BENTLEY UNIVERSITY

8th Bentley Global Business Ethics Symposium

Monday, May 21, 2012 | Bentley University, Waltham, MA

The Future of Capitalism:

Ethics, Sustainable Practice, & the Global Economy

Sponsored by State Street Foundation

Cosponsored by the UN Global Compact PRME

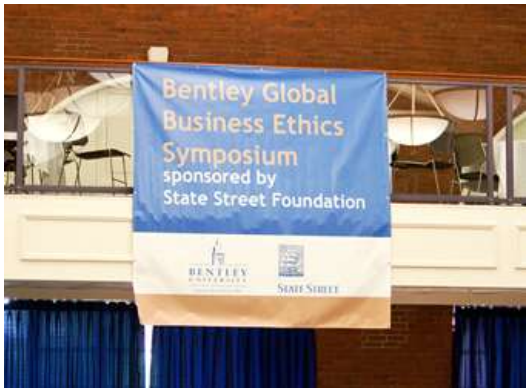
STATE STREET FOUNDATION

PRME Principles for Responsible Management Education

The 2012 Bentley-State Street Global Business Ethics Symposium, the eighth in a multi-year partnership, was held on May 21st on the Bentley University campus in Waltham, Massachusetts. The program continues in its objective to unite business and higher education in the common goal of building a strong ethical foundation from which to serve our many stakeholders and communities. Once again, this year's event brought together international experts and thought leaders from the academic, corporate, government and non-government organization (NGO) worlds for in-depth discussions of current practices and challenges in business ethics, corporate responsibility and sustainability. The purpose of the day-long event was to both learn and inform by:

- exploring current practices in other institutions, countries and cultures;
- identifying ways to enhance issues of ethics, corporate responsibility and sustainability in business education and in outreach to the corporate community; and
- disseminating this experience throughout the academic and practitioner worlds.

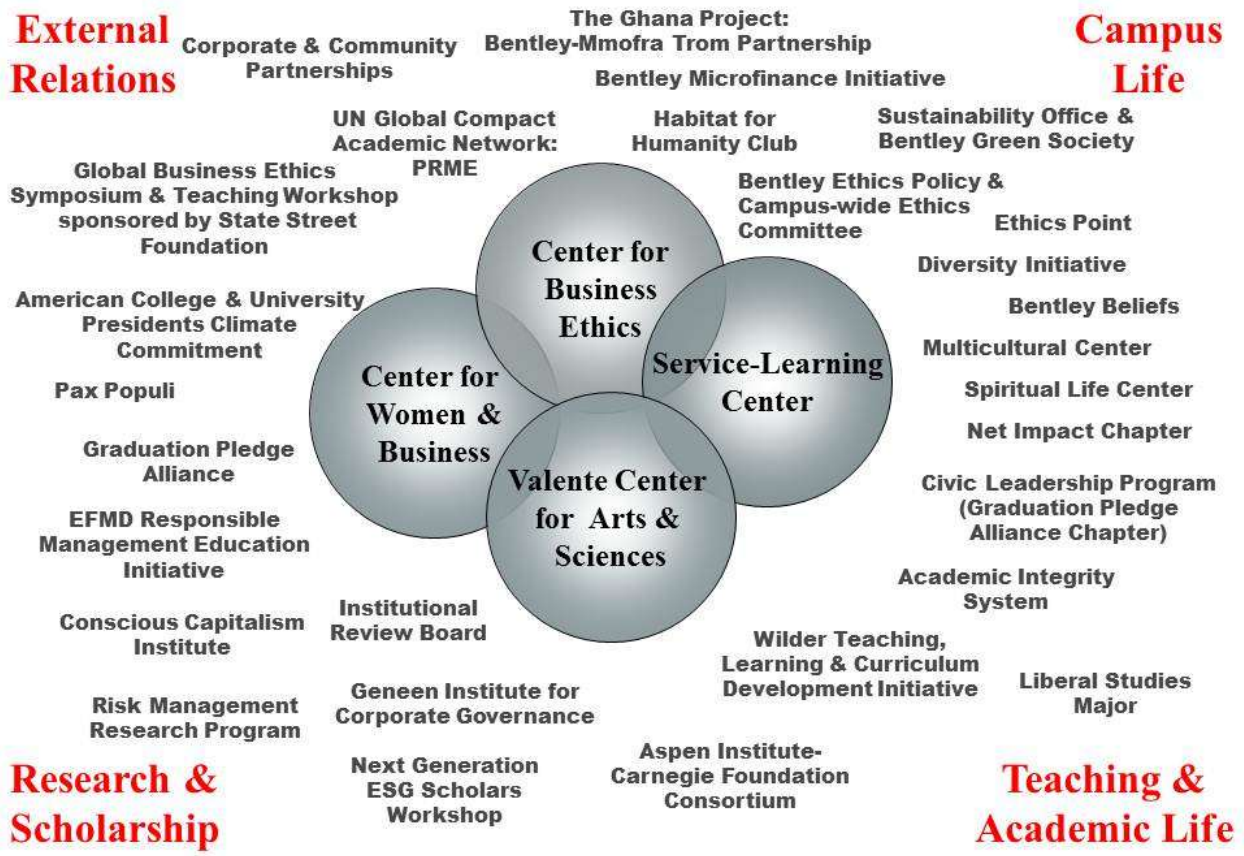
With over 30 speakers and panelists and an audience of approximately 130 academic, civil society and corporate participants, the program provided the opportunity to explore a wide range of issues related to questions of sustainability and sustainable business practice. The Symposium series is hosted by the Bentley Alliance for Ethics and Social Responsibility (BAESR). Formally launched in January 2004, the Alliance's mission is to *amplify and extend the work of the autonomous centers and initiatives on the Bentley campus, supporting and encouraging greater awareness of, respect for, and commitment to ethics, service, social responsibility and sustainability in faculty research, curricula and campus culture*. Coordinated by **Anthony F. Buono**, *Professor of Management and Sociology at Bentley*, a unique feature of the Alliance is its integrative focus on ethics, social responsibility, civic engagement and sustainability.



In pursuit of its mission, BAESR's efforts focus on:

- supporting and encouraging collaborative and applied transdisciplinary ***research*** that has the potential to significantly affect current practice;
- influencing ***curriculum*** development and pedagogical innovations intended to make our students more ethically sensitive and socially aware;
- ensuring a broad application of these principles and ideals in ***campus life***;
- attempting to foster life-long ***civic engagement*** among our students; and

- seeking to work closely with external organizations – ***partnering*** with academic and professional associations, corporations and not-for-profit organizations and NGOs in pursuit of these goals.



THE AY 2011-12 BENTLEY ALLIANCE FOR ETHICS & SOCIAL RESPONSIBILITY

This collaborative effort is dependent on the commitment of a broad range of stakeholders, including Bentley faculty, staff, students and alumni, as well as business executives, corporate partners, other relevant associations, and colleges and universities.

As it has evolved over the years, the BAESR initiative is currently built on four "core pillars" in the Bentley community that continue to operate as autonomous entities, but collaborate under the aegis of the Alliance:

- ***Center for Business Ethics***: Founded in 1976, the Center for Business Ethics is an internationally recognized Center that promotes ethical leadership, conduct and cultures as critical to an effective and legitimate role for business. (http://cbe.bentley.edu)

- ***Center for Women and Business***: This newly created Center is focused on helping women reach their full potential in the workplace and helping corporations engage the full potential of talented women leaders. The Center's research and programs provide a roadmap for organizations and individuals alike to move this critical conversation forward. (http://www.bentley.edu/centers/center-for-women-and-business)

- ***Service-Learning Center***: Established in 1990, the Bentley Service-Learning Center seeks to promote academic learning, to develop socially responsible working professionals, and to assist community partners in serving the human needs and interests of their constituencies. (http://service-learning.bentley.edu)

- ***Valente Center for Arts & Sciences:*** Created in 2006, the Center's mission is to help make the arts and sciences a vital, integral and challenging aspect of undergraduate and graduate education at Bentley, promoting research at the intersection of arts, sciences and business. (http://arts-sciences-center.bentley.edu)

Combined with a series of programs and activities across the institution, this initiative has led to a four-part approach that attempts to shape and influence a sense of ethics, service, responsibility and sustainability throughout (1) the curriculum, (2) campus life, (3) the university's research agenda, and (4) in outreach to the academic, corporate and not-for-profit worlds.

