endless cycle of idea and action,
Endless invention, endless experiment,
Brings knowledge of motion, but not of stillness;
Knowledge of speech, but not of silence;
Knowledge of words, and ignorance of the Word.
All our knowledge brings us nearer to our ignorance,
All our ignorance brings us nearer to death,
But nearness to death no nearer to God.

Where is the Life we have lost in living?

Where is the wisdom we have lost in knowledge?

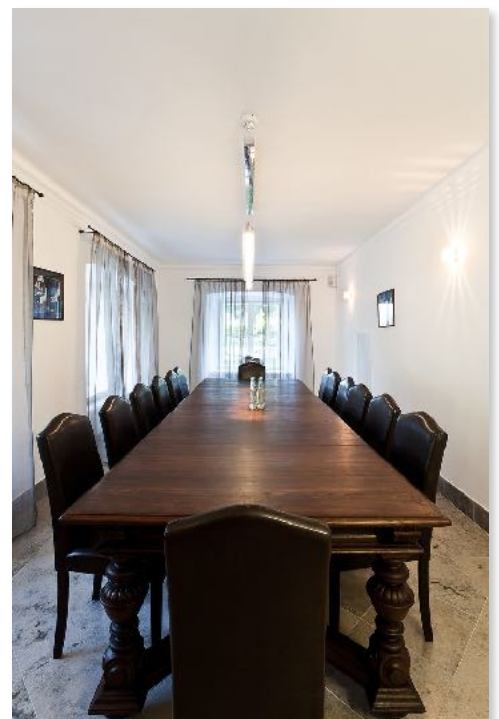
Where is the knowledge we have lost in information?

Of primary importance are the three questions that Eliot invites us to consider. Above all things and in order to do what is good, the director must know how to love and practice the pursuit of wisdom. The love of wisdom is the prerequisite to all and any legal, financial or structural responsibilities.

What attributes embody the wise director?

Given the complexities of modern culture and markets – financial, service and material – and the preeminence of electronic technology, including AI, it is best that we engage humility and improve our study habits. Like the Federal Reserve, directors get most things wrong because they try to make decisions absent two skill sets.

First, directors must think beyond the idea that economic data and social narratives can be understood using linear equations. This claim is irrelevant to a world functioning in non-linear realities. Understandably, we are most comfortable with the story that follows a simple logic from premises to conclusion, the way a deductive syllogism is constructed. In this case, the conclusion must follow the premises. Too bad, but the world doesn't work that way. Natural reality is a complex arrangement of spatial and temporal impulses that follow no given or contrived sequence. Inductively, one conclusion may follow, but many more and many better conclusions are possible. Zeroing in on the "better, more possible," demands a deep understanding of history and calculus – thus, having some acquaintance with historic trends, limits, knowledge integration and relational functions.



Writing in his 2008 book, *Chaos*, James Gleick makes two important claims that directors should embrace.

- 1) "...nature forms patterns. Some are orderly in space, but disorderly in time, while others are just the opposite. Some patterns are fractal, exhibiting structures self-similar in scale. Others give rise to steady states or oscillating ones."
- 2) "...the Second Law of Thermodynamics is one piece of technical bad news from science that has established itself in nonscientific culture. Everything tends toward disorder. Entropy must always increase in the universe and in any hypothetical isolated system within it. There seems to be no appeal from this law. But the second law has taken on a life outside of science and takes the blame for disintegration of societies, economic decay and the breakdown of manners and decency. These secondary, metaphorical incarnations of the second law now seem especially misguided. In our world, complexity flourishes and those looking to science for general understanding of nature's habits will be better served by the laws of chaos."

While it may seem that the idea of law and of chaos are contradictory, it is necessary to think that the world is both law-driven and chaotic and demands an integrated map of knowledge and knowledges limitations. As your firm deals with issues like energy use, supply chains, employee or human capital, tax responsibilities and revenue streams, it becomes essential to use different knowledge fields. But more importantly, it is necessary to see how the knowledge connections become more complex and chaotic as you move closer to policy decisions. Reality is always more complex than any computer model and that reality demands a graceful humility.

Consider Tolstoy's remark on arrogance:

"I know that most men, including those at ease with problems of the greatest complexity, can seldom accept even the simplest and most obvious truth if it be such as would oblige them to admit the falsity of conclusions which they have delighted in explaining to colleagues..." (From Ford, interview, 1985).

What is the antidote for such closed mindedness?

In the increasing face of personal and economic/social complexities, your reliance on ethics must be intentionally engaged, understanding that one profound truth is always confronted by another profound truth. This is the case because our minds do not interact with nature's reality directly. Our minds interact with our minds. Every stimulus is mind filtered and the filter is made functional only through ethical and moral engagement. The leader must know that an individual cannot be moral alone. Morality is defined in relationships – in reciprocal duty. A negative instance of that is happening in our society right now, as exemplified by social media. Understand that social media has "users" (not costumers) who become

“addicted” and the addiction, which is a terrible habit that destroys one’s will, separates people and creates an amoral social fabric simply because authentic relationships are destroyed, along with personal identity and responsibility. Consider the data related to the spike in adolescent suicide rates and the decline in teenage smoking and drinking. The latter is a social act. Separation is ubiquitous and is destroying free will, making identity and the practice of attending ethical behavior problematic. We also know from studies of productivity that there is a direct correlation between meaningful relationships and productivity. It seems like a reasonable hypothesis, witnessed in all human activities from athletics to commerce, that the way to enhance productivity is to build meaningful relationships, where the practice of morality abounds and with it, the creation of wealth. In addition to the moral arch, leaders also know that an individual can never delegate an ethical decision. It belongs to the person. Thus, we have in the good firm, family or community, ethical individuals who create moral bonds of truth and purpose that enhance meaning and happiness.

As you help to construct your firm’s policies, you should consider ways to bring ethical and moral behavior into play, as that will make the firm not only better off financially, but better wealth-wise. And you will, through performance, help your firm know the worth of your enterprise. Worth is the bottom line, not money – and they are very different.

