

2014 Year in Review

Twenty years ago in 1994, members of the Caux Round Table (“CRT”) published ethical principles for business, the first global ethical code for capitalism and the only one conceived and drafted by business executives to reflect their operational realities and idealisms. The CRT Principles uniquely blended standards from Japanese, European and American ethical traditions. From Japan came the insight of *Kyosei*, that any for-profit business thrives or does not thrive as part of a larger ecosystem of other actors so that a successful business must prudently take into account the needs and aspirations of those on whom it depends. From Europe came the standard of respect for human dignity to prevent abuses of private power in the marketplace. And from the United States came the standard of responsibility for all consequences of business decision-making and a commitment to service of community to improve the quality of life for many.

After 20 years, the CRT ethical principles stand unimpeached as both practical and aspirational. They have stood the test of time and can be recommended to all business owners, managers and employees with confidence in their validity.

Ten years ago in 2004, the CRT published, through Berrett-Koehler, the book *Moral Capitalism*, written to support and explicate use of the CRT Principles for Business by CRT Global Executive Director, Stephen B. Young. The book has been translated into 7 languages. After ten years of global circulation and review, no serious criticism has been received by the CRT that the proposal for a moral capitalism is either unrealistic or flawed from any theoretical point of view.

Global Round Tables

In 2014, the very special achievement of the CRT was to have received a grant of \$250,000 in partnership with our Thai Affiliate, CREATE, from the Mun Pattana Foundation in Bangkok, Thailand, to extend our work in the ethical foundations for sustainable development. The grant will permit us to host round tables in some 20 cities around the world to gather comments and reflections on the proposed United Nations global goals for sustainable development.

Our approach will build upon our 2013 meetings in Bangkok, which revealed the wisdom for sustainability offered by Thai Theravada Buddhist concepts of moderation and mindfulness as approaches to sound management of risk.

The CRT will convene collaborative round tables to prepare a vision statement supporting the adoption of global goals for sustainable development by the United Nation’s General Assembly in September.

In 2014, the first two round tables were convened in Nairobi, Kenya, by Jacky Nyandeja, Executive Director of the Ethics and Integrity Institute and Professor Andreas Suchanek of the Wittenberg Center for Ethics in Wittenberg, Germany.

The adoption of global sustainable development goals will be a milestone in the evolution of a more moral capitalism for our global community as it faces the challenges of inequalities in income and wealth distribution, growing populations and changes in our planet's environment.

The CRT proposes to contribute to deeper appreciation of sustainable development goals in two dimensions: first, on the necessity for private enterprise and free markets to responsibly contribute to higher living standards and provide revenue and new technologies for environmental stewardship; and secondly to articulate the core values of our wisdom traditions from around the world, which call for our personal and corporate support for sustainable development as an ethical ideal.

Each round table will be asked to consider the CRT's Bangkok Agenda for a more moral capitalism, which resulted from the CRT's 2013 Global Dialogue held in Bangkok in October. That Global Dialogue and related conference on sustainable development drew upon the advice and insights provided by Theravada Buddhism on incorporating responsible mindfulness in free market decision-making.

Under the new initiative, round tables are being planned for Toronto, New York City, Washington, D.C., London, Paris, The Netherlands, Brussels, Berlin, Warsaw, St. Petersburg, Zagreb, Ljubljana, Belgrade, Istanbul, Mexico, Nairobi, India, Kuala Lumpur, Singapore, Tokyo, Sydney, Beijing and Seoul.

The discussions at each round table will be summarized in a proceedings as written by a skilled rapporteur. The proceedings of all round tables will be condensed into a vision statement for presentation to the leadership of the United Nation's General Assembly. Each round table will follow the CRT practice of open-ended discussion, skillfully facilitated under the Chatham House rule of non-attribution.

The goal of each round table is to draw forth reactions to the Bangkok Agenda statement, along with new, insightful comments on its propositions, supplemented by the raising of additional concerns and perspectives considered germane to sustainable development by round table participants.

The theme of CRT advocacy for sustainable development is the ever present necessity of a moral capitalism to finance and achieve sustainable development with social justice in meeting the aspirations associated with human dignity through just, but robust wealth creation for the global community.

The CRT hopes, by means of these round tables, to highlight common ethical core values which speak for sustainable development and justify a commitment to its becoming a reality.