SYMPOSIUM HIGHLIGHTS

THE FUTURE OF CAPITALISM:
ETHICS, SUSTAINABLE PRACTICE & THE GLOBAL ECONOMY

Anthony F. Buono, *Executive Director of the Bentley Alliance for Ethics and Social Responsibility*, began the program by noting Bentley's long-term partnership with State Street. The Symposium series is held in memory of Tim Harbert, a Bentley alumnus, trustee and chairman and chief executive officer of State Street Global Advisors. Reflecting on Tim's role with State Street, he observed, "as his colleagues at State Street have noted, under Tim's leadership, State Street Global Advisors became one of the world's premier asset managers, significantly expanding its portfolio of Socially Responsible Investment Funds… throughout his tenure with State Street, Tim was a major supporter of the firm's community outreach programs… and he would be very proud of this Symposium and the focus of our discussion today."

Tony Buono
Bentley University

Gloria Larson
Bentley University

After thanking the State Street Foundation for its ongoing support of the Symposium series, he also noted the continued sponsorship of the UN Global Compact PRME initiative – the Principles for Responsible Management Education. Reflecting on the focus of this year's program, he underscored that "Especially as we are gearing up for the Rio +20 Summit in a few weeks – marking the 20th anniversary of the 1992 United Nations Rio Earth Summit – its underlying theme – *The Future We Want* – reflects much of what we will be talking about today and what needs to be done to attain that desired future."

After laying out the agenda for the day, and recognizing State Street's long-term commitment to these ideals, he introduced Bentley's President, **Gloria Larson**. Larson noted that over the years, "our Global Business Ethics Symposium has justifiably earned a reputation as one of Bentley's signature events, one that continues to sharpen our focus on emerging issues that bring new definition to the study and practice of business ethics, corporate social responsibility, and sustainable practice in a global context. Over the course of today's program, you have the opportunity to participate in a wonderful conversation that directly reflects Bentley's interests in these areas. This year's focus – 'The Future of Capitalism' – captures many of the core challenges we are facing today… and given the inter-connection between these challenges – as global markets, global problems, and global opportunities increasingly align – the question really no longer is whether they are connected but how – and how best to respond."

As Larson continued, the current financial crisis and "Great Recession" continue to cause havoc across the globe, and "we are painfully reminded how unsustainable practices – from Wall Street to Main Street, from conflicts around the globe to outdated models of the corporation – have created an increasingly unstable world… During today's program, you will have the opportunity to explore and examine ways that will enable us to create a truly sustainable, inclusive global economy for a wide-range of stakeholders, transforming many of the problems we are currently experiencing into possibilities and opportunities."

The opening keynote address was given by **Pamela Paton**, *Senior Vice President and Chief Administration Officer, Corporate Development and Global Relationship Management at State Street*. Noting that the symposium series is now in its 8th year, she noted "… it is clear that these issues continue to be on the top of mind for both the professional and academic worlds. Eight years ago, our world almost seemed like an entirely different place than the one we live in now. And business ethics and corporate behavior, while always important, have probably consumed more of the public spotlight in recent times than when this program first started."

Pamela Paton
State Street

Paton then turned to her former colleague, Tim Harbert, a Trustee and alumnus of Bentley University, and prior to his untimely passing, Chairman and Chief Executive Officer of State Street Global Advisors (SSgA), the investment management arm of State Street Corporation. "The State Street Foundation proudly sponsors this symposium in his memory. Under Tim's leadership, SSgA grew to become one of the world's largest investment managers and significantly expanded its portfolio of products. Reflecting Tim's values, the expansion of offerings included socially responsible investment funds, which have now evolved into environmental, social and governance – or ESG – investments. I think Tim would be very proud of SSgA's current ESG investment philosophy and product offerings."

"During the last year, SSgA launched a new High Quality Green Bond strategy, which offers investors a way to direct fixed income investments to climate solutions through a portfolio of green bonds. Green bonds – like other bonds – are issued by government or institutional backers such as the World Bank, European Investment Bank, Asian Development Bank and others. The bonds fund environmentally beneficial development projects around the world. The green bond strategy allows investors who are socially aware – and yet focused on the bottom line – to make a lower-risk investment in the green economy."

She explained that although SSgA still manages more traditional socially responsible investment funds, "this new green bond strategy presents greater synergy between profits and corporate responsibility. They offer a way to make money by capitalizing on the growing green movement among both niche and mainstream issuers and investors."

Paton underscored that "these opportunities don't just exist on the asset management side of our business. Over the past several years, in my role as chief of staff for the head of corporate development and global relationship management – as well as being a member of State Street's Executive Corporate Responsibility Committee – I've seen firsthand the increased interest in ESG products from clients." As she explained, "I've also witnessed significant investor behavior change during this same period of time, largely due to the recent financial crisis and resulting regulation. Today, investors want asset managers and custodians who can provide comprehensive risk frameworks and minimize volatility. At State Street, we believe this investment environment presents opportunities for ESG products and services."

Looking at the asset servicing side of State Street's business, Paton noted that the firm "was the first custodian to offer increased reporting to clients who were interested in analyzing their portfolio along ESG lines in addition to financial ones. For this group of clients, reducing risk means incorporating environmental and social factors, a trend that is gaining traction globally. We are in the process of analyzing our asset servicing product line to determine if there are more opportunities to market ESG products to

our client base or enhance current products with an ESG lens."

As she continued, "As part of our own environmental sustainability strategy, State Street has purchased renewable energy credits – or RECs – which offset the firm's electric consumption and resultant carbon dioxide emissions by investing in green and sustainable power generation. Instead of hiring a third party to purchase and trade these RECs on our behalf, State Street Global Markets moved this capability in-house and now executes the transactions. We are in the process of determining the potential client demand for this capability and whether we will market it externally."

Paton noted that she mentioned these different products as examples of how State Street is using its core business to be a responsible company – in a way that also has great potential for future profitability. As she explained, "I'm reminded of hearing the CEO of PepsiCo, Indra Nooyi, speak at a women's conference I attended recently. She said that companies need to do good by doing well. In her view, this is not the same as corporate social responsibility, because every aspect of doing good by doing well is with an eye to delivering profit. You can't deliver profit these days without staying focused on all of your stakeholders, not just shareholders."

"This is essentially State Street's approach, as well. Since the 1970s, State Street has defined its main stakeholders as our shareholders, clients, employees and communities. To be a strong, profitable company, State Street has to deliver value to all of these constituents. The financial crisis reinforced this fundamental premise. The way we govern ourselves is paramount, the service we provide to customers must be excellent, our employees need an environment where they can do their best work, and the communities we operate in must be places where people want to live and work and where State Street is thought of as a valuable and contributing member."

"Environmental sustainability touches each of these constituents… While State Street's direct impact on the environment is small compared to other industries, our indirect impacts through travel and purchasing are significant, and our clients expect us to have a commitment to environmental sustainability. For some of our clients, such as European-based institutions or US public funds, environmental sustainability programs are a prerequisite for doing business. In the UK, for example, a large potential client asked that we comply with ISO14001 certification – the International Standards Organization that is the major accreditation body for health, safety and eco-efficiency – in our flagship building in London."

"After evaluating the cost of seeking certification versus the business potential, the choice was easy. State Street successfully achieved ISO 14001 certification last year in London, Dublin and Edinburgh and just recently received its certificate for our global headquarters in Boston, the State Street Financial Center. This commitment far exceeds the original client request in the UK… it is a great example of doing good by doing well. The short-term investment in ISO14001 certification is justified by the potential for future business and reputational enhancement, not to mention the long-term savings in reducing energy, water and waste."

"In addition to business opportunities and operating efficiencies, environmental sustainability has proven to be a great tool for engaging employees. And it goes far beyond asking employees to plant trees

once a year, although we offer a fair amount of those opportunities through our employee volunteer program. State Street has also chosen to get employees involved in the governance of environmental sustainability. To spread awareness of the company's efforts and to further engage employees in reducing consumption, increasing recycling and more, we rely on volunteer-based, eco-advisory councils and working groups around the world to develop new and interesting ways to spread the message. Employees truly want to volunteer their time for this work. They believe that environmental sustainability is important and they want to work for a company that shares their values."

