

**David Grayson:**  
**The Challenge of Renewing Capitalism**  
**January 2015 version**

- “Capitalism is the most successful form of human social cooperation ever created.”
- Prof Edward Freeman - American philosopher and professor of business administration at the Darden School of the University of Virginia, particularly known for his work on stakeholder theory
- [www.consciouscapitalism.org/node/3998](http://www.consciouscapitalism.org/node/3998)

- "Capitalism in its current form no longer fits the world around us."
- World Economic Forum founder/chairman, Prof Klaus Schwab

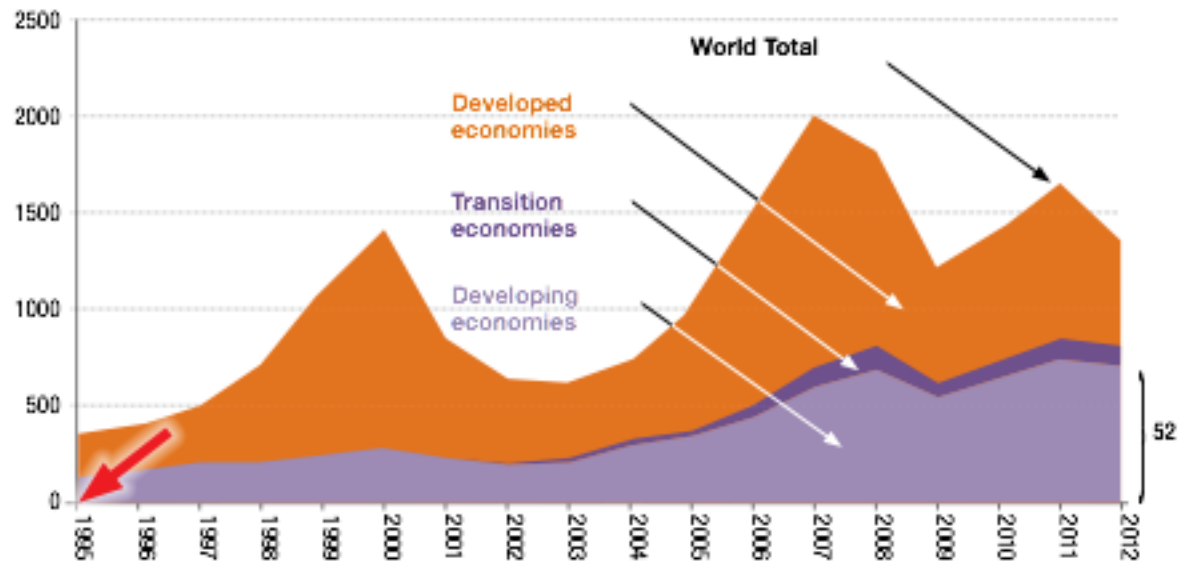
# Types of capitalism

- Anglo-Saxon / laissez-faire/free-market
- Social market
- State
- Corporate
- Mixed
- Crony

# How has Capitalism changed in 20 Years?



**Figure 1** Global flows of foreign direct investment, by group of economies, 1995-2012  
(billions of dollars)



Source: United Nations, Conference on Trade and Development (UNCTAD), *World Investment Report 2013: Global Value Chains: investment and trade for development* 7.

# How has Capitalism changed in 20 Years?

- Collapse of “second” world – the Communist alternative
- Liberalisation of capital flows and reduced trade barriers
- Privatisation and increased competition
- Integration of global supply chains
- Globalisation of information/communication
- Perceived shift in power from governments and organised labour to companies and NGOs
- Greater volatility, political risk and potential for instability
- Unprecedented shift in economic power from Europe to Asia

# Initiatives to renew

- Dominic Barton, McKinsey & Co Long-Term Capitalism
- And contributing to Focusing capital to the long-term
- consultancy Volans [Breakthrough Capitalism](#);
- Corporate Knights [Clean Capitalism](#);
- John Mackey, Prof Ed Freeman and Raj Sesoría [Conscious Capitalism](#);
- Bill Gates [Creative Capitalism](#);
- Al Gore and David Blood [Sustainable Capitalism](#);
- Ed Milliband and other politicians, and writers like Nicholas Shaxson [Responsible Capitalism](#);
- Todd Hendersin and Anup Malani [Capitalism 2.0](#)
- Jonathan Porritt “Capitalism as though the planet matters.”