Policy Influencing, Making and Judging

As you practice leadership within the context of policy considerations and as you approach decision points, things become more and more complex. However, a framework, such as the following, may help:



Using the knowledge from natural and social systems’ research, you begin to consider policy alternatives, but movement toward policy only starts with ethical and moral questions. Remember that the right answer to a trivial question is also trivial, but questions that illuminate the right and the good, even when insoluble, can yield a harvest of excellence that will be a guide to innovation, growth and happiness. A final warning: **do your own research**. Beware of the “general will” of the culture, however you define that culture. The strong desire for comfort or a populist ideology may seem easy and even democratic, but can often lead to coercion and the loss of creativity and productivity.

Secondly, the director needs the temperament to illuminate ethical conflicts and rightful behavior. This means making hard judgments with courage and grace. The inability to deal with moral issues, which is the foundation of capitalism, leaves board members at the mercies of the CEO and attending government officials. The director should be comfortable with explaining the difference between money and wealth, knowing that some on the board will become uncomfortable. What’s more, he or she must have expertise to understand that

long-term growth and productivity are the drivers in the creation of a company's worth. Above all, the director must develop operational definitions for wealth, worth, human and social capital, delayed gratification and excellence. Without this knowledge, one has no business "serving" on any board of directors.

So, how do you change emphasis from making money to creating wealth, worth and a firm whose identity is equivalent to "a business of excellence?"

In a very useful book, *The Power of Habit*, Charles Duhigg explains that habit change demands a new routine that is inserted into the life patterns which individuals have developed over time and circumstance. He shows how this is the case with the desire to stop smoking, to lose weight or even to win football games. It starts with observing a new cue that begins to change your mindset.

These present new questions: can I replace the bottom line of money with building the firm's worth or identity? When I read the CEO's report, can I ask about the impact of the firm's direction on the moral and ethical integrity of our company, community or nation?

Next, can your firm do anything about friendlessness? About anxiety? About people feeling that they are alone? How can you

engage in the governance? And while we can perhaps imagine a better class of leaders who are effectively building wealth and identity, the challenge is compounded by the fact that most employees, including the CEO, are only passively engaged citizens of the firm and of the community. If you're a board member focused on worth, creating wealth and getting people to understand their life's work, you will constantly feel like you're swimming upstream. This effort will take grace and transparency.

The effective board member will deeply understand that accumulating money and power is not and never was the path to meaning and purpose. Yet, given the culture of isolation we have created, it will be difficult to make this point, yet possible if the firm implements policies that equip all stakeholders with more virtue. How do we do that? The crooked path can be made straight and simple as the route from social media to the kitchen table. It's shifting the focus from the core belief that "it's never enough," to a mutual redefining of corporate, social and individual needs that will see people in the fullness and goodness of what it means to be human.

Michael Hartoonian is Associate Editor of Pegasus.





Surviving Speed and Complexity

Michael W. Wright

Our principles of business operation and design, derived from our selective knowledge of history, are being extrapolated and adapted to the future and as such, will struggle for relevance in the new contexts reshaping our thinking.

We might believe that our vision of reality is based on a linear story linked directly from the environment to our mind. Yet, we know from evolutionary psychologists that human behaviors reflect the influence of millions of years of physical and psychological predispositions that make it extremely difficult to understand that our vision of reality is framed by nonlinear equations. The link is not just between the environment and the mind, but between the mind and the mind.

Forty years ago, I saw a quote on a very successful business leader's wall that has never left me. It said, "Each of us is developing a strategy for the world we *think* we live in." What, then, shapes how we think about the world? In an era that is changing at exponential speeds, a time when human activity has become complex, interdependent, interrelated and interconnected, do our core primal constructs built on millions of years of evolution enable or disable our ability to think, learn and manage the world we have built?

While the debate in physics might remain about multiple universes, there is no doubt we all have multiple realities. We all have unique points of view, shaped over time and experiences that help form our personal perspectives, but we also have a few unmodified set points, our DNA internal context as a species, that shapes how we see the world and limits our adaptation to it.

Our eyes track a moving object better than a stationary one over time...baseball versus golf, contrast versus similar, today versus the future. Why? Because we are still wired to be hunters. Technology has changed the external context of our being, but it has not changed the internal context upon which our DNA tells the brain how to protect and preserve us as individuals and as a species.

If we had successfully adapted to technological change, wouldn't our DNA also have changed and adapted our primal core to our activities? If that were the case, we wouldn't get jet lag and social media wouldn't be able to addict us. But we do and it does. And our linear, short-term, biased mindsets show few signs, if any, of addressing either one.

In simple terms, since we all like simple, all behavior is contextual and context sets how we see the world, how we think about and subsequently behave in it. Today, context has taken on

