

Pegasus



A newsletter for the Caux Round Table Network
looking at business above the clutter and confetti

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Moral Capitalism At Work

6 West Fifth Street 300M
Saint Paul, MN 55102
1.651.223.2863
www.cauxroundtable.org

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December, 2015
Volume V, Issue XII

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INTRODUCTION

This issue of *Pegasus* is our 12th of this year. One of our most consistent and appreciated efforts is to bring regularly to a world-wide network not often noticed or read important thoughts relevant to putting ethics to work (as our Co-Chairman Tunku Abdul Aziz likes to say) in business, government and society, as well as in our individual offices of authority and service. *Pegasus* is our vehicle for the distribution of such quality communication of ideas and perspectives.

This edition contains, importantly, an index of our past articles. All past issues are posted on our website: www.cauxroundtable.org. There, you can find past articles of interest.

As I look over our past contributions to the debates over corporate social responsibility and sustainability and related agendas, I am very pleased that our contributions have stood the test of time and events very well. We seem to have been “on target” very often, with our early efforts validated by the course of events and the evolution of leading opinion and what has become conventional wisdom.

Please review the index for yourself and consider the value of our contributions in retrospect. In an age of social media and blog commentary, which is here one minute and gone the next, being able to articulate that which stands on its own legs for months and years has become more valuable to the building of human and moral capital than ever before.

One worries that truth has become, in our time, just another marketable commodity, one trivialized through quick consumption and then easily forgotten; one as fickle as the turnings of a butterfly and as evanescent as the dew.

We also include in this issue a very well-written and thoughtful comment by Domingo Surganyes Bickel of Madrid, whom we have come to know well and admire. Domingo also serves as the President of the Pontifical foundation *Fondazione Centesimus Annus* for the advocacy of Catholic Social Teachings.

As he summarizes his point of view, Domingo provides all of us with reflections that so very well express many of the principles of the Caux Round Table that I wanted to share his presentation with you as evidence of the breadth of appeal of our core approach to a moral capitalism.

Stephen B. Young
Global Executive Director
Caux Round Table

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Caux Round Table
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Saint Paul, MN 55102
1 651 223 2863
www.cauxroundtable.org

Moral Capitalism at Work

LOOKING AT BUSINESS FROM ABOVE THE CLUTTER AND CONFETTI
NEWSLETTER FOR THE CRT NETWORK | VOLUME 01, ISSUE 10

INTRODUCTION

Our final issue of *Pegasus* for 2011 hopefully finds you well and looking forward to 2012. I include a short thought on renewal which is appropriate at this time of change in the solar calendar. Our Board member Doug Hepper, President and CEO of Vision-Ease Lens, Inc., contributed some thoughts on our work, which imply the strategic importance of business and wealth creation for us all. A comment on how humanity could benefit from photosynthesis, if only business could bring it to commercial scale, follows Doug's observations.

Then there is the critique: Vices are out there along with virtues. Which should be in the lead as our standards of conduct? In a thought experiment, I play with the option of "leading from vices" as a backdoor way to make the case for sticking with virtues through thick and thin.

Then, we bring you a hard-to-find critique of the "system" from some members of the New York City contingent of the Occupy Wall Street movement. It brings to mind the famous Port Huron statement of 1962 which animated the Students for a Democratic Society back then.

And then the issue turns to remedies: First, a report on securing financing for wealth creation in poor and developing countries. Then a report on a new effort in The City of London to re-conceptualize financial services as a "profession" more than a business. Finally, we give you the complaint filed in California by the US Department of Justice seeking recovery of corrupt assets owned there by the son of the ruler of Equatorial Guinea – action against abuse of power as the CRT has long recommended and promoted.

I hope you find this a thoughtful and helpful issue.