- Why might there be questioning of current model?

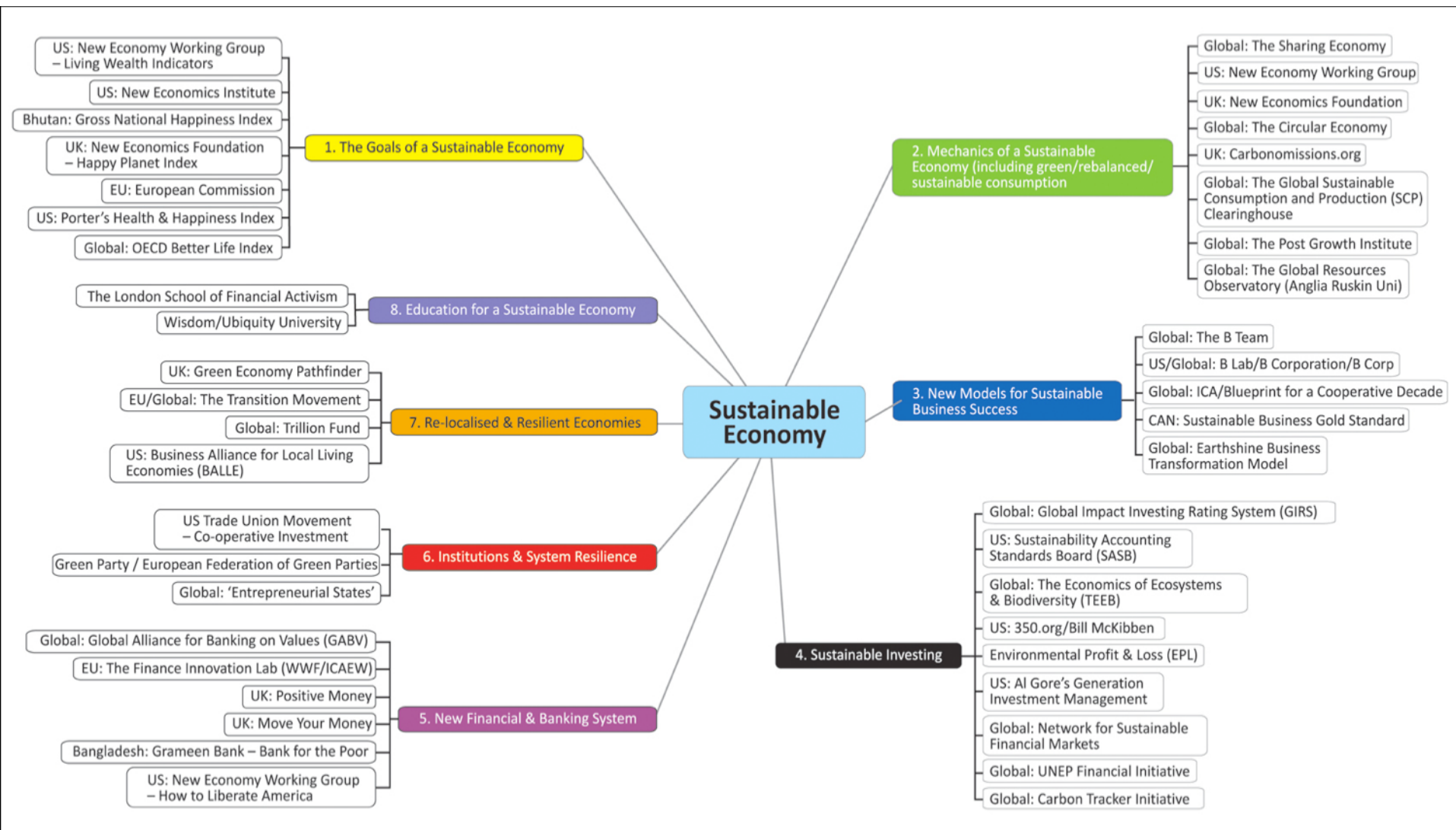
# Why might there be questioning of current model?