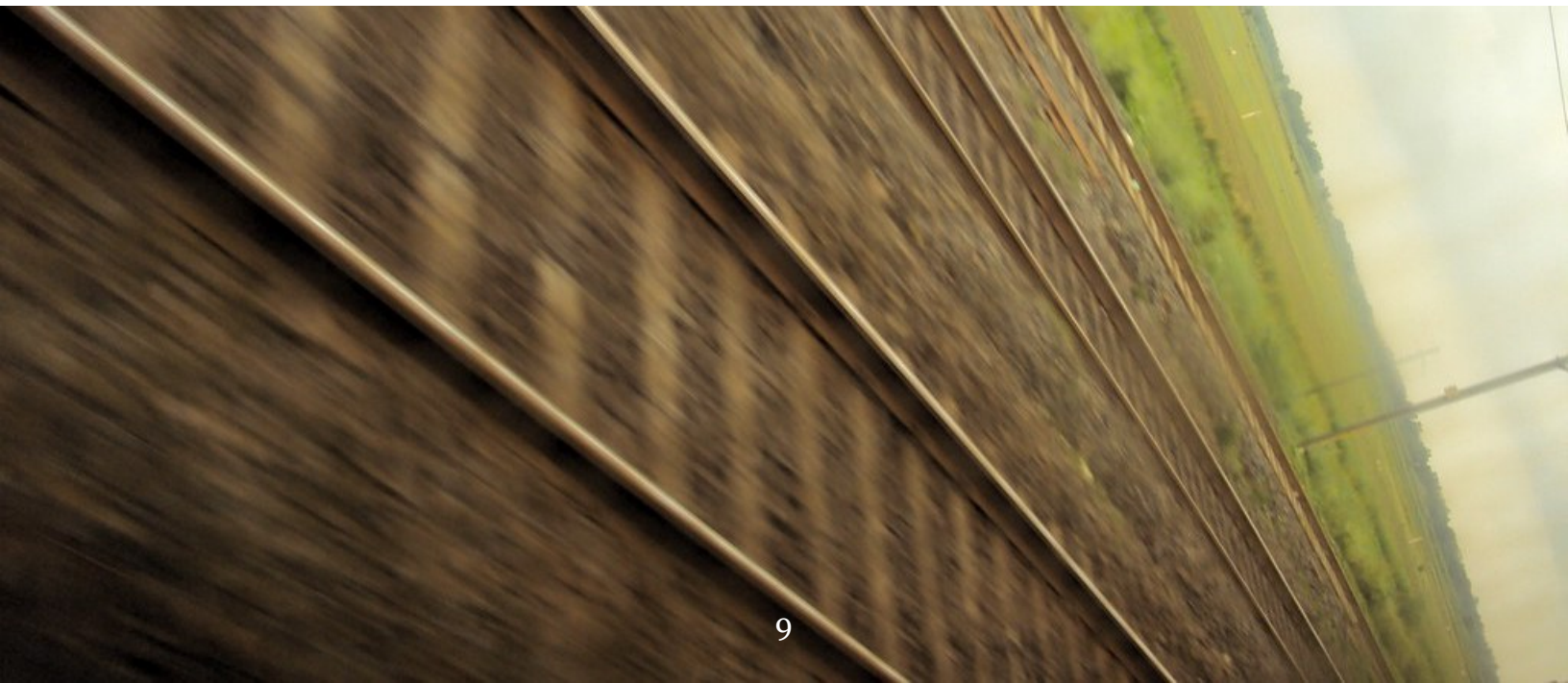
new dimensions neither anticipated nor envisioned by the great philosophers, thinkers and leaders of the past whom we rely on for the values we use as touchstones for behavioral context around the world. I once wrote, “Performance is the residual of behaviors” to guide business leaders where to focus their energy and get the most out of the people-driven activity that is business. If we were to look at our performance as stewards of the planet, the impact of our inventions and our treatment of fellow humans, even a passing observation suggests we need a closer look at the elements of our thinking that are affecting our behaviors. There are too many to cover in one article, but what follows are two that stand out in our volume at velocity world.

Speed: Our Context Has Changed

“The greatest shortcoming of the human race is our inability to understand the exponential (power law) function.” - Dr. Albert Barlett, Professor Emeritus, University of Colorado.

The head of MIT’s media lab in 1996, Nicholas Negroponte, said it simpler: “People don’t get exponential.” Yet, here we are in a global technological transition taking place at exponential speeds, changing our external contexts and our behaviors, yet resting on outdated, outmoded and out of synch internal contexts that are primal, hard coded and exist solely to ‘win’ our place in community, mate selection and resource hierarchies.

According to Dr. Anna Lembke, professor of psychiatry at Stanford University School of Medicine and chief of the Stanford Addiction Medicine Clinic, “Connecting with people is a biological need that releases dopamine, the happiness addiction chemical of the brain.” Our internal context systems networks have evolved over *millions of years* (our DNA modifies slowly on its own and not by the internet...yet) to get us to organize into communities, to find mates and replicate our species.



To date, people do not understand the power of power laws, commonly referred to as exponential curves. The curves themselves fool us because of their inherent nature of little change over extended periods of time. As Hemingway said in *The Sun Also Rises*: “Gradually, then suddenly,” describes the path of the curves we are experiencing in every facet of life. Or as paraphrased from the book, *The Exponential Era*, from which this essay is derived, perhaps it reflects the fact that power curves are simply too difficult a concept to grasp for our hardcoded brains that are based on circadian rhythms, function best with emotive images and that prefer to think relationally and linearly. It could also be that because ‘words are the skins of thoughts,’ our continued use of words and philosophical constructs from a slower paced, photosynthesis-based world don’t serve us well either.

Our continued use of photosynthesis words to describe business activities like “seed” (as in seed money in the venture world), “plant” (as in initiate a foothold in a market), “cultivate” (business development of a new market), “harvest” (sell) and “cash cows” (usually revenue streams that are being “milked” for remaining profits before the market collapses or is disrupted) or circadian rhythm terminology like ‘give it a rest’ or ‘sleep on it’ has locked our thinking into a pattern of behaviors completely out of synch with our era. Today, we don’t operate on circadian rhythms or agrarian time scales. We are 24/7/365 tuned into our screen ‘machines.’ Machines don’t sleep, don’t eat and don’t need community.