Stephen B. Young
Global Executive Director

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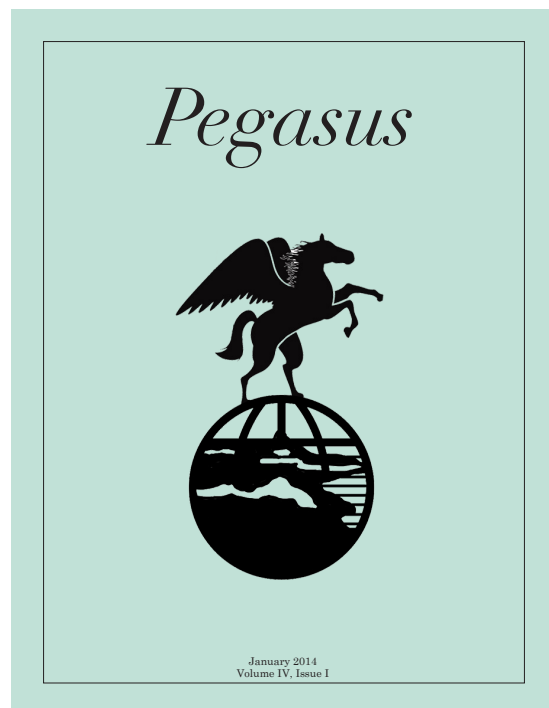
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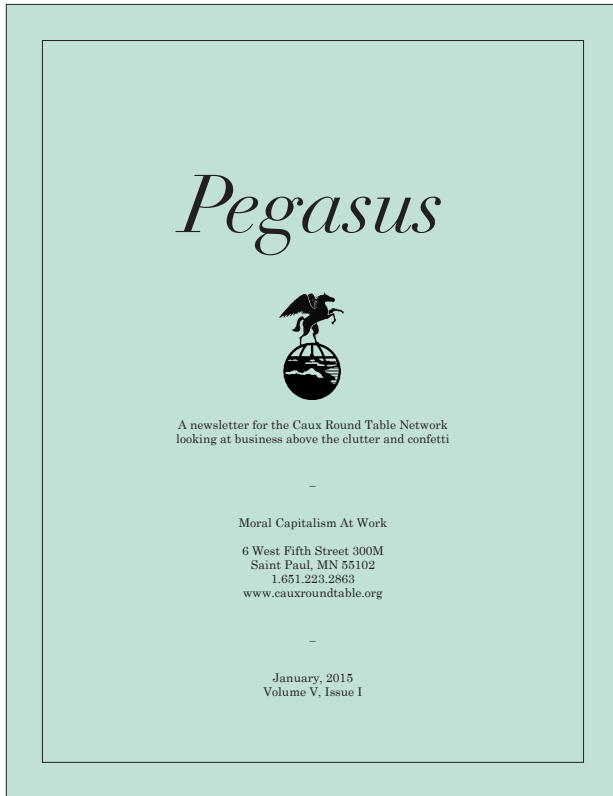
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ROME INVESTMENT FORUM 2015

Financing Long-Term Europe

Investing in Sustainable Finance and Social Infrastructure – Public Private Partnership

Domingo Sugranyes Bickel, Chairman
Centesimus Annus pro Pontifice Foundation

The *Centesimus Annus pro Pontifice* Foundation was founded by Saint John Paul II in 1993 as a forum for businessmen, professionals, economists and academics that delves into how Christian social teaching can be applied in real economic life. On behalf of the Foundation and its members in 20 countries, I am very honored to have been invited to speak in this highly acclaimed session of the Rome Investment Forum and I would like to congratulate the organisers for putting the emphasis on sustainable and social investment. What do these terms imply?

We urgently need a humanism capable of bringing together the different fields of knowledge, including economics, in the service of a more integral and integrating vision writes Pope Francis in *Laudato si'* (141). And his predecessor in *Caritas in Veritate : Locating resources, financing, production, consumption and all the other phases in the economic cycle inevitably have moral implications. Thus every economic decision has a moral consequence* (37).

When talking about investing in sustainable finance and social infrastructure, the starting point is necessarily an integrating concept of sustainability and social utility, something which is very central to the economic and social views of the Catholic Church and also acceptable for many, whether or not members of the Church.

New social demands offer great opportunities

In a way, we are at a lucky point in economic history, in spite of all our uncertainties: the urgent need to rethink existing patterns in economic life can and should be seen as opportunities. We need economic growth to continue fighting poverty, but there is also a

demand for qualitative changes: more sustainable use of resources, more responsible consumption, more opportunities for the young unemployed, better professional education, better access to job satisfaction. We are facing a real demand for a qualitatively different economy, and this offers huge opportunities for innovation and investment.

Experience shows that relying on centralized and impersonal public programs does not bring sustainable solutions on either front: qualitative change cannot be achieved through regulation alone; and the old assistance systems can induce a dangerous 'welfare trap' based on passivity and inaction which aggravates poverty.

We know that decentralized entrepreneurial initiative is the only context where the new demands can be satisfied, while the fight against poverty can continue at the same time. If there is demand for more responsible use of resources and more sustainable products, let's go for it: the market economy has given proof of its ability to adapt. The same applies to demands from workers of all ages for better jobs and more job satisfaction.