Their engagement in these initiatives makes them happier, better employees, which helps State Street be a first-rate service provider and ultimately a profitable enterprise. Anyone in financial services, or any industry, will tell you that a firm is only as strong as the people who work there – and our employees are world class. Of course, not every employee is motivated by environmental concerns. We use the volunteer-driven model to help manage our inclusion and community investment programs as well."

Reflecting on her leadership role on many of these committees, she turned to the launch of State Street's inaugural Global Giving Campaign, a program that had to harness the talents of thousands of our employees worldwide to develop and execute the campaign. "This campaign is our first truly global employee giving effort, and State Street is one of the few companies to undertake such an endeavor. Executing the campaign presented numerous logistical hurdles, not to mention coordinating volunteers from each of our office locations around the world. Ultimately, our employees proved more than up to the task. The campaign raised more than $3 million for educational programs for the underprivileged and employees contributed thousands of hours of volunteer service directly to charities. Education resonates among our employees as a universal need and one that will provide ongoing benefits to individuals, families and communities."

State Street's charitable foundation, which has long supported education for underprivileged populations, has recently deepened this commitment by focusing on education with an emphasis on workforce development. As Paton noted, "By giving people the tools they need to succeed in the 21st

century, whether it be literacy, job skills or a mentor, the trajectory of their lives can be changed for the better. These individuals will have the chance to be economically self-sufficient, which benefits not only them, but their families and larger communities as well."

"Investing in education helps strengthen the communities State Street operates in, and it's indirectly good for our business as well. In the context of 'doing good by doing well,' helping more individuals earn a living, gain wealth and invest their future savings can only benefit an institutional investment manager and custodian like State Street. Education is a global theme, but each community we operate in has its own unique needs. Our foundation and volunteer program are managed by local employees in each office who are responsible for identifying those needs and the local organizations best able to meet them. Employees are motivated by being able to spend some of their workday giving back to their local communities, and the activities also present great opportunities for team-building, skill development and talent development."

Noting that companies cannot simply expect that employees will contribute on their behalf, Paton argued that "Companies also need to invest in their people to develop growth, talent and leadership. That's why State Street has devoted human and financial resources to building our Global Inclusion program, which includes management training, a commitment to hiring diverse employees, and a worldwide network of employee groups. I have had the privilege of leading one of these groups -- the Professional Women's Network -- for the past six years. State Street is one of few companies to have a truly global women's network focused on all levels of the organization, from entry level to senior leader."

"To create this global women's community, we formed an executive-level Advisory Board and a Steering Committee comprised of the local network chapter leaders – all volunteers. We also have a network champion from our Management Committee, which is the highest executive body at State Street. We created a global theme of professional growth, which will be nuanced for each local chapter. Our premise in doing this was if our women get better at their jobs, expand their networks and mentor each other, then State Street will also continue to grow… Just like in our environmental sustainability efforts, employees who feel valued and have a community from which to make personal and professional connections often turn out to be the best performers."

In conclusion, Paton underscored that State Street "does not have the 'doing good by doing well' formula completely figured out. We have our share of challenges, and like most global companies, we struggle with regional implementation and effectively communicating corporate responsibility to 30,000 people across time zones, career stages and languages. As the chair of the Professional Women's Network, I am also struggling with how to best harness the talent of our members for State Street's corporate responsibility efforts. Traditionally, our focus has been on career and personal growth, but with employees increasingly wanting to work for responsible companies, particularly among younger workers, I am convinced that the Professional Women's network has a larger role to play. This is especially true given that women make up nearly 50% of State Street's workforce and the average age of our employees continues to drop… Good behavior needs to be modeled and encouraged; we know all too well what happens when values are ignored."

"But we also can't forget that businesses *are* in the business of making money and they can't invest in employees, communities or environmental sustainability without being profitable. Corporate responsibility and profits should be a mutually beneficial relationship; one cannot exist without the other. This symposium will further help us explore where those synergies exist and, hopefully, how business can apply these learnings to not just contribute to society but be a valued and important part of society."

CONSCIOUS CAPITALISM:

THE FUTURE OF CAPITALISM?

Reflecting on the symposium theme, **W. Michael Hoffman**, *Executive Director of the Center for Business Ethics and Hieken Professor of Business & Professional Ethics at Bentley University*, began by noting that today's business is in need of an "ethical compass" more than any other time in our history. Thinking back to when he founded Bentley's Center for Business Ethics over 35 years ago, he argued that reflection on the future of capitalism was never needed as much as it is today. As he explained, "in our nation's development the bedrock principles on which US society has been based are democracy and capitalism – we take this as a given, and in doing so there is a tacit assumption that the nature of capitalism is fixed… however, it is not." Hoffman underscored that capitalism has changed – for better or worse – throughout history and will continue to change, yet no one can predict what that future system will look like with any degree of certainty. Still, he argued that our system of capitalism is being challenged as never before, and fresh insights are needed to respond to the current situation.

Mike Hoffman
Bentley University

According to Hoffman, "an economic revival cannot come about through glossy ideas built upon wishful thinking and unsustainable business practices… we need systemic change." Yet, instead, he underscored that we have lurched from crisis to crisis, with regulators scrambling to catch up with ever more sophisticated means in response to the latest scandal and crisis. "There has been an unending cycle in which unscrupulous businesses engage in a cat and mouse game, seeking ever new and ingenious ways to trick the system while society foots the bill…. we can clearly see the problems but no one seems to have a solution."

Noting that we are facing a crisis of faith in our system of economic organization, Hoffman drew on the 2012 Edelman Trust Barometer, which found that belief in CEO pronouncements has plummeted and that there is significant concern that businesses are not adequately listening to their core stakeholders. "We don't believe what our CEOs tell us… but we are facing something deeper, a moral crisis in which the faith guiding our economic system has been seriously distorted… we need a transformation of our faith." This is where business ethics can play a critical role. As he argued, "the purpose of business ethics is not so much to keep business out of trouble, but rather to bring out the best of business, what it could be… restoring our underlying faith in business."

Yet, as he continued, there has been a failure to understand the true nature and purpose of business. "Today, the dominant form of business is corporate capitalism… a form infused with a pervasive normative faith that gives primacy to two guiding principles – profit maximization and personal enrichment… two ideas that constitute the narrative that dominates the broad spectrum of business discourse..." He explained that there are critical flaws in this underlying faith where the pursuit of profit trumps ethics, creating "a dangerous and misguided faith, one that is not conducive to business success."

Calling for a new faith that is sustainable, economically strong and ethically sound, Hoffman argued that the business ethics movement must infuse corporate capitalism with a strong commitment to three alternative principles – focusing on human dignity, service and accountability. As he explained, the principle of human dignity is based on the idea that all human beings have intrinsic worth – "it doesn't matter if you are a customer, CEO or part-time worker, you deserve to be truly treated as a person." The service principle is that all work should be conducted in the spirit of stewardship or service – "all our work has effects on ourselves and on others… we must question whether one's work serves the greater good." Finally, the accountability principle implores companies to "reconcile the tension between personal moral autonomy and organizational authority – "an accountable organization is one in which the individual and the institution are accountable to each other and to the broader society. Profitability, of course, is a central component of business, but not its primary purpose. If a company adheres to the right values to meet its commitment to customers, employees and their surrounding communities, profits will follow… anything else is to put one's faith in ultimately destructive values."

In conclusion, Hoffman emphasized the richness and diversity that has emerged in business ethics over the years, pointing especially to the increased convergence among business ethicists from around the world. "This helps to bring out the greatness of business… the power of ethical business as a force for long-term success." Noting that we are witnessing more and more value in these ideals, he introduced Raj Sisodia and his work on Conscious Capitalism, which presents "an exceptionally strong case that demonstrates how business can excel in both profitability and the ability to meet broader social needs."

Rajendra Sisodia, *Professor of Marketing at Bentley University, and Chairman and Co-founder of the Conscious Capitalism Institute*, started by drawing a metaphor between caterpillars and individuals. As he explained, in its early stages a caterpillar's sole purpose is to consume, but through metamorphosis its higher purpose is revealed as it turns into a butterfly, contributing to the world through pollination and its beauty. As human beings, we can choose to operate on a caterpillar level, focusing solely on our material well-being, or we can focus on higher values, creating more meaning in our lives. The same is true of corporations, with the ability to move beyond the caterpillar phase, which symbolizes maximizing shareholder returns, to a purpose driven, more conscious model, creating true value for their stakeholders. "Unlike the caterpillar we have to have a different level of intent to move toward a different level of consciousness," noting that given the world we live in today, "we

Raj Sisodia
Bentley University

are in charge of our own mutation."