Eg:

- Inequalities
- Exclusion
- Sustainability
- Loss of trust
- Irresponsible business behaviours
- Individual accountability
- New metrics of progress

# Cranfield Mapping Project

- <http://www.som.cranfield.ac.uk/som/p20852/Research/Research-Centres/Doughty-Centre-Home/Research/Renewing-Capitalism>
- Broad themes:
  - Planetary boundaries
    - • Responsible behaviour (by organisations, leaders, managers; ethical standards, management education)
  - • Inclusivity (inequality)
  - • System stability & resilience (boom/bust, the financial system)
  - • Measurement issues (GDP, wellbeing, carbon, resources)



- Overcoming the Barriers to Long-Term Thinking (Forum for the Future)
- Plurality, Stewardship and Engagement
- Cox Review - Overcoming short-termism within British business: The key to sustained economic growth
- Inclusive Leadership: From Pioneer to Mainstream (BITC)
- What does responsible capitalism look like? (Cranfield)
- Beyond Corporate Responsibility (McKinsey&Company)
- Fortune Favors the Brave (BITC and Marks & Spencer)
- Towards a Sustainability Mindset: How Boards Organize Oversight and Governance of Corporate Responsibility (Business in the Community and Cranfield)
- Blueprint for Sustainable Investing (Ceres)
- Sustainable Capitalism Project (Committee for Economic Development)
- The Loyalty Rewards Project (Mercer,Stikeman Elliot LLP et al.)
- Added Values - The importance of ethical leadership (BITC and Institute of Leadership & Management)
- Conscious Capital (BITC and Legal & General)
- Edelman Trust Barometer (Edelman)

- The Prince's Accounting for Sustainability Project (HRH The Prince of Wales)
- St Paul's Institute
- Bringing the whole person to work
- MBA Oath - Responsible value creation
- Lord Mayor's Conference on Trust and Values
- Designing for Social Purpose
- Global Agenda Council on Values: A new Social Covenant
- Long Finance Initiative (Prof. Mainelli, Gresham College)
- The Henry Jackson Initiative for Inclusive Capitalism
- The B Team (Richard Branson)
- Corporate Values Strategy Group, Business and Society Program (Aspen Institute)
- The Future of Finance Starts With You (CFA Institute)
- Sustainable Capitalism (The Generation Foundation)
- Long-Term Investors Club
- The Marathon Club (Hewitt)
- Tomorrow's Company (RSA)
- Blueprint for better business (Catholic Bishop's Conference of England & Wales)
- UN Global Compact - Principles of Responsible Investment (UN)

#### RESEARCH AND EVIDENCE

#### CONVENING AND ADVOCACY

#### METRICS AND REPORTING

#### REGULATION

- Integrated Reporting Framework (IIRC)
- Global Reporting Initiative
- Workwell Public Reporting Benchmark (BITC)

- Kay Review of UK Equity Markets and Long-Term Decision-making (UK Govt)
- Caux Roundtable - Moral Capitalism at Work (Caux)
- Breakthrough Capitalism (Volans)

# Other mapping exercises - continued

- The Real Economy Lab
- <http://flourishingenterprise.org/tribe>

# Other mapping

- Jonathan Bailey, Connor Keogh et al, working with Dominic Barton (global managing partner, McKinsey & Co), particularly focusing on Long-Term Capitalism
- A doctoral student Isabel Sebastian, based in the Institute for Sustainable Futures, at the University of Technology, Sydney, Australia has mapped 26 “new economics” organisations from across the world with a focus on new metrics for happiness and well-being and systems-change
- Kelly Clark, James Arbib and Marshall Clemens at the Tellus Mater Foundation have produced a series of maps particularly focused on efforts to create more sustainable financial markets

# Today's and renewed capitalism?

***Purpose of the Firm***

***Legitimate capitals***

***Bottom lines***

***Source of financial capital***

***Market focus***

***Negative impacts***

***Accountability boundaries***

***Transparency***

***Business model***



# CAPITALISM 2.0

	Capitalism 1.0	Capitalism 2.0 (a.k.a, Clean / Disruptive Capitalism)
<b><i>Purpose of the Firm</i></b>	Maximize <i>shareholder</i> value; ROI; Growth	Creating shared <i>stakeholder</i> value, including the Environment
<b><i>Legitimate capitals</i></b>	Financial	Financial, Natural, Social
<b><i>Bottom lines</i></b>	Profit –first; short-term	Profit, People, Planet; long-term
<b><i>Source of financial capital</i></b>	Stock market; Big financial institutions; Absentee owners	Stock market; Smaller financial institutions; Customers; Employees; Local communities
<b><i>Market focus</i></b>	Global	Local
<b><i>Negative impacts</i></b>	Externalized	Internalized
<b><i>Accountability boundaries</i></b>	The Firm	The Firm's value chain, over its products' life cycles
<b><i>Transparency</i></b>	As little as possible	Naked
<b><i>Business model</i></b>	Take-Make-Waste; Linear	Borrow-Use-Return; Circular