New Book *The Way to Moral Capitalism*

Secondly, a new book to follow *Moral Capitalism* was written by Stephen Young titled *The Way to Moral Capitalism*. The book exposes several core fallacies holding up modern financial orthodoxy and contributing to the recurrent failures of banking and finance to sustain healthy economic growth for all. The book argues that:

1) It is wrong to oppose public goods to private goods, with public goods consigned to governments for distribution and private goods left to allegedly only self-serving free markets.

Some notional public goods – education, social services, transportation, etc. – can be effectively sourced and delivered by markets. And, to the contrary, some private goods affect the public interest and so draw upon themselves aspects of public goods. There is a continuum of goods and services ranging from pure public goods to pure private goods, with intermediate goods of a mixed character. Quasi-public goods and quasi-private goods can be provided by private enterprise through open market transactions. These are shared value goods and services. Financial intermediation is such a mixed public and private good.

2) Corporate social responsibility performs a mediation function between private goods and services provided by the firm and public goods demanded by society.

3) A limited theory of valuation – which ignores intangible assets and liabilities – caused the asset bubble and resulting collapse of leverage in the fall of 2008. A better theory of valuation is proposed to add public good dimensions to the calculation of private asset values.

4) The existence of an agency problem in finance and corporate governance is challenged. Current agency theory presumes that markets are incapable of providing public goods. The assumed agency problem supports companies ignoring stakeholders, externalities and fiduciary duties of responsibility.

5) Anxiety and money exacerbate the selfishness which brings the agency problem to the fore, but they can be offset by enhancing the strength of the moral sense, which is part of each person's social-psychology. The severity of the agency problem is rejected by value-based cultures – Catholic social teachings, Buddhism, Chinese ethics, Taoism, Aristotle and Qur'an. In addition, I/Thou relationships and friendships sustain values to overcome the agency problem.

6) Financial institutions need to be incentivized to provide public goods in addition to private goods.

7) "Wall Street" may be more about rent-extraction than investing in real growth. In much of finance, contract rights – shares, bonds, loan participations, derivatives, etc. – are only "rented" for a short time in order to flip them for a higher price. Why, then, should traders be given all the respect due to owners who invest for the long-term?

8) The Dodd-Frank reforms did not challenge the inherent dysfunction in financial trading, but only sought to distance public coffers from responsibility for making good on private losses.

9) It is self-restraint – the moral sense as provided to each of us by Natural Law – which can align private goods with public good and so lead us to a moral capitalism.

Talmudic Presentation

Thirdly, in 2014, CRT associates John Dalla Costa and Rabbi Naftali Brawer, with the assistance of Stephen Young, implemented a suggestion of John's that a Talmudic form of presentation be used to gather thoughts and comments from many religions and ethical cultures together on one page to discuss an ethical proposition about moral capitalism. The presentation was completed and published in the September 2014 issue of *Pegasus*.

This way of demonstrating both similarity and differences in ethical perspectives is a first and opens the door to more engagement among different faiths regarding, not their ultimate visions of salvation and purpose, but how we should behave vis-à-vis one another in this life, in this world of material needs and desires.

Monthly Newsletter *Pegasus*

Fourth, twelve issues of our monthly newsletter *Pegasus* were published. Important articles and comments distributed were: a critique of Thomas Piketty's important book *Capital; The Dublin Proposals on Finance and the Common Good*; a report of the Fondazione Centisimus Annus - Pro Pontifice; and the conclusions to and recommendations of the *Report to the Board of Directors of General Motors Regarding Ignition Switch Recalls* by Anton Valukas.

Public Presentations

During the year, Stephen Young was invited to make presentations at the 6th Global Conference of the Alliance of Civilizations; the annual meeting of the Confederation of Independent Financial Advisors; a conference on the New Capitalism organized by the Singapore Institute of Directors; the annual Megatrends Forum organized by Khazanah, the Malaysian Government's investment company; and the annual meeting in Rome of the Fondazione Centisimus Annus Pro Pontifice (the Papal Foundation to promote Catholic Social Teachings).

While in Rome, Young was honored with the opportunity to present copies of *Moral Capitalism* in English and Spanish to The Holy Father, Pope Francis.

Contributions to Two Books

Young was also able to contribute CRT perspectives on financial intermediation and the valuation of companies to two books, one titled *A Force for Good*, edited by John Taft, Head of Wealth Management for RBC in the United States and the other titled *Empowering Organizations Through Corporate Social Responsibility*, edited by Dr. Ruth Wolf of Bar Ilan University, Theodora Issa and Monica Thiel.