Sisodia argued that we often take capitalism for granted, that far from a malicious system of exploitation, it is simply about free markets and free people – "Capitalism has been the driving force of human development, especially for the common person." Presenting a brief historical overview of human development and capitalism, he underscored that humanity suffered through abject poverty for centuries, contrasting that to the tremendous rise in affluence following the Industrial Revolution and the publication of Adam Smith's *The Wealth of Nations*. Sisodia argued that just like fish are the last to discover water – "they are in it" – the rise of free markets and free people has had an extraordinary impact on our lives, yet "people in free markets are often the last to recognize the real prosperity free markets can bring."

Even though the average person in the United States is 100 times better off than 200 years ago, we are living in a time when there is an extremely high level of distrust in business. As he underscored, "There is a fundamental disconnect between business and the larger society." Referring to Thomas Friedman, Sisodia emphasized that "The growth model we have had for the last 50 years is simply unsustainable economically and ecologically… both Mother Nature and Father Greed have hit the wall at once." Pointing to the devastating impact we have had on our planet and the unintended consequences of how we have grown, especially over the last 100 years – deforestation, species extinction, decreases in the number of animals in the world, increased toxic burdens, a shrinking supply of fossil fuels juxtaposed with increased demand, and, in general, using nature faster than it can renew itself – he underscored that it is simply unsustainable. "We have to figure out how to do things differently."

Sisodia argued that "We are changing perhaps faster than ever before in our evolution… we are faced with an accelerating rate of change… and a different kind of evolution." He noted that even though there has been significant damage to world, we are developing in many areas, especially in terms of increased information access, connectedness and intelligence, making it easier for people to deal with complexity. We are also witnessing an increase in median age, which has significant sociological effects on society, especially in terms of shifts away from values based on money and consumption to "values that are more spiritual and ethical in nature." Women have also become increasingly active throughout the world, further transforming white collar professions and the ways in which leadership is conceptualized, moving away from traditional command and control models to more of a nurturing and collaborative approach. All of this contributes to "our rising consciousness."

According to Sisodia, consciousness means to "see reality as it is," without binders and having a better sense of right and wrong. He argued that our rising consciousness has contributed to the "most peaceful time in human history… even though it is not perfect." Drawing on Tom Stoppard's *Arcadia*, he noted that "This is the best possible time to be alive, when everything you thought you knew is wrong!" Turning to business, he underscored that confidence levels toward business have significantly decreased – and the underlying cynicism and distrust are a result of our higher consciousness, which "has high societal costs as it prevents creativity and undermines our ability to truly serve customer demands." Sisodia argued that despite the evolving nature of consciousness in society, "business has not adapted to these changes… Yet, just like people question their existence, businesses need to do the same."

Drawing on his award-winning book *Firms of Endearment* (Wharton, 2007) and forthcoming volume *Conscious Capitalism* (Harvard Business Review Press, 2013), he argued that there are a growing number of companies – such as Whole Foods with its "Declaration of Interdependence" – that represent a conscious way of being. Sisodia found that these firms were paying their employees much better than the industry average, providing healthcare coverage, being fair to their suppliers, paying taxes at a higher rate, investing in communities, and having a positive impact on the environment. Though these companies spent such additional money, during the 10-year period that was studied, they still outperformed the market by 9 to 1, highlighting the fact that they were producing multiple kinds of wealth in addition to, not as a substitute for, financial wealth. "Business is the ultimate win-win-win-win game—if it is done right. The power of conscious capitalism is that it can indeed be harnessed in order to achieve results like this."

Businesses need to reject the idea that there are always tradeoffs and instead look for synergies, to create a mechanism that is actually simultaneously beneficial for all stakeholders. As we are part of an interdependent, interconnected ecosystem, the job of management and leadership is to create a system that is "self-organizing, self-managing, self-healing, and self-motivating. And that is the power of business."

Conscious Capitalism can be captured in four core tenets. First, businesses need to pursue a higher purpose not simply maximizing profit – "something that inspires, motivates, and energizes society, something that the world needs." Second, there is an inclusive stakeholder orientation, focused on aligning, joining, and integrating the interests of all stakeholders rather than simply trying to balance them. Third, these firms are led by conscious leaders and conscious managers, committed individuals "who care about the purpose of their organizations, inspiring employees to realize this meaning in their work." Fourth, a conscious culture and management are embedded in the business, building off the tremendous human need to care about others, "which is as powerful, if not more, than the drive for self-interest."

In these ways, businesses can improve the quality of their employees' work, treat society as their most important stakeholder, and handle conflicts with their stakeholders through integration rather than domination and compromise. Sisodia emphasized that this way of thinking goes well beyond CSR, which "can often be a narrow understanding of societal obligations with unclear performance implications." Conscious capitalism is beneficial and profitable for firms in many ways. By lowering gross margins but increasing net margins, it improves the financial condition of the company – quite different from the idea of maximizing gross margins with such actions as minimizing supplier and employee costs. As he explained, these companies also have much lower marketing and product return costs as well as lower legal and administrative costs as they don't need to engage in

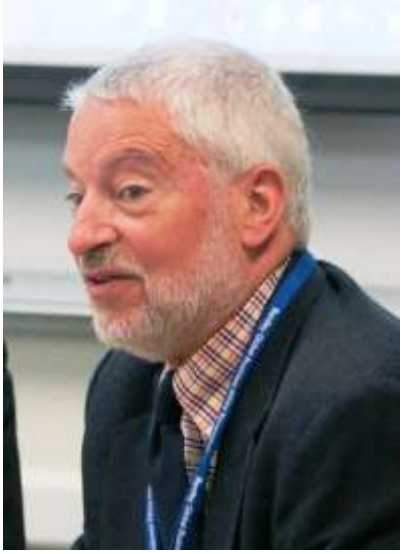
these activities as much as other firms. Moreover, these companies have greater employee retention, engagement, passion, creativity, and self-management, which further uplift the performance of the entire organization.

Sisodia concluded by emphasizing that we are all "in the same boat," that an action or event that happens somewhere else in the world will still affect us as a result of globalization and the fact that we share one planet. As he argued, "Humanity is one spirit… unlike natural resources that are finite our human resources are infinite… those of us alive today have the opportunity to lead the most meaningful lives human beings have ever led … Our challenges are great but so is our consciousness of those challenges and our ability to resolve them... Every challenge we face can become an opportunity for a fully empowered human being to use a conscious approach to business… with the potential to arrive at extraordinary solutions."

RESPONSIBLE MANAGEMENT, RESPONSIBLE CAPITALISM:

IMPLICATIONS FOR BUSINESS SCHOOLS

The panel, moderated by **Will O'Brien**, *Executive-in-Residence at Clark University's Graduate School of Management*, focused on the criticisms and challenges faced by business schools. **Jean-Christophe Carteron**, *Director for Corporate Social Responsibility at Euromed Management* in Marseille, France, began his remarks by quoting Bernard Belletante, Dean of Euromed Management, who has noted that business schools are typically guided by two errors in thinking that are ultimately passed on to future managers. The first is that the "long term is not the sum of short terms," which results in a failure to align attempts to maximize short-term profits with the optimization of long-term performance. The second error is that collective interest is not always the "sum of individual interests." Driven by globalization, "the rules of the game" have changed, necessitating the need to adapt to ongoing competition in real time in different, often far off, places. Unfortunately, he underscored that under these "new rules" the "business model has increasingly shifted to an externalization of bad impacts."



Will O'Brien
Clark University

While stepping into a more complex world where everything is correlated, various crises emerged that require critical examination of the source of these crises. With the exception of natural disasters, Carteron argued that "human decisions made in a professional context were responsible for most of these crises." Turning to what he described as "the most worrying aspect" of this situation, he argued that the people responsible for these crises were "not evil individuals… in fact, they are "good people who do not raise a single question about ethics." Carteron noted that the underlying reason for such amoral actions is the guiding assumption that our jobs are intended to "maximize short-term profit for shareholders." Reflecting on his role at Euromed Management, he confessed that his "biggest nightmare" is having his school's alumni being accused of a crime or contributing to some disaster in the newspapers or on television. As he noted, "I would feel responsible that our alumni would end up in such a situation."