- "We need the globalisation of the economy, of technology, of communication – and we also need a global ethic."
- Prof Hans Kung in 2000
- Küng, H (2005) *The World's Religions: Common Ethical Values*. See also Küng, H (1991) *Global Responsibility: In Search of a New World Ethic*, Crossroad Publishing Company.

- Nothing in economics is more important than how companies should be managed and for what ends. Unfortunately, we have made a mess of this. That mess has a name: it is “shareholder value maximisation”. Operating companies in line with this belief not only leads to misbehaviour but may also militate against their true social aim, which is to generate greater prosperity.
- Martin Wolf, Financial Times, August 26, 2014

# What is the purpose of business?

- Business is tackling the difficult questions politics has dodged - Simon Caulkin – Financial Times Nov 30th 2014 [ttp://www.ft.com/cms/s/2/4ba25072-6e69-11e4-afe5-00144feabdc0.html#axzz3OuQa1HEb](http://www.ft.com/cms/s/2/4ba25072-6e69-11e4-afe5-00144feabdc0.html#axzz3OuQa1HEb)

# Five Principles of a Purpose Driven Business

## Honest and fair with customers & suppliers

- Seeks to build lasting relationships with customers and suppliers
- Deals honestly with customers providing good and safe products and services
- Treats suppliers fairly, pays promptly what it owes and expects its suppliers to do the same
- Openly shares its knowledge to enable customers and suppliers to make better informed choices

## A responsible and responsive employer

- Treats everyone with dignity and provides fair pay for all
- Enables and welcomes constructive dialogue about its behaviour in keeping true to its purpose
- Fosters innovation, leadership and personal accountability
- Protects and nurtures all who work for it to ensure people also learn, contribute and thrive

## A Good Citizen

- Considers each person affected by its decisions as if they were a member of each decision - makes own community
- Seeks and provides access to opportunities for less privileged people
- Makes a full and fair contribution to society by structuring its business and operations to promptly pay all taxes that are properly due

## Has a Purpose which delivers long-term sustainable performance

- Operates true to a purpose that serves society, respects the dignity of people and so generates a fair return for responsible investors
- Enables and welcomes public scrutiny of the alignment between stated purpose and actual performance

## A guardian for future generations

- Honours its duty to protect the natural world and conserve finite resources
- Contributes knowledge and experience to promote better regulation to the benefit of society as a whole rather than protecting self interest
- Invests in developing skills, knowledge and understanding in wider society to encourage informed citizenship

# Individual & Organisational values

- One in ten have left their jobs as a result of being asked to do something at work that made them feel uncomfortable,
- Over a quarter (27%) were concerned they would be negatively affected if they were to report an ethical breach,
- 63% of the managers say they have been asked to do something contrary to their own ethical code at some point in their career,
- 43% of managers have been told to behave in direct violation of their organisation's own values statements.

– Business in the Community and The Institute of Leadership & Management:  
June 2013



## **IT'S TIME TO MAKE MANAGEMENT A TRUE PROFESSION**

Rakesh Khurana and Nitin Nohria  
October 2008

- Aspen Institute Centre for Business Education
- ABIS (Academy of Business in Society)
- ABIS Gateway
- Net Impact
- Globally Responsible Leadership Initiative
- UN PRME Principle of Responsible Management Education



## Markula Center for Applied Ethics

[www.scu.edu/ethics/practicing/decision/framework.html](http://www.scu.edu/ethics/practicing/decision/framework.html)

As a manager, my purpose is to serve the greater good by bringing together people and resources to create value that no single individual can build alone. Therefore I will seek a course that enhances the value my enterprise can create for society over the long term. I recognize that my decisions can have far-reaching consequences that affect the well-being of individuals inside and outside my enterprise, today and in the future. As I reconcile the interests of different constituencies, I will face difficult choices.