Public Benefit Corporation

During 2014 in Minnesota, where the CRT has its core staff, a project to have the Minnesota legislature adopt a benefit corporation statute was successful. As a result, Minnesota has joined some 27 other states to authorize the formation of for-profit business entities which commit themselves to moral capitalism. Benefit corporations are chartered to seek both financial and non-financial returns for their owners through profitable business undertakings that also intentionally serve stakeholders.

Business and Public Policy Round Table

In 2014, the CRT held the following Business and Public Policy Round Tables in St. Paul:

- "Thomas Piketty on Capitalism" with Steve Young, Global Executive Director, Caux Round Table

- "New Realities for Global Business - Corporate Social Responsibility Comes of Age" with Bennett Freeman, Senior Vice President, Calvert Investments

- "State of Private Enterprise around the World" with John Sullivan, Executive Director, Center for International Private Enterprise

- "Who Stole the American Dream?" with Hedrick Smith, former New York Time's Pulitzer Prize-winning Reporter

- "Open Discussion on WASP Values and Meritocracy"

- "The Achievement Gap?" with Don Fraser, former Mayor of Minneapolis and former member of Congress; R.T. Rybak, former Mayor of Minneapolis; John Harrington, Chief of Metro Transit Police; Don Samuels, former Minneapolis City Councilmember; Tom Prichard, President of the Minnesota Family Council; Gary Davison, Director of the New Salem Educational Initiative; and Becky Roloff, President of the YWCA of Minneapolis.

Academy for Public Service

To promote its principles for governments, which seek to establish conditions for the robust implementation of moral capitalism through the rule of law and high ethical standards in politics and regulation, the CRT held two training sessions. Those completing the training module were given certificates of recognition in the name of an Academy for Public Service.

Character Education in Public Schools

The CRT continued to provide leadership for a steering committee seeking more intense focus on character and ethics in Minnesota public schools.

Modification of Vision and Mission

Finally, in December, CRT Co-Chair Robert MacGregor proposed a modification of the CRT vision and mission. The CRT Board reflected on the many challenges – social, economic, political and ethical – of our times and the growing realization that insufficient moral courage is being offered by those in positions of authority. Thus, the evolving call for those like the CRT who seek to improve standards of conduct so that more and more people can live under conditions of flourishing human dignity is to promote leadership based on ethical commitment.

As a result, the CRT Board proposed that the CRT address a global leadership void by offering principles to provide the basis for long-term vision, which call forth responsible action.

Principles → Vision → Action

Where there are no principles, there is no vision.

Where there is no vision, there is a lack of right action.

Finding principles is the beginning of leadership.

The CRT Board concluded that:

Our global community is filled with frustrations: over slow economic growth, over inequalities of income and wealth, over breakdowns of respect for others, over climate change, over political systems that seem inept or unresponsive in facing these challenges.

Leaders commit themselves and take effective action. Commitment and action arise from belief and conviction, from a vision of a better future. Belief and conviction stand on having good ethical principles.

The CRT advocates global ethical principles which drive the belief and conviction which call forth commitment and action.

The Caux Round Table Agenda, therefore, should be in practical terms:

- 1) Provide Principles
 - a. Principles for Responsible Business
 - b. Principles for Government
 - c. Principles for Civil Society Organizations
 - d. Principles for the Owners of Wealth
- 2) Justify Principles
 - a. Draw on global wisdom traditions of different cultures and religions
- 3) Promote Principles
 - a. Monthly newsletter *Pegasus*
 - b. Round Tables
 - c. Training programs
- 4) Implement principles

- a. Arcturus for companies
- b. Decision style inventory for individuals

Website

The CRT's website had a little more than 52,000 page views during the year. More than 28,000 individuals visited the site. New posts on relevant subjects were frequently added to our Facebook and Twitter pages. Mr. K.L. Lam of Cornerstone Ltd. in Malaysia, provided the highest quality administrative and technical support for the site.

Organization

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Prof. Doran Hunter – United States
Hon. Paul Magnuson – United States
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Kevin Cashman – United States
Brother Louis DeTomasio – United States
Morihsa Kaneko – Japan
Robert W. MacGregor – United States
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Bogdan Diaconu – Romania
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Se Young Yang – South Korea
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