In order to succeed in satisfying the new demands, entrepreneurial initiative needs a favourable institutional context. Let's admit: there are big obstacles on the way: entitlements which prevent the excluded from accessing jobs; inadequate education systems which lead candidates to unemployment; subsidization which hinders competition, and prevents start-ups to reach break-even; rigid legislations which hinder innovation. We have the moral obligation to be self-critical about our own business practices: too often, we pay lip-service to the market economy while at the same time defend positions of corporatist privilege.

Who are the movers of this necessary rethinking of economic life? Some people would say: the unions, the co-operatives, the new social movements... Maybe, but it won't work unless there is an effective answer in the form of true economic innovation, which in turn is inseparable from entrepreneurial initiative, intelligently supported – though not controlled – by the State. If there is consensus that environment protection and job creation are today's more urgent needs in Europe, then let's turn to the forces which really have the

resources to change the state of things. And this means providing adequate education, regulatory support and available finance to support the flourishing of a new breed of entrepreneurs of the present day.

“Help the poor help themselves”

From our viewpoint of the relatively well-off, it is preoccupying to see a growing distance between levels of income. Not so much because of inequality as such – egalitarian utopia don't usually produce good economic or democratic results - but because it seems that in relative terms, and sometimes even in absolute terms, the poor are becoming poorer, even in our affluent society: the problems of wage stagnation or wage reduction, precariousness and marginality. Now the refugee emergency in Europe brings new dimensions to the problem and sometimes can deviate available resources from previously registered poor people. And the usual answer is: more tax.

Is additional tax a solution for these problems? Who guarantees that the new tax revenues would be used for the needs of the poor, when public debt and government uncontrolled expense eat such a large part of public income, and when welfare benefits are still too often spread on people who don't really need them ?

In America first, but also in Europe, more and more voluntary philanthropic action is being undertaken by business. This important development requires specific attention. Management expertise, transparency and good governance are great factors of success whereby corporate philanthropy can significantly contribute to social action projects.

On the other hand, business promoted charities need to learn from Church supported and other charitable movements. Social projects can't succeed unless they are based on communities on the recipients' end getting totally involved in decision making and motivation, so as to become *dignified agents of their own destiny* , using a phrase by Pope Francis in his recent address to the United Nations. Religious and NGOs have an indispensable know-how in organising participative, bottom-up initiatives.

Be it religious, idealistic, or corporate, philanthropic initiatives are highly positive, but there is need for more: more voluntary involvement by corporations and, above all, more commitment by people and families in the rich parts of the world. We need the funds to become larger so as to reach economies of scale. The amount of resources mobilized needs to be significantly higher if we are to change the trend towards impoverishment. The running of the funds should not only be transparent; their founders should also renounce corporate or local pride and embark more decidedly on the purpose of the common good: and this probably requires joining resources in creating common funds, putting them under independent management and applying to them generally accepted accountability rules.

A focused action on promoting new, professionally managed voluntary solidarity funds can be an answer to the danger of increased marginalisation. This is a subject on which the *Centesimus Annus pro Pontifice* Foundation is now working and we hope to come up with action oriented recommendations in the near future.

A role for solidarity in business decisions

But what about business itself: is there space for solidarity in business decisions? *Investing in Sustainable Finance and Social Infrastructure*, our theme of this morning, implies that business decisions involve a degree of solidarity, the same way as in every human act, gift and fraternity co-exist with the natural yearning for individual satisfaction.

Against many situations of mismanagement, corruption and lack of accountability – which are now so frequently exposed to public scrutiny - we all know that it is also possible to build areas of the market economy which serve directly the common good. How can we enlarge this bright side of the economy? Let me just indicate a few practical possibilities:

1. Promoting a **culture of service to society** in our organizations is something where we all can invest. Putting organizations to the service of common good is in the first place a cultural fact which in the best cases permeates all policies,

from product design to the use of resources, from sales policies to personnel management and financial plans. Why not expressly change our order of priorities, not as a marketing tool, but as a potent management resource?

2. To foster these ideas, we need to **promote intermediate bodies** which autonomously sustain solidarity and contribute to harmonize concepts and interests that would otherwise be in conflict. It is not just *Public Private Partnership*, as in the title of the present session. The idea is to look for opportunities of developing civil society, i.e. initiatives which are really developed in common between different groups and organisations; for example, social development projects jointly supported by business, associations and public bodies.
3. Linking entitlements with duties allows to **build co-responsibility** at corporate level and in all possible "alliances for change". One of the difficult pre-conditions here is to return to more proportionate levels of rewards between different levels of responsibility, i.e. reducing excessively high salaries and bonuses. This is not totally unrealistic: Let me just quote John Cryan, Deutsche Bank new co-CEO in a recent speech in Frankfurt: "*Bonuses don't make bankers work harder... Pay in the sector is still too high, and I don't fully empathise with people who say they turn up to work and work harder because they can be paid a little bit more*" (FT, nov 25, 2015).
4. Corporations and small business firms are all indispensable partners of **professional training and transitional monitoring**, which works very well in some European countries, but is totally unsatisfactory in others

If we are able to communicate these kind of ideas and take the right action in our own professional environment, a favourable climate will naturally emerge for investment in sustainable finance and social infrastructure.