Therefore I promise:

1. I will act with utmost integrity and pursue my work in an ethical manner.
2. I will safeguard the interests of my shareholders, co-workers, customers and the society in which we operate.
3. I will manage my enterprise in good faith, guarding against decisions and behavior that advance my own narrow ambitions but harm the enterprise and the societies it serves.
4. I will understand and uphold, both in letter and in spirit, the laws and contracts governing my own conduct and that of my enterprise.

5. I will take responsibility for my actions, and will represent the performance and risks of my enterprise accurately and honestly.
6. I will develop both myself and other managers under my supervision so that the profession continues to grow and contribute to the well-being of society.
7. I will strive to create sustainable economic, social, and environmental prosperity worldwide.
8. I will be accountable to my peers and they will be accountable to me for living by this oath.

This oath I make freely, and upon my honor.

# The MBA Oath

Responsible Value Creation

[Welcome](#)[Start a chapter!](#)[Take the Oath](#)[List of Oath Signers](#)[Press Coverage](#)[Get Involved](#)[Blog](#)[About the Oath](#)

## Welcome

### RECENT NEWS:

- MBA Oath [was named](#) one of the [GOOD 100](#) "top 100 people, ideas, and projects that are changing the world"!
- [Enter](#) our [MBA Oath Book Essay](#) contest for a chance to have your thoughts on the oath get published.
- [Learn](#) about starting an [MBA Oath chapter](#) on your campus and take a look at our new chapter kit.
- We were [recently mentioned](#) in [The Economist](#).
- Take a look at our recent mention in the [Wharton Journal](#).
- MBA Oath Executive Director Peter Escher was [recently interviewed by TrustedAdvisor](#).
- The MBA Oath held a [Fall Leadership Summit](#) in New York City on November 6. Students came from: Columbia, Duke Fuqua, Harvard, MIT Sloan, NYU Stern, Rensselaer Lally, Thunderbird, UNC Kenan-Flager and Yale. Thank you to all who participated. We look forward to another Summit in the spring.

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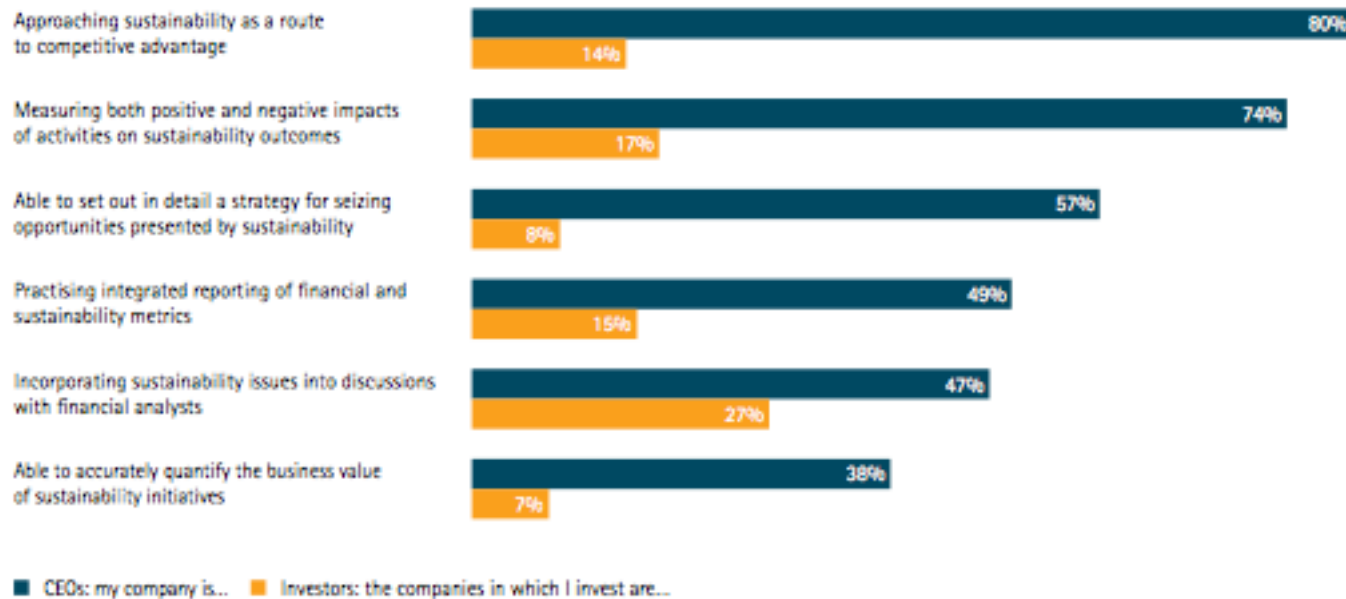
# Investors