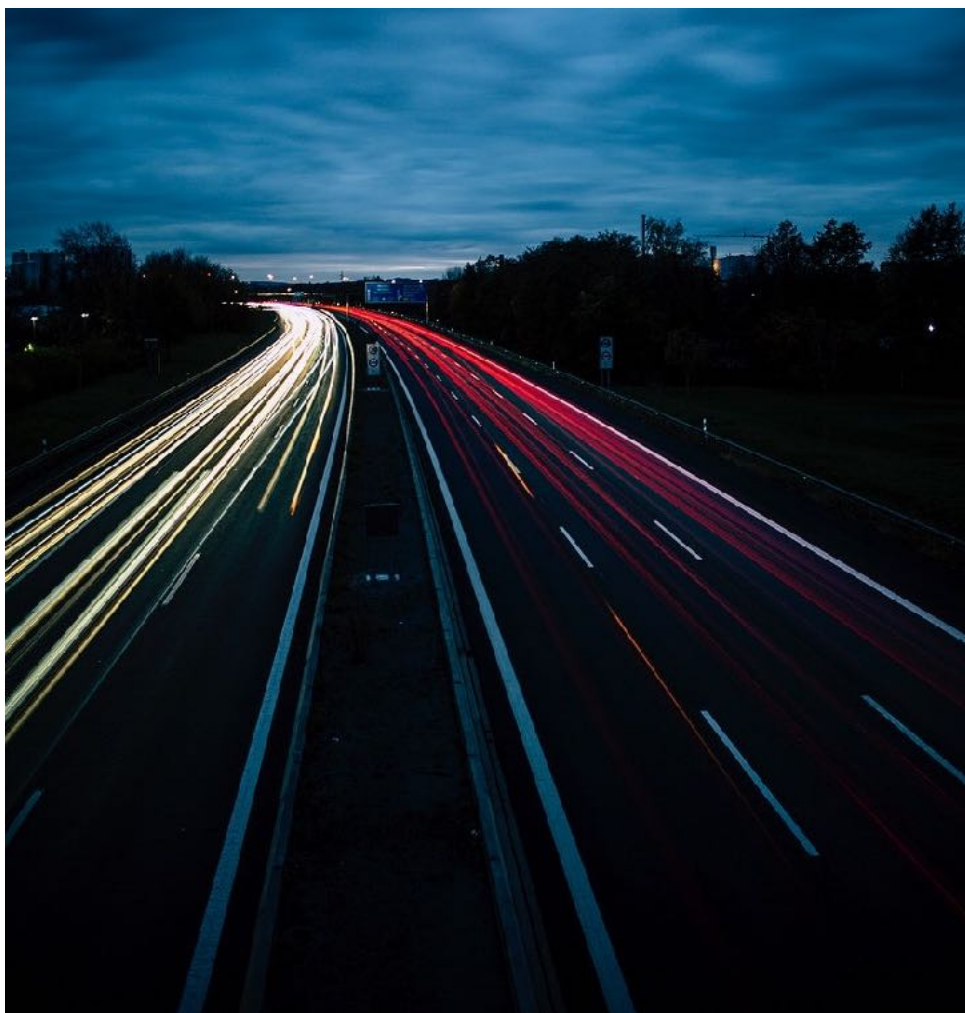
This is an era marked by the confluence of fast-changing technologies that converge to create new ecosystems, resulting in digital disruptions at a velocity and volume never experienced by humanity. It ignores our hardwired primal core, leaving us slow to adapt to changes that are happening in new uncharted time scales. The technology growth that we are experiencing today does not follow linear progressions like animal migrations, growing seasons or calculated production runs.

Societal advantage today is having access to data and having the ability to understand the information the data is telling us. Accessing, aggregating, analyzing and acting on information faster than the competition is on every individual’s and organization’s critical path for survival. While surviving has always been about haves and have nots, it is an era where “knowing” is becoming paramount to surviving. The traditional “haves and have nots,” which referred to one’s means and access, has accelerated, transformed and become “those who know and those who don’t.” This is an era that runs on creating, harnessing, intercepting and integrating technologies at speeds and scales (other than plagues) never experienced in human history. We are fundamentally changing how we determine the world we think we live in. And contrary to what we would like to think, our DNA has neither adopted, nor adapted or changed in relation to any of these rapidly changing externalities that defy circadian rhythms and photosynthesis constructs. However, our hard coded DNA is allowing our brains to re-wire neural pathways and our behaviors in response to these new external contexts. It also allows technology to do the re-wiring, as well.

It's interesting to note that our brains have built in shortcuts to bypass circuitry that can get in the way by slowing down our processing speed. We bypass complexity and respond quickly to stimuli deemed dangerous. These are things that can or are perceived to be capable of causing us hurt. Hurt builds stronger pathways to help us evaluate consequential decisions about the future. We learn more from hurt because our survival depends on learning from it. We follow and congregate with others of like mind in the process of building communities, which connect us and makes us happy, but also where rejection and physical pain use the same neural highspeed pathways. Pathways that technologists use algorithms to exploit our fear of rejection, of being outcast from the 'community' (aka tribe, family, base, followers, bros, etc.) and shape the contexts forming our thinking and with more and more frequency to successfully drive our behaviors.

These new technological algorithm-based systems have begun training us to be constantly engaged (dopamine dispensers) and shape, by default or intent, our thoughts, feelings, values, belief systems and assumptions, all of which are influencing our behaviors at speeds rendering the reference contexts of the past vulnerable and easily violated. We are overwhelmed not by information and tasks, but by distractions. We are preoccupied with input stimuli designed to keep us engaged and addicted to uncertainty (what comes next--e.g., scrolling, who likes what?, etc.) stimuli that make us happier.... for the moment. Addiction to a screen, based on our own internal biological context, is being exploited by new externalities shaping our realities and the world we think we live in. Truth truly does 'mutate before our eyes.'

In the time horizons in which ancient and more recent philosophers posited about the human condition, things moved slowly. Today, most pundits are technically ignorant and have no insight into the point of departure we are experiencing. Quantum computing, AI, NLP/ NLU, ML, computational biology, gene modification, alternative energy, etc. all are NASCENT on the human timeline. The past is truly not a prolog for the future anymore, if indeed it ever was. Fire becoming known to a few and spread over centuries or more recently the adoption of



robotics over decades is different than a new ‘fire’ learned by billions in an instant.