Jean-Christophe Carteron
Euromed Management

Carteron defined the role of business schools as "shaping the attitudes and behaviors of our students," especially infusing the importance of stakeholders in the short term and long term. "Business schools may claim to empower future leaders, but we are also responsible for the evil tyrants of the corporate world." Concluding his comments, he pointed to two possible solutions for this situation. First, which he argued is really the least possible method, is checking every student enrolling in business school to examine their "psychological and moral nature to make sure they are genuinely good people." As he continued, "the only solution that is feasible and likely to succeed is to guarantee that no one graduating from business school could ever claim that 'I'm not

responsible because I didn't know.' As academicians it is our responsibility to guide the students to make the right decisions and act in the right ways."

Michael Johnson-Cramer, *Associate Professor of Global Strategy and Ethics, and Director of the School of Management at Bucknell University,* began by using an exercise based on Edward Bellamy's novel *Looking Backward* to examine the importance of our current and future business world. The exercise reenacts the novel's plot of its protagonist sleeping for 123 years and awakening to a new world – the challenge is to analyze that world, comparing it to the one left behind and deducing the reasons underlying those changes. By going through this exercise and trying to predict what the world would be like in 2125 is clearly challenging and fraught with questions. He asked the audience to focus on the role of business schools and how this might have changed. How might management evolve? What type of capitalism would we experience? As he suggested, there are many different paths that we might follow.

Johnson-Cramer suggested one view is that the future might hold a new business model, embedded with responsible management principles and grounded in social responsibility and ethics. As he continued, he lamented that he is relatively pessimistic about the models used in our current business schools models, but noting that this current approach "is sure to change." Despite the fact that today's business schools enjoy widespread popularity, the dominant ideology could change and the "very existence of business schools might even be questioned." Noting that society's trust in business schools is "on a slippery slope," he pointed to the multiple economic and financial crises we have experienced from the mid-90s through the early 2000s. As he argued, other fields are gaining credibility, as evidenced by Wall Street's announcement of employer preference in hiring engineering school graduates over business school graduates.

Johnson-Cramer underscored that this downward trend in interest toward going to business schools might be a result of a new generation being more purpose driven, but also more cynical about the value of our educational mission. Whether the reason of this trend is based on economic conspiracies, antagonistic external sources, skepticism about the U.S. educational system, the increasing cost of education, or a host of other factors, he warned that the popularity of business schools is in a precarious position. This trend might result in elimination of business schools, even though some b-schools would probably continue to exist that "cater well to the elite." As he concluded, the question of whether business schools will be influential in the future could very well hinge on their ability to influence businesses and business people in a positive direction, perhaps even grounding what they do in the context of responsible capitalism and responsible management.

Michael Johnson-Cramer
Bucknell University

Jonas Haertle, *Head of the Principles for Responsible Management Education (PRME) Secretariat, U.N. Global Compact Office,* began his comments with an overview of the UN Global Compact and its goal of infusing universal values in companies' strategies and operations around the globe. The UN Global Compact office is currently working with more than 7,000 companies to embrace

responsible business practice, focusing on human rights, labor issues, the environment and anti-corruption.

Haertle defined corporate sustainability as "a company's long-term value creation in financial, social, environmental and ethical terms," and noted that companies that commit to the UN Global Compact are asked to adopt this concept in their operations. For the United Nations to have a true impact on the today's world, he stressed that it is not enough to work with governments and other international organizations alone – that it is imperative to work with companies as well. This paradigm shift for the way the UN works took place at the end of the 1990's and opened ways for the UN to work more closely with non-governmental stakeholders in order to deliver on the UN's objectives of human rights, peace and development.

Jonas Haertle
PRME Secretariat

As part of the evolution of the UN Global Compact, Haertle pointed out that in 2006 the U.N. decided to broaden its approach by taking other stakeholders into consideration – financial investors and business schools. With respect to the investment community, the UN created the Principles of Responsible Investment (PRI), of which State Street is a signatory. The PRI is intended to encourage financial investors to "mainstream ESG activities." The second stakeholder group was business schools, focusing on the need to create a sustainability mindset in the next generation of managers and business professionals. Through the UN's PRME initiative, emphasis is placed on developing the "capabilities of students to be future generators of sustainable value… for an inclusive and sustainable global economy."

Noting that in mid-June the Rio+20 Global Earth Summit will be held in Brazil, he argued that one measure of the success of the PRME initiative, with its more than 450 signatories, is that its 3rd Global Forum would kick-off the Summit. As he pointed out, in the original Earth Summit in 1992 business schools and academics were not involved at all, literally "nowhere to be seen." Today, however, it is being increasingly recognized that PRME is offering "a platform for responsible management to be seen and heard as an able driver for sustainable development." As he concluded, the main objective of PRME is to find ways to make responsible management a reality, contributing to sustainable practice and "reshaping the mindset of future managers to embrace responsibility."

GOVERNANCE AND THE RESPONSIBLE ENTERPRISE

Pat Flynn
Bentley University

The panel on "Governance and Responsible Enterprise" was moderated by **Patricia Flynn**, *Trustee Professor of Economics and Management at Bentley University*. She introduced the theme of the panel by drawing attention to the paucity of women on corporate boards. Reflecting on her co-authored report, *The Census of Women Directors and Executive Officers in Massachusetts Public Companies*, and her experience as a board member of several public companies, she noted that the lack of women directors is evidenced by the "need to include decimal points in reporting trends on the status of women in corporate boardrooms in order to show any progress!" Highlighting that comparable Census reporting is ongoing in thirteen other states – with similar results – she began by asking the panelists," what is the definition of a responsible enterprise?"

In response to Flynn's question, **Kathleen Rehbein**, *Associate Professor of Management at Marquette University*, argued that while the definition of the responsible enterprise is difficult to pin down there are multiple attributes that could be delineated as common to responsible companies. From a societal perspective, she argued that it is impossible for responsible firms not to have any environmental footprint. There does seem to be progress, however, as many companies are "trying to make society better in addition to making money." She drew attention, however, to a needed sense of urgency in society, that the business world must speed up responsible management actions, fully analyzing the different perspectives of its stakeholders to embrace the truly important issues. As a result of the increasing information that is readily available about companies, their products and operations, stakeholders – especially employees and consumers – have a greater opportunity than ever to exert influence on the firms. Yet, while this perspective raises possibilities, she argued that companies don't always have a good understanding of how their CSR efforts are being received by their stakeholders. As she noted, companies should fully investigate customer and employee response to their social responsibility measures, delving into such questions and concerns as "how should we communicate our efforts? … what information would be most useful for our stakeholders? … for our own practices?"

Kathy Rehbein
Marquette University

Shawn Berman, *Associate Professor of Management and a Bill Daniels Ethics Fellow in the Anderson School of Management, University of New Mexico,* continued the discussion, agreeing with Rehbein's remarks and pointing to the "impossibility of finding an enterprise that is responsible to all key stakeholders, a good corporate citizen that is truly a socially responsible member of society." As he explained, the notion of corporate responsibility is a very contextual question – how does the firm treat its employees? It's customers, suppliers, financiers? What about the business' impact on the natural environment? … one has to investigate each of these areas, one by one to get a true feel for their performance." Corporate responsibility is often in the "eye of the beholder," as when a firm makes a decision that some are in favor of, yet with others opposed, as we see with political donations." Such

actions might not fulfill every stakeholder expectation… a company that might be recognized as "the shining star of social responsibility" could very well "end up a week later with a very different image brought about by a single action."

Shawn Berman
University of New Mexico

Matthew Patsky, *Managing Partner and Chief Executive Officer of Trillium Asset Management,* continued the conversation, noting that "just as there are no perfect people, there are no perfect companies… [At Trillium Asset Management,] we look for companies that are trying to do the right thing, in terms of the environment, social impact, their governance… We work with the companies, as activist shareholders attempting to push them in the right direction after we have invested in them."