- CEOs may currently overestimate their success in communicating with investors on sustainability:
- **57%** of CEOs say they are able to set out their strategy for seizing opportunities presented by sustainability;
- when asked the same question of the companies in which they invest, just **9%** of investors believe this to be the case.
- **38%** of CEOs believe they are able to accurately quantify the business value of their sustainability initiatives – but just **7%** of investors agree.
- “these striking gaps expose the shortcomings of many companies in communicating their approach to sustainability and its links to traditional measures of business value and success.”

Figure 9

Figure 1: Striking differences are apparent between CEOs' views of their companies' performance, and the views of their investors

To what extent do you agree with the following statements regarding the value of sustainability?



Note: Percentage represents the proportion of CEOs/CIOs selecting 'Strongly agree' and 'Agree'; Investor data based on survey responses from fifty-nine CEOs and CIOs from PRI signatories; CEO data from the UNOC-Accenture CEO Study on Sustainability 2013.



## INVESTORS: GROWING ENGAGEMENT, BUT UNLIKELY TO DRIVE CHANGE

CEOs see growing interest on the part of investors – but still don't see the investment community as an influential voice in guiding their approach to sustainability.



Only **12%** of CEOs regard investor pressure as among their chief motivators on sustainability

**8%** Africa



**23%** see investors as an important stakeholder in guiding their approach

**31%** – Less than a third – believe that their company's share price currently includes value directly attributable to sustainability initiatives



**69%** believe that investor interest will become an increasingly important factor



- Focusing Capital on the Long Term - January-February 2014 Harvard Business Review, Dominic Barton and Mark Wiseman

# Governments

- “83% of CEOs see an increase in efforts by governments and policymakers to provide an enabling environment for the private sector as integral to advancing sustainability....
- Business leaders believe that only with greater government intervention—at global, national and local levels—can sustainability move from sporadic incremental advances to a collective and transformative impact enabled by a new global architecture.....

UNGC-Accenture CEOs' Sustainability Survey, Sept 2013

# Governments

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- Business leaders believe that only with greater government intervention—at global, national and local levels—can sustainability move from sporadic incremental advances to a collective and transformative impact enabled by a new global architecture.....
- This call for strong and decisive government action is reflected in business leaders’ beliefs on the most effective policy tools for governments to adopt. Their answers reflect a belief that government must intervene through ‘harder’ interventions: more than half of CEOs, 55%, include regulation and standards; 43% call for governments to adjust subsidies and incentives; and 31% seek intervention through taxation.”
- UNGC-Accenture CEOs’ Sustainability Survey, Sept 2013

# Implications for leaders?

- Business purpose
- Success criteria: organisational / personal
- Transparency
- Accountability: to whom / for what
- Understanding stakeholders' wants and needs
- Roles & responsibilities