Public-private partnership is not an easy path, unless it is seen in such an integrating framework of corporate culture and active civil society. Why is it difficult? Because we have had so many bad examples of politically influenced mismanagement in finance, in real estate

development, in construction and in many more areas of business. On the contrary, long term, sustainable business continuity and success are made of autonomous investment decisions and marketing policies, not on relying on State subsidies or concessions. So a word of caution is necessary about public-private partnership: it might be necessary in the broader context of “alliances for change”, but it can work only if all parties are inspired by a vocation of public service, under a strict regime of transparency, well known rules of the game, and total accountability.

Finance with a purpose

Sustainable finance requires a chapter of its own. In the present context of profound changes in the financial sector, both through added regulation and through internally promoted ethical discipline, there is an urgent need for the reforms to be instilled with real ethical and human perspective.

Financial institutions need to redefine their business model in the new context, which probably implies more moderate return targets, a shift towards long term incentives and bonus policies at all levels, and zero tolerance of unethical practice which should always be punitively expensive for those involved. The added regulatory constraints and market demands are in any case forcing the institutions to pay even more attention to consumer protection, to family financial education and to avoid excessive leveraging.

Perhaps in addition to all this, the deepest challenge is to rediscover finance with a purpose: helping job creation through decentralized lending at the level of small firms and local initiative; mobilize financial technology for inclusive finance through the use of mobile devices and digitization: these are just some of the objectives which the best financial institutions are already adopting among their basic policy aims and this is probably the way towards real financial reform.

* * *

To conclude: thank you for opening your debate to the theme of this essential rethinking of economic life. In the eyes of the *Centesimus Annus pro Pontifice Foundation* these questions and challenges do

not limit the possibilities of future growth. On the contrary, they are the key which motivates us to look forward and design a future which considers deep changes in both purpose and practice in finance, enterprise and the economy. These are ideas which contribute in the continuous exercise to identify the best investment opportunities towards *Financing Long-Term Europe*.

Outro:

Marginal Gains

I've said it before and I'll say it again, the Caux Round Table ("CRT") is not a 'non-profit,' it is a 'for purpose.' That purpose is on display every month when we bring you interesting and thought-provoking pieces from the worlds of general business, religious thought, ethical ruminations, and corporate social responsibility. As Dan Gilbert once noted, "Innovation is rewarded, execution is worshipped." What we see frequently in *Pegasus*, and this issue is no different, are interesting and innovative ideas. The next step in the process would be the execution. This is, in many cases, the most difficult part. Simply having the idea to institute a new form of public private partnership or encouraging additional philanthropic efforts is one thing but seeing those thoughts sprout roots and bear fruit is quite a different thing.

The goal of any non-profit is to enact social change. As evidenced by the CRT's continued existence, this is not something that can happen overnight. Indeed, throughout all of the success that the CRT has had it is all about the 1% gains. In order for the innovation to spring forth into the world and be executed upon we need to embrace the aggregation of marginal gains. This is a concept pioneered by a British cycling general manager who looked for ways to improve every aspect of his team's performance by one percent. Looking at everything from cyclists' nutrition to which pillow offered the best sleep to every other aspect of the competitors' lives, work was done to improve not just one big thing, but, rather everything the cyclists did by one percent. It was believed that by embracing this aggregation of marginal gains, the team could win the Tour de France in five years. Instead, they won it in three years.

In many aspects, when it comes to moral capitalism and a more ethical business environment we already have the necessary innovation – it has been on display in the pages of *Pegasus* for nearly five years. The part that we are still embracing is the execution. We are still focused on new ways to execute on the excellent ideas that have been presented in these pages. By focusing on the aggregation of marginal gains, we can work to infuse these concepts into our everyday business and personal lives, truly living a 'for purpose' life.

As always I welcome your comments,

Erik Sande
Caux Round Table

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Editor in Chief
Stephen B. Young

Editor
Erik Sande

Assistant Editor
Jed Ipsen

Design and Layout by Erik Sande