Matt Patsky
Trillium Asset Management

Patsky argued that in a global environment we need "dynamic measures to define responsible enterprise," especially given that we are at "different stages of economic development with cultural differences." To illustrate his point, he raised questions for the audience – what is the appropriate age for children to enter into the work force? What is slave labor? – arguing that our definition of acceptable practices can be very different when looking at the situations in other countries. He questioned whether we can hold these companies to the same standards as US business. As he suggested, "If we do, they are not going to be in business… It can be a tricky situation."

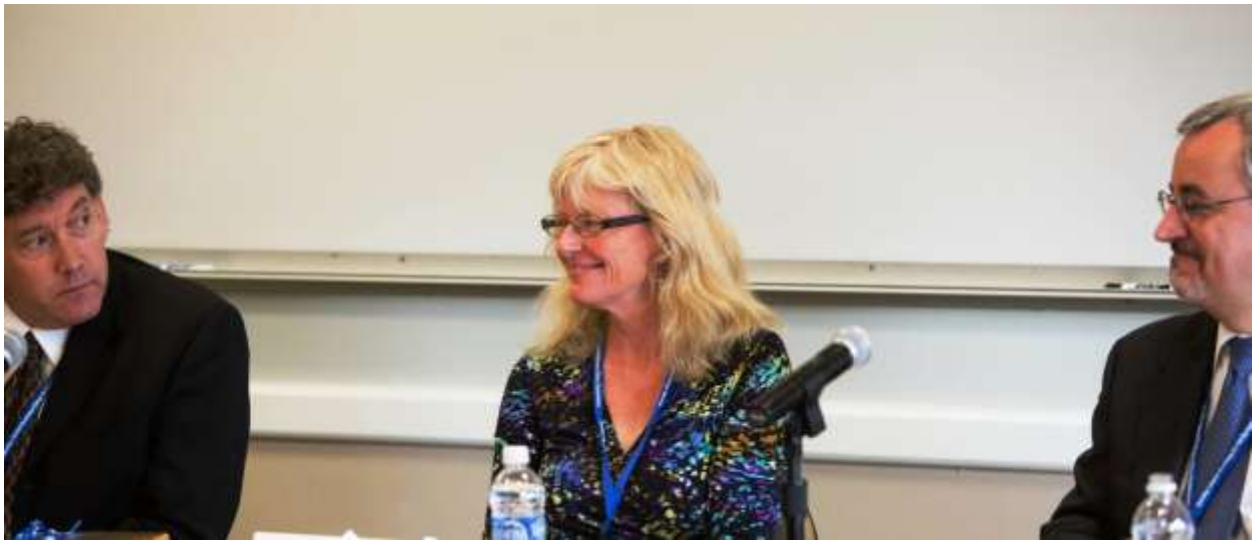
Turning to the research on social responsiveness and corporate governance, Rehbein argued that in today's world managers" have much more discretion in "making business decisions that align with social priorities." Yet, an underlying challenge is that managerial entrenchment might cause managers to hold back from pursuing a social goal or investing in socially responsible initiatives, believing they are "going to get bigger offices and take over more businesses… that they don't really have to worry about being socially responsible." A related problem, however, reflects the opposite reaction, when entrenched managers decide to "overinvest in social programs and philanthropy for their own sake," as a way of enhancing reputation or gaining other benefits. In such instances, "the scale of investment can actually harm the company financially."

Continuing the conversation, Berman emphasized that in order to have responsible operations, companies must be able to make a profit. As he explained, without money firms cannot operate and when they cannot operate they will not have funds to invest in social responsibility projects. As a result, he emphasized that firms must initially "take care of their internal stakeholders" and they have to be profitable in order to do this… does the business model make sense. "But being profitable is not only measured in financial terms… Is top management providing strong ethical leadership? For a business to have a positive impact on society it has to move beyond discussions that just focus on the negative aspects of business, which are inherent in some of the writings in CSR."

"We need to re-envision what it means to be a successful business." As he argued, it is business' responsibility to deal with the consequences of their actions, but it is a very different case if a company had nothing to do with the problem. If companies are not related to an issue through their business activities then they should not be held responsible for not taking action to stop that issue. There should be an "alignment between what a business does and the kind of societal expectations we're putting on it. The challenge is to align a company's social goals with its business goals."

Patsky pointed out that despite the fact that Trillium Asset Management has been involved with ESG integration in public markets for over 30 years, "when you quantify the numbers and look at returns over a year, there is no correlation between integrating environmental, social and governance initiatives and shareholder value." At the same time, he emphasized that there is no evidence supporting the argument that investing in ESG might harm a company. "While quantification might not provide sufficient evidence, anecdotally ESG performance gives us insight into the quality of management, which can be very useful."

In thinking about governance issues, Rehbein underscored that the nature of the capitalistic system in which companies operate also has an effect on their social responsibility practices. As an example, she explained that firms that are protected from the threat of takeovers and external control have "the luxury to think about social problems." When larger investors get involved, however, the dynamic is different and, in many instances, managers might invest in CSR to create alliances "rather than social projects that will do good."



In conclusion, Rehbein turned to the ability of activist shareholders to exert influence on company decisions. As she argued, "it is similar to a 'David versus Goliath' situation where these shareholders simply do not have enough power to impact company operations, not to mention the fact that not every manager listens with sincerity to these activists." Yet, despite these challenges, she underscored that there are many examples where shareholder activists have created a shift in company practices, noting there is often a time lag involved. "Shareholders are often on the warfront, and … you don't typically see the

change at the beginning of a social movement… the results require a certain amount of time to fully emerge."

Berman noted that research in this area shows that the correlation between environment, social and governance factors and shareholder value is, in general, very small, but there is no drawback in being social responsible. As he continued, "companies that take extra measures on safety and sustainability also minimize the risk of their operations and their portfolio." Concluding his remarks, he turned to the lack of trust we are witnessing in the corporate world, noting "… when we start to worship at the temple of shareholder returns, we need to think about who is really involved in the business."

Continuing the discussion, Patsky suggested that shareholder resolutions might have a greater impact than apparent. As he explained, "we typically talk with companies about filing a shareholder resolution, rather than going public with it… so these efforts are not in the public domain." Advocacy issues are also more effective when they are supported by a broad array of stakeholders. Pointing to Wal-Mart as an example, he argued that the company's "move to being greener was in response to pressure from all stakeholders – not only shareholders but employees, NGOs – this is what makes organizations listen."
Reflecting on the conversation, Patsky noted that the conventional approach has been that "fiduciary responsibility means maximizing profits, so it assumed an inherent conflict – a violation of the prudent man rule – when nonfinancial information was considered." This view is changing, however, as witnessed by the conscious capitalism movement we heard about this morning. Moreover, he pointed to a CFA Institute study that found that "integration of ESG can help to identify risks that might otherwise be missed."

As he concluded, working with companies to enhance their ESG profiles can create a hostile atmosphere with some firms, but he underscored that "in general we have a good relationship with the companies we work with… they are increasingly accepting of open dialogue… looking for ways to improve their operations." While such advocacy may not strictly have the ability to change company decisions, it does play an important role, and it is becoming a "much more collaborative effort."

LUNCHEON SPEAKER:
STEPHEN YOUNG, *CAUX ROUND TABLE*

Stephen B. Young, *Global Executive Director of the Caux Round Table*, began his remarks by calling for action, quoting Karl Marx that "up to now philosophers have only interpreted the world… the point, however, is to change it." Referring to earlier presentations by Bentley's President Gloria Larson and State Street's Pamela Paton, Young argued that the type of capitalism they depicted is "the type of capitalism we all want – and there are consequences for both business education and how businesses are managed." Drawing on Paton's earlier comments, he agreed that corporate responsibility and profit must be mutually beneficial. "CR or corporate social responsibility, which is the moral side of capitalism, and profit should be mutually beneficial, but to get there we need to, at a minimum, reframe financial theory, which lies at the heart of our modern understanding of business and the enterprise of business education." Given this situation, he emphasized that his remarks would "provide a prediction and a prescription about capitalism," which, he noted, are interrelated.

Steve Young
Caux Round Table

Turning to the 2008 collapse of capital markets, he pointed to the failure of the market for commercial paper in October 2008. As he argued, "when the market for commercial paper, short-term notes that basically fund the cash needs of all major American companies, seized up, a phenomenon that has never happened in the history of the United States, our economy was at the edge of collapse… and if this market collapses, the economy would come down with it." This crisis, he pointed out, was only averted when the Federal Reserve System guaranteed the "obligations of corporate America." "The quality of this failure is monumental… the Federal Government had to guarantee this great creation of American capitalism… something happened to put us in this position."