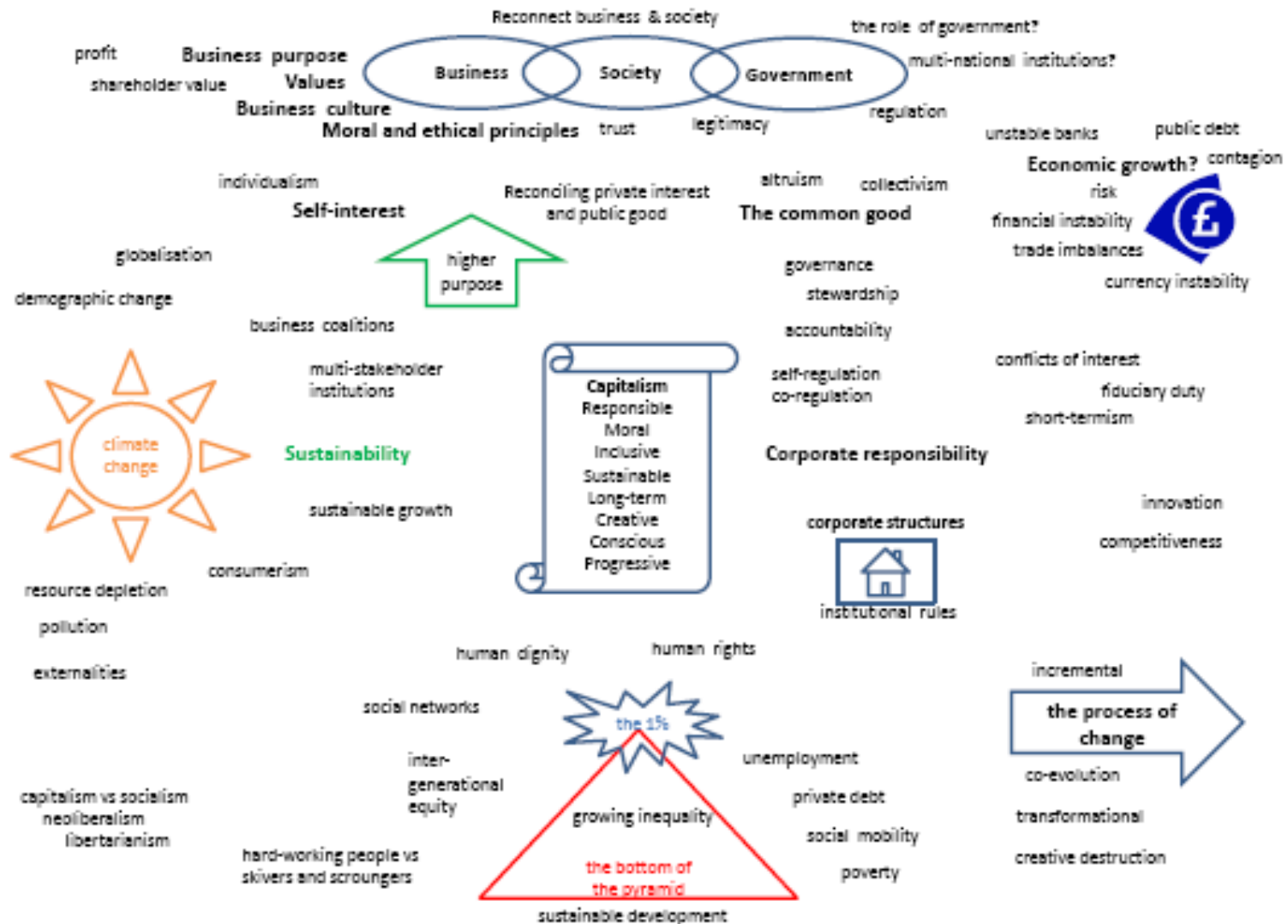
# Some questions to consider

1. What is capitalism vulnerable to? Does it threaten its own existence? Can a line be drawn between practices internal to capitalism which render it vulnerable and non-capitalist practices that threaten the system from the 'outside'?
2. What is the ontology of capitalism? In other words, what do we take capitalism to mean, what characteristics does it have and in particular, how does it not only accommodate, but actually thrive from multiple critiques?
3. What are the dynamics driving the evolution of capitalism?
4. What alternative forms of capitalism are possible in societies?
5. If, as Peter Drucker (1992) suggests, the centrality of economic wealth is marginalised in favour of the centrality of human capital, then what form(s) of capitalism would we expect to emerge?

# Questions to consider II

6. Corporations are the flagship 'tool' of capitalism. What are the possible futures for corporations?
7. What is the relationship between capitalism and forms of political structure (which provide legitimacy and protection)? How and why is this relationship maintained?
8. Have anti-capitalist social movements the potential radically to alter the future of global capitalism, or to negate it altogether?
9. Will 'post-bureaucratic' forms of organisation have a place in the future of capitalism?
10. What is the future of 'finance capitalism' in the wake of the 2007-08 banking crisis? To what extent can improved regulation and governance prevent future crises, if at all?

# Renewing capitalism





# Doughty Centre Renewing Capitalism

- <http://www.som.cranfield.ac.uk/som/p20852/Research/Research-Centres/Doughty-Centre-Home/Research/Renewing-Capitalism>