Our inability to relate to power curves is most pronounced when we try to grasp the fundamental construct of even simple exponential curves. Picturing in our minds how technologies move imperceptibly across what appears to the brain as distant and slowly approaching horizons - only to be surprised as they suddenly explode in front of us at speed and volume - is one of the great mental conundrums facing us today. These explosions in the growth and the unprecedented rates of adoption of new technologies are leaving most of us unprepared and in wonder. We find ourselves trying to set our minds to a view that is capable of constantly adapting to the sudden appearance of new technologies and digitally-driven transformations.



These digital transformations are the direct result of the confluence of new technologies converging to create entirely new ecosystems. These new ecosystems grow at velocities well beyond our primal brain's hunting mode speeds by orders of magnitude. Calculating where to launch a spear and at what speed to intercept a target remains a difficult task that takes time and practice to master. However, a computer aims, calculates range, fires and hits a target in milliseconds, again and again.

Humans have difficulty observing and responding to the future. We have trouble extrapolating meaning or even putting energy into understanding a time horizon that appears to be far away. While some of us can marshal and focus our brain's processing energy on “futures,” most of us can't. In fact, very few of us can focus for extended periods on our future. The reason is fairly simple. Our brains are not comfortable with diverting energy from human self-preservation and survival. To survive, we are careful with how we allocate our finite brain energy - and it is very much “in the moment!”

Research shows that our brains think that concentrating on our current self is rather more important than worrying about our future self, let alone future generations. The study of MRIs overwhelmingly concludes that the energy that our brains put to our current self relegates the future self to a much lower priority. As Jane McGonigal, director of the Institute for the Future, writes: “Your brain acts as if your future self is someone you don't know very well and frankly, someone you don't care about.” It seems only logical. After all, we have survived as a species for a long time by being alert to immediate threats. Our brain activity is largely occupied with operating life-preserving processes and looking for threats and pleasures right now. This leaves us wide open to dramatically underestimating the real and inescapably complex impact of the suddenness of exponential change.

Complexity: The Inescapable Context

“The growing complexity of our times makes certainty about any move or any position much more precarious. And in this networked world where information moves at the speed of light and ‘truth’ mutates before our eyes, certainty changes and speeds off at equivalent velocity.” - Margaret Wheatley, in the essay “Willing to be Disturbed,” from *Kaos Pilot A-Z* by Uffe Ubaek (Aarhus, Denmark: KaosCommunication, 2003)

Understanding the underlying complexity of power curves does not come easy to the impatient or the quick. One of the best stories that make the complexity accessible is from the history of the beginning of chess that comes from India. It involves a simple grain of rice as a starting point (or in tech terms, a single signal) and the 64 squares of the chess board. The emperor offered the inventor of chess a reward of his choosing. The inventor said, *“Give me one grain of rice for the first square of the chessboard, two grains for the next square, four for the next, eight for the next, and so on for all 64 squares, with each square having double the number of grains as the square before.”*

Without much thought, he granted the man his wishes. It wasn't until sometime later that his treasurer came back and advised the emperor that it would be impossible to pay the man the quantity requested, as the amount of rice added up to an exorbitant amount: 18 quintillion (18 followed by 18 zeroes) grains of rice to be exact, the equivalent of roughly today's entire worldwide crop for a decade.

How could the emperor be so easily deceived? Simple. He was thinking linearly, like most of us often do, while the ingenious man understood and used the underlying complexity of the exponential curve to his advantage. And therein lies the threat or the opportunity of complexity, depending on your point of view.

Humans tend to think linearly, not in complex systems of networks. But the technology changes we are experiencing don't follow linear flows. They are a network of networks that rely on complex interactions, interdependencies and interrelationships to function. These technology changes shape the contexts that inform the way we think, see the world and understand our realities, but without our understanding of how or why they do because we cannot keep pace with the exponential growth of their complexities. Our new values reference points are obscured from our view and moving away from our control. How, then, can our questions be answered sufficiently to provide facts at speeds we can respond to, especially when the machine can't answer questions about itself? A complex conundrum has emerged that challenges how we think because now, we are losing sight of who is creating the thoughts we think and soon forming even more of our experiences and where and from what did they build their contexts?

Unfortunately, the complexity is amplified because we try to use linear relationships to create non-linear systems. We extend and extrapolate. We add derivatives and alterations. We

allow the system to be fuzzy, but in the end, these are all mathematically defined relationships whose elements are weighted (biased by default...humans must choose the weighting, allow the machine to generate them based on a human built source or provide a fixed range) and exercised. The effort is focused to eliminate chance and address the issue that decisions at volume and velocity means outcomes can be really big and really wrong. As Dr. Massoud Amin, father of the smart grid, wrote in the CIN/SI (EPRI) summary and speaking of the electrical grid, “The common feature among all such critical infrastructure systems is the *level of complexity* in the large interactive networked systems whose behavior critically determines the level of confidence in such systems.”

While we get better all the time at the analog to digital conversion, it is always within a well-defined context and limited data sets addressing specific instances. Yes, machines can diagnose skin cancers more accurately than technicians, but that same machine cannot be used for anything else. The amount of data, the complexity of teaching the machine (machine learning) and the computing power to render an ‘answer’ don’t transfer well.

Yet, we like to think we can overcome the non-linear real world with linear equations. The complexity of our real-world systems shows us otherwise. As an example, like all human systems on the planet today, how we experience the behavior of the economy is through a series of complex interconnected, interdependent and interrelated networks that can change instantly with volume at velocity. Small movements in seemingly disconnected, remote areas can ripple and amplify larger systems, e.g., a freighter caught in the Suez Canal, chip shortages in Taiwan or South Korea, the war in Ukraine impacting world food, etc.



Our rapidly and continuously evolving at exponential rates AI systems can write better stories, identify people and moods more accurately, create news that is indistinguishable from reality, but all we have done is pile on complexity and demands for more energy to contain and control it. Not just the electrical and physical energy, but also the intellectual and emotional energy to sort fact from fiction, to prevent the disappearance of questions and slow the growth of the adoption of technologies that we have no idea about how they will ramify.