Over time, he noted, people and capitalism change. As Young argued, there is a deep bond between Capitalism and Democracy – and the underlying idea is that each works together to reinforce the other, "the more successful each was the better for the other." As he pointed out, the middle class was the link in the middle… but today "there is a new scale as to what it means to be middle class and that is the emergence of civil society." The UN, he explained, has recognized this with the creation of its Global Compact, as a way to more fully accomplish its mission and objectives, by engaging NGOs with multinational companies. As he argued, given these changes, the level of autonomy once enjoyed by corporations "is now clearly a thing of the past."

In the western world, business' autonomy, which was derived from Roman law, "reflected complete discretionary, arbitrary power… our theory of the autonomous firm." With the rise of civil society, however, businesses are no longer autonomous, and they must become accountable. As he asked the

audience, "Would you prefer the alternative? Could you stand up and argue persuasively for the immorality of capitalism and business? I doubt it."

To further illustrate his point, Young drew attention to the increased total of debt to GDP, noting that even though our economy has gone through several crises and World Wars, the biggest impact did not happen until 1980s. After 1985 there was a significant increase in debt to GDP, which, according to Young, might signal an asset bubble. As he continued, "we then had a totally unsustainable market. It was a bubble and it had to collapse… financial meltdowns have been a systematic dysfunction of capitalism since its very beginning – from Tulip Mania in Holland in 1636 to Wall Street in 1929 to more recent junk bonds, dotcoms and subprime mortgages, the same basic patterns existed… lots of debt and lousy prices, loading debt onto people whose incomes were basically flat." Suggesting that this is an embarrassment, he posited, "I submit that 400 years is enough time to have learned some lessons."

Markets, he argued, misprice, a reality that undermines current financial theory – which rests on the presumption that markets are fundamentally rational. Given the rationality assumption, it is relatively easy to create mathematical algorithms to guide decisions, which reinforced the belief that there wasn't any risk in trading on high levels of debt. "The driving assumption of market rationality led to the assumption that markets were so rational there wasn't any risk, which fueled speculation and trading," which he referred to as "fundamentally gambling."

Drawing on John Maynard Keynes' *The General Theory of Employment, Interest and Money*, Young noted that arbitration and speculation in financial markets are "similar to the prettiest girl contests in a fictional newspaper game." As he explained, winning the contest was not picking the person an individual thought was prettiest, but rather the woman that the individual thought that the majority of people would select as the prettiest. This dynamic, he suggested, caused herding behavior, as people would pick an option that wasn't based on their own genuine preference but rather on a guess that they felt would

increase their chance to win. Since most trading is based on intangible assets, which are nothing more than contract rights for future income, he claimed that there is an "infinite elasticity of supply" with low marginal costs to the issuance of more and more financial contracts, which readily contributes to speculation and risk taking – in essence, contemporary "prettiest girls." The resultant "noise" in the trading pits of finance, created by irrational reasoning and a herd mentality, can readily lead to mispricing of these assets.

Young also pointed out that markets also misprice rent extraction, activity which can generate cash by using some type of power, which could be based on political, economic or even criminal clout. As an example, political power could create monopolies or cartels, and with the help of such government power monopolies and cartels distort prices upwards from efficient buyer equilibriums, or downwards to squeeze suppliers and producers. Third, given that externalities do not factor current or future contingencies into market prices, the common good or the more remote consequences of a firm's actions are not taken into consideration in pricing.

Given these challenges, Young argued that there is a need for a long-term equity perspective in pricing and financial theory as all the intangible factors that have an impact on the company are not now used in valuation. As he continued, accounting, which has a major role in valuation, is based on past results, but the real value of company should be related to future company innovations and actions. Goodwill, for example, which is an intangible asset of the company, reflects the accountability of a business. Using Apple and Starbucks as examples, he argued that these firms have goodwill, which is a calculation between the balance sheet and market value of the firm, of more than 80%. The importance of such intangible assets in today's market is tremendous, as on average 70% of enterprise value is based on intangible assets, which can be up to 90% for technology companies.

An important driver for the value of the company is the relationships it has with its stakeholders. Young argued that valuation of a company is a result of its intangible assets and these intangible assets are related to stakeholder relationships, which are based on ethics and accountability. As a result, he argued that the valuation of firm is actually related to how a company deals with its stakeholders – "the financial capital of a company is a combination of reputation and human capital."

Young concluded by providing his prescription for creating metrics for valuation of a company that take intangible assets and ethical values into consideration. Pointing to the Caux Round Table's (CRT) Principles for Responsible Business, Young argued that they were designed to be "business relevant and business sufficient." The CRT's metrics are based on responsibility and accountability, and he argued that resulting financial outcomes have illustrated that responsible countries can outperform other firms. As he explained, "better financial results can be achieved by using metrics that actually encourage investments and management decisions that are based on responsibility and accountability." Turning to his final prediction for capitalism, which he argued will ultimately happen, "it is more a question of when." Young underscored his belief that "corporate social responsibility, ethics and profit must be integrated… and put together in the right way that will optimize and maximize the benefits of capitalism."

THE BUSINESS OF PEACE:
THE PLACE OF BUSINESS IN RESPONSE TO THE INDIA-PAKISTAN CONFLICT

Bob McNulty
Bentley University

As part of the Symposium series' "Business of Peace" initiative, the panel, moderated by **Robert E. McNulty**, *Director of Programs for the Center for Business Ethics at Bentley University, and Founder and Executive Director of Applied Ethics, Inc.*, brought together scholars from India and Pakistan to examine the conflict between the two countries. McNulty provided a brief historical overview of this conflict – referred to by *The Economist* as the "most dangerous border in the world" – setting the context for the discussion between the visiting scholars.

Huma Naz Siddiqi Baqai, *Chairperson of Social Science, Institute of Business Administration in Karachi, Pakistan,* drew attention to the four wars fought by India and Pakistan over the last century, with constant propaganda and tension between the two nations. Questioning the effectiveness of the latest round of peace negotiations since the Mumbai terrorist attack, she argued that "this time Pakistan is more willing to resolve the issues between the two countries… as the conflict is hurting Pakistan more than India." Although it is difficult to point to a specific reason why "this is the right time," Baqai explained that unlike previous engagements "this time all key stakeholders are on board." Ongoing changes in Pakistani Civil Military relations are another important factor increasing the possibility of achieving peace. There has been "increasing accountability in the Pakistani military, which is seen in the media's and judiciary institutions' growing trust" in that institution. As she noted, even though Pakistan is a democracy, the military establishment exerts a major influence in the country.

The situation in Afghanistan and other related global events have also had a significant influence on Pakistan-US relationships, which may impact Indo-Pak relations. According to Baqai, "Pakistan exists between two fast growing economies and it should build on this momentum, especially since there have been major paradigm shifts that are resulting in strengthening democracy in Pakistan, which will favorably impact regional equations." Although the US has provided Pakistan with regional support, the present relationship between the US and Pakistan has had "no constructive impact on improving our relations with India." Baqai argued that in order to improve Pakistan-India relations, the US must stop trying to "micromanage" Pakistan. There is definitely a major change in Pakistan as even the most aggressive lobbies, which were "willing to fight until their last breath," are now supporting peace negotiations, seeking a political resolution to the conflict.

Huma Baqai
Institute of Business Administration – Karachi

Baqai argued that terrorism is not an option – "Pakistan is not only functioning under international search lights, Pakistan is also a victim of terrorism… and there has been a definite change

in mindset and accountability." Yet, as peace between India and Pakistan seems more achievable – seeing "antagonism turning into accommodation" – she expressed concern that the "warzone has moved to Afghanistan." As she explained, this area must become "a zone of cooperation… Pakistan cannot live with two hostile borders."