We are under a real time constraint to figure out how to think about our new contexts that are shaping how we are adapting to the world we think we live in. Trying to think we can deal with non-linear realities brought about by the convergence of technologies at speed and the creation of complexities beyond our reach by continuing to use linear thinking and constructs from a slower time and human based point of view borders on the absurd.

That time constraint is the rapid scaling of the challenges we face that are filled with complexities upon which the whole of civilization depends. How we deal with energy, water, food, shelter, healthcare and the economy will depend on how we see each complex system and through whose eyes.

Denying the speed and complexity because it's hard for our DNA bound minds to grasp is, unfortunately, our default mode. If we don't change our thinking by revisiting our contexts, by learning from history and figuring out how to calculate before we engage or act, the residual of our behaviors will be a catastrophic performance as we leave our historical guideposts behind.

In these, just two of many, new contexts of speed and complexity how we think about the growing gap between digital and analog realities has the potential to leave the 'common good' orphaned in a no man's land of our own making. While much of the digital space has been 'private,' that, too is changing, with governments and bad actors taking on more control of the space, very much like they have of our more traditional physical space. The difference is the former can exert greater power and influence over the later.



We remain tied in our governance processes to 19th century institutions whose processing speed and ability to deal with complexity are ill-suited to execute policies able to prevent their own atrophy. A 4-year political change is 2-3 generations of change on an exponential technology curve, e.g., 2, 4, 8, if you add multipliers like convergence and new levels of complexity. One might argue we are on the verge institutions obsoleting themselves in general. If you've never heard of Distributed Autonomous Organizations (DAO's) that operate outside of regulations that are still being debated, it's like watching ignorance accelerate as the institutions grapple with these new players. With DAO's, we are relying on unknown and sometimes unknowable operators who may or may not be morally informed or concerned with the greater good.

Who, then, steps into the gap? If we truly believe that wealth exerts power and wealth in the 21st century stems from the capitalist system of businesses, what form of capitalism can survive our exponential era? And who will be the principled business leaders filling the void? If history can be relied upon to give us a framework capable of helping business leaders adapt to rapidly evolving dynamic change, it must be one built upon the internal context of our species' DNA coded dependencies on community and shared values. That is moral capitalism.

* *The Exponential Era*, Espindola & Wright, Wiley, 2021

Michael Wright, a Fellow with the Caux Round Table, is an experienced senior high technology executive and strategist at scale. Michael has had the opportunity to pervade most industries and most cultures of the developed world. His experience includes both line and staff and all management levels, from product to operational to c-suite, to CEO and public/private boards. He is one of few senior executives to have expertise in leadership, operations, strategy, governance and organizational architecture.

His educational background consists of continuous learning beginning with USN Nuclear Power, executive programs at Kellogg, the Rochester Institute of Technology, multiple certifications, and having great mentors-teachers-colleagues-friends. He holds two patents in micro-fluidics, co-designed and developed industry-changing products, completed dozens of mergers and acquisitions. He has written over 40 articles on technology and business, is the author of the acclaimed "The New Business Normal" and the "The Exponential Era," published by Wiley. Currently he advises boards and CXO's, serves on three private company boards and three non-profit organizations.

Contact: michael.wright@interceptinghorizons.com

Purposeful Boards of Directors

By **STEPHEN B YOUNG**, Global Executive Director,
The Caux Round Table for Moral Capitalism





The emergence of environmental, social and governance (ESG) concerns in civil society, finance and among regulators, has its roots in the evolving discourse over the purpose of commercial enterprises. What is purposeful business and what is the role of the board in ensuring this purpose?

Directors hold positions of fiduciary trust; they are to seek good for others who depend on their wisdom and courage, not to serve themselves. This is, first and foremost, a moral duty and only secondarily a financial one.

The Singapore Code of Corporate Governance states that: “The company is headed by an effective Board which is collectively responsible and works with Management for the long-term success of the company.” (Principle 1)

Further, Provision 1.1 provides that: “Directors are fiduciaries who act objectively in the best interests of the company and hold Management accountable for performance. The Board puts in place a code of conduct and ethics, sets appropriate tone-from-the-top and desired organisational culture, and ensures proper accountability within the company. Directors facing conflicts of interest recuse themselves from discussions and decisions involving the issues of conflict.”

In short, the board of directors is the “keeper” of the company’s conscience.

The question is, what should an organisational conscience embrace? Companies are legal entities. They don’t have filing cabinets or data sets where a conscience can be housed; they mostly work with paper or digital financial accounts, written rules and regulations, and staff sections.

Collective purpose

Every company is a microcosm of society, with a culture and collective purpose. The fiduciary duty of the board of directors is to govern that society and shape that culture by legislating its collective purpose.

Thus, every board must create a vision and a mission for the company it serves. This then shapes the culture of the collective, acting as an entity. The board creates and maintains the discourse regime of the collective, and the narrative which creates a company truth.

The collective brought together by a company’s narrative consists of its key stakeholders.

The first are the owners, those who risk financial capital to give the company the means to produce goods and services. Second are the employees who pay an opportunity cost to contribute their human and social capitals to the company that its modes of production will create goods and services. Third are the customers who buy the company’s goods and services and, in so doing, give worldly credence to its narrative. Fourth are the creditors who also risk their financial capital so that the company can afford its business model. Fifth is the larger community that supports the company with stocks of financial, social and human capitals and either gains or suffers from the impacts of the company’s operations, goods and services.

This understanding of a company is now known as the stakeholder theory of the firm. In 2019, the US Business Roundtable endorsed this framing of business purpose, saying: “While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders.... 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.”

Four months later, the World Economic Forum issued a manifesto affirming that: “The purpose

of a company is to engage all its stakeholders in shared and sustained value creation. In creating such value, a company serves not only its shareholders, but all its stakeholders – employees, customers, suppliers, local communities and society at large.”

The Sustainable Development Goals of the United Nations provide a framework for companies to set as their goals more than a return on invested financial capital, along with other financial advantages for insiders. Companies are expected to design their goods and services to provide one or more of the public goods called for by the Sustainable Development Goals.

Purposeful business

The British Academy’s report on the future of the corporation urged that: “The purpose of business is to profitably solve the problems of people and planet, and not profit from causing problems. A corporate purpose is the expression of the means by which a business can contribute solutions to societal and environmental problems. Corporate purpose should create value for both shareholders and stakeholders.”

It is touted that some US\$14 trillion (\$18.8 trillion) in investment funds prefer to invest in companies that deliver ESG impacts. The recent gathering of heads of state and other leaders in Glasgow for the Climate Change Conference (COP26) on seeking to abate global warming evidenced demands that companies subordinate profit as their purpose to more important public goods which will reverse global warming. Advocates for the environment demand that companies adopt business models and modes of production which do not degrade the air, water, soils and natural habitats.

However, asking for “purpose” on the part of companies makes a moral critique of profit and private enterprise. Profit and private enterprise allegedly promote selfishness over the common good. How can boards meet the expectation of reconciling private interest with public good? (See box, “Theory of the Firm – Connecting profits to stakeholders”).

The purpose of a firm is to earn sustainable profits, with low expected risks and volatility and maximum net present value. But this is conditioned upon the making of profits to pay a return on a variety of capital inputs in order for the firm to sustain its access to those capital infusions over time.

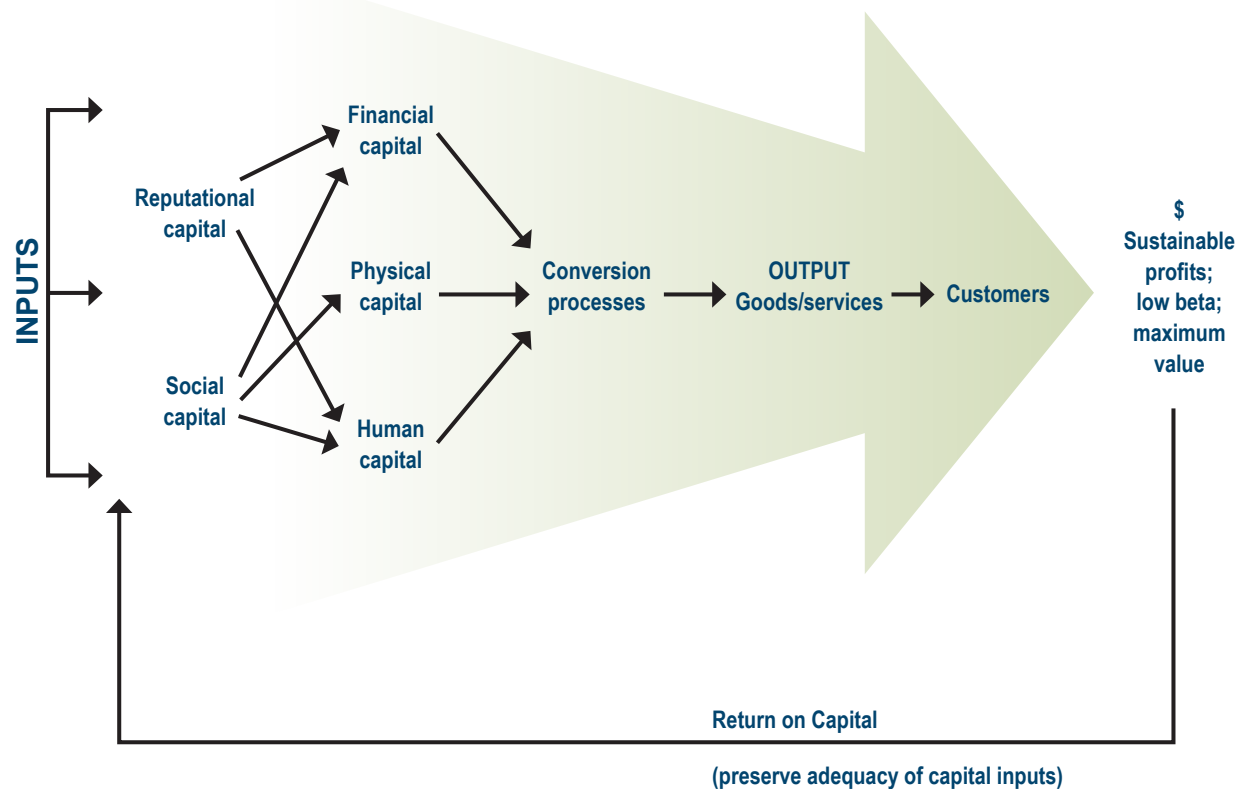
Stocks of reputational capital, social capital and human capital are added to the more traditional balance sheet capitals of finance and plant and equipment measured in terms of currency values. (Reputational and social capital are necessary preconditions for the acquisition of financial capital and human capital.)

Thus, in order to make a profit and achieve its objective, a firm must purposely have a narrative which promotes its reputation. In turn, this helps secure social capital both within the firm (its governance and culture) and from the society (its ecosystem). This shapes, attracts and develops human capital, all in order to please customers.

This is a theory of the firm as a social process (see box, “Theory of the Firm – A social process”). It is not a straight line between two points, situationally ignorant or de-humanised.

The flow chart presents a simple, straightforward business model for responsibly taking into

Theory of the Firm – Connecting profits to stakeholders



Source: Stephen Young, *Moral Capitalism: Reconciling private interest with the public good* (Caux Round Table, 2003)

account stakeholder interests, including ESG variables, including sustainability and global warming. Each of its components can be easily assessed, evaluated and considered by a board of directors.

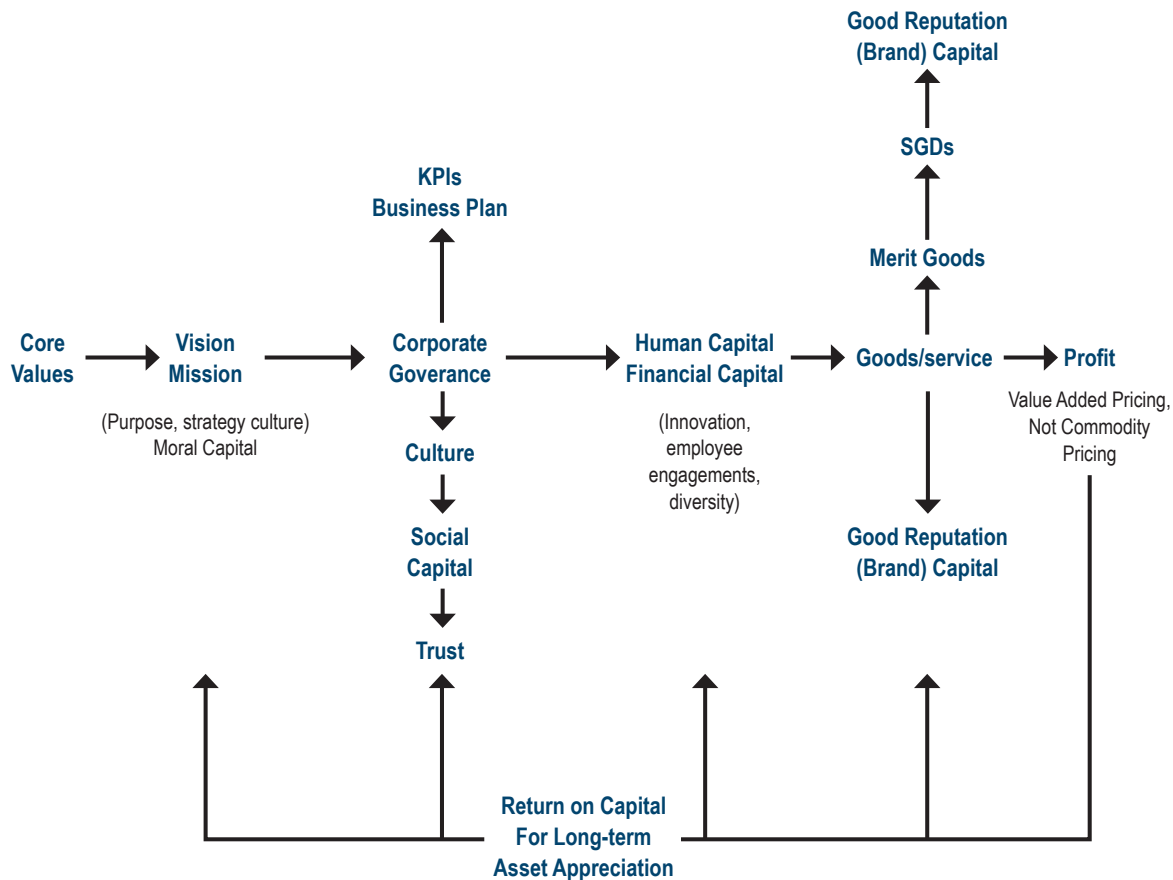
Most importantly, the risks of falling short can be discerned and addressed. If the net present value of the firm is assessed to be falling or too low, after considering all future contingencies, remedial steps can be quickly taken to improve (1) the quality of all capital inputs, (2) sales/customer satisfaction, and (3) net community impacts.

The stakeholder and integrated capitals theory of a firm was later reflected in the 2013 <IR> Framework proposed by the International Integrated Reporting Council.

The theory of the firm primarily looks inward into the firm and all its assets and capabilities, its proprietary business model, its practices and procedures. This is one focus for the “S” in the ESG criteria for a firm’s success.

The other focus for “S” is external to the firm. This focus seems to envision the common good of

Theory of the Firm – A social process



society as a whole. It embraces culture, politics, institutions such as families, schools, churches, charity and nonprofits – in short, public goods which determine the quality of life. Here, the criteria for assessment of a firm's achievements are the impacts it provides to or imposes on society. These multiple impacts are a complex assortment of private goods, public goods and mixed-goods, such as education and health, which have both public and private attributes.

Important work in creating practical accounts for measuring firm impacts is underway in

The Netherlands with the Impact Economy Foundation.

The starting point for success is the need for core values in the company narrative which generate the firm's vision and mission, which next drives governance.

Selecting the core values and living up to them, finding a compelling vision, setting the mission with goals and sub-goals, and providing governance that is effective are the fundamental fiduciary responsibilities of the company board of directors. ■

Caux Round Table's 2021 Dayton Award Presented

The Caux Round Table presented its 2021 Dayton Awards earlier this month to Medaria Arradondo, former Chief of Police for the City of Minneapolis and to Todd Axtell, retiring Chief of Police for the City of St. Paul, for their upholding the demanding fiduciary responsibility of public office as a public trust.

The Caux Round Table's Principles for Moral Government affirm that:

-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.

-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.



Chiefs Medaria Arradondo and Todd Axtell

In policing, these ethical standards were already embedded in the first modern principles of community policing, affirmed by Sir Robert Peel in 1829, when he founded the London Metropolitan Police.

The Caux Round Table was founded to celebrate that legacy and promote its principles, which are universal, of social responsibility in business and public trust in government. We recognize those Minnesotans who today, in this time of crisis, carry forward that legacy and those ideals – no matter what their power or position.

Leadership can be repositioned as a mindset that moves us towards the possible, but better yet, towards the probable. A leader is one who goes ahead to guide the way. There are essential abilities required to lead – integrity, courage, compassion, respect and responsibility.

The recipient of the 2019 Dayton Award was Douglas M. Baker Jr., then CEO of Ecolab and the recipients of the 2020 Dayton Award were Andrew Cecere, CEO of USBank and Minneapolis activists Don and Sondra Samuels.





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