Concluding her remarks, Baqai stressed that business can help the peace building process. Arguing that trade between Pakistan and India is a "win-win situation," she underscored that both sides would benefit from improved business relationships. "India has a middle class of 3 million people, and just 10% of the Indian market would double Pakistan's trade volume with India. Yet despite the fact that India's foreign direct investments and liberalized visa agreements are promising, she cautioned that increased trade alone is not enough to achieve peace. "Other important issues must be also addressed if we are to achieve peace, such as water, and the tensions related to Afghanistan, Baluchistan, Kashmir, and Siachen Glacier." She pointed out that Pakistan must also show complete commitment to the fight against terrorism and "prove our sincerity in meeting these challenges." Reflecting on her recent trip to India, Baqai emphasized that while the situation is changing – there is more talk of increasing trade, ending war – "unless the issues that are held important by both sides – terrorism for India, Kashmir for Pakistan – are embraced, it is doubtful that the relations between the two countries will, in fact, move forward."

Jerome Joseph, *Senior Professor, Indian Institute of Management in Ahmedabad, India*, began by emphasizing the importance of achieving peace through people to people relationship building. Although the current generation has experienced over six decades of tensions and conflicts over several issues and Kashmir, there are several indicators based on recent developments that give hope for a movement towards greater peace between the two neighbors. As he argued, India and Pakistan share a significant common history, cultural values, cuisine and language, as well as many traditions, besides families divided across unwelcome borders. The two nations should no longer be consumed by conflict and unnecessary, unproductive tensions. Grievances on both sides should be addressed through negotiations – "The substantial grief on both sides is nothing but a result of avoidable human tragedy. Grief and grievance together can be leveraged by anybody for political purposes… but this can be channeled for peaceful purposes as well."

Jerome Joseph
Indian Institute of Management

The stories that are passed down from generation to generation of the horrors of the partition should be recognized as reflections of one's perception of events, which do have "roots in numbing grief and divisive grievance… but these stories should not be used to feed and fuel grief and grievance in harmful ways." As he explained, "there have been losses on both sides of this turmoil."

Continuing his assessment of the present situation, Joseph noted that the volatility of political and social issues has shifted to the Afghanistan border, which has altered the dynamic of the Indian-Pakistani conflict. Moreover, given the tragedy in the not long ago avalanche in the Siachen Glacier, in which over 120 Pakistani soldiers lost their lives, and earlier loss of life of armed forces personnel on both sides of the Glacier due to extremely difficult living conditions, discussions have focused on trying to resolve

such issues so that resources can be shifted towards economic development, which alone can provide further hope for peaceful co-existence. Even though military and non-state actors have dominated the discourse between the two nations, he pointed out that even after the Mumbai attacks, there was no retaliatory actions from the Indian side; in fact, on the contrary there have been initiatives from the Indian Government and the Government of Pakistan to reopen dialogue to address pending issues, which, he argued, was another sign of optimism for achieving peace.

In order to improve relations between the two countries, it is important to address people's fears and anxieties on both sides, and not engage in war mongering or sabre rattling as is evident in certain sections, which he argued "is not in tune with reality." The possibility of war between India and Pakistan is quite remote, and, as such, the mindset, sentiment and atmosphere should focus on addressing the outstanding issues between the nations. As he explained, "If we begin by resolving some important issues, such as trade relations, the dispute over Siachen Glacier and water security, some of the more complex issues can be handled with greater composure and confidence." He argued that businesses, like any stakeholder on both sides, have a significant role to play to aid the quest for peace by building entrepreneur-to entrepreneur and person-to-person relationships. Management schools can also play a role in bringing students, practicing executives and entrepreneurs into joint developmental programs, not only to further capacity building but also to facilitate meaningful bonds across seemingly impregnable borders.

Pointing to the need for genuine healing processes on both sides, he noted that sports can also assist peace building. "People of both nations love cricket… by reviving cricketing ties between the nations, both of whom can boast of world-class cricketing talent, many of whom are hero worshipped across borders, we can turn hostile tensions into more humane, competitive and sporting relations." As he concluded, the most important tool to reach peace is "by thinking peace in our minds and hearts…. We have to keep on talking, and if we walk long enough and talk long enough there is a solution to every problem including Kashmir."

Hashir Ibne Irshad, *Assistant Professor, FAST National University and Head of FAST Consulting in Pakistan,* set the context for his comments by noting that India and Pakistan "cannot feed many of their children, cannot provide clean drinking water to 60% of their population, cannot help but make their children lose their childhood at the hands of object poverty, have ever bulging defense budgets while having petty allocations to education and health… with cities that have the most horrible slums and most glorious mansions at the same time, not to mention deep rooted corruption." Irshad, calling for an end to hunger, poverty and exploitation, believes "this is simple to achieve, but the simplest solutions are mostly the hardest ones."

Hashir Irshad
Fast National University

Reflecting on his personal experiences and observations, he pointed towards an alarming trust deficit between the people of the two countries stemming from misunderstanding, confusion and uncertainty. He lamented, "We are nations with a desire to be friends yet we want to remain enemies… despite this dilemma, peace is a must."

Irshad thought that both nations have been looking the wrong way when trying to achieve a sustainable peace and the time has come to change the perspective. His "simple solution" is nothing but considering peace as an outcome, not an objective or a strategy in itself. According to him, peace cannot be achieved by striving; the key is making people realize its importance through a shift in perceptions. He argued that instead of thinking that India and Pakistan have failed to achieve peace, the better approach would be to look at it as "they found numerous ways as to how peace cannot be achieved." As he explained, "Just like Edison discovered 9,999 ways not to build a light bulb so too can India and Pakistan learn from their mistakes." This is the time to find the 10,000th way rather than spinning the old, tried and failed approaches.

He stressed that a new approach should embrace a new ideology, with peace being seen as a process, a "byproduct of cross-country relations." Thus India and Pakistan should work on improving those factors that would ensure and empower peace. As he suggested, thinking of peace as a goal is ineffective, that telling people peace will bring benefit and development to both countries will not work "as people have been brainwashed with so much hostility and grief they would not listen to your reasons."

According to Irshad, there is so much hostility and anger today that people translate these feelings into "meaningless actions and showmanship for cheap thrills." He emphasized, however, that this competition and rivalry could be altered as "every disruptive force can be used for construction." As he explained, a race to outpace your enemy can be beneficial in developing both countries and peace could be achieved at the end. "If both countries try to outsmart and outperform each other, in areas that reflect positive development measures – education, energy, economic development – both will be stronger."
As he continued, the responsibility now lies with the intellectual elite of not only India and Pakistan but the entire globe to let the people of this region become educated, becoming more aware of the possibilities and potential. To Irshad, the key is to separate the two countries and focus on them individually. When you focus on making educated, aware and responsible citizens in Pakistan with a desire to achieve greater heights, they will sooner or later realize the value of lost opportunities because of the widening chasm between India and Pakistan. They would then cumulatively be voicing for soft borders, common currency and free-trade agreements as it would be self-serving.

As he underscored, "humans by default are self-serving… even though that may not sound very noble. Unless we invoke their selfish desire to achieve whatever is possible for their own betterment, there will be no peace. When we succeed in doing so, the barriers of religion, past animosities and hatred all will erode…You will not need to find a solution for Kashmir, it will find a solution for itself. Peace will find its way," he concluded, "if we change the rules of the game."

The final panel speaker, **Simrit Kaur**, *Professor of Public Policy at the University of Delhi,* started her comments by expressing her admiration of the Pakistani people, their language, culture and their beautiful women. She particularly mentioned the hospitality that several Pakistanis extend to Indians during their visit to Pakistan.

Kaur's basic theme of discussion was centered on "Do the two countries necessarily have to depend upon political intervention for peace building in the Indo-Pak region? Cannot the private sector play a role towards peace-building? Cannot the *money-makers* become *peace-makers* in the two countries? If the

answers to these questions are yes, could it be an extension of a socially responsible corporate sector?" Noting that the answer to the questions is in the affirmative, Kaur emphasized that a socially responsible private sector must work towards peace-building. In her view, while the role of the private sector in economic development has received tremendous attention, its role in conflict resolution remains rather unexplored. Fortunately, recent years have seen a change in this view. Similar to the global trend of the "privatization of goods and services," which became so widespread a few decades ago, she discussed how scholars are now talking about the "*privatization of peace.*" Cessation of violence generates a peace dividend and the sooner the private sector realizes it the faster will be the "production of peace." Unfortunately, she felt that this has not been the case in either India or Pakistan. She emphasized the importance of peace by stating that "no matter how much color we place on pictures of conflict" the issues they capture "remain as black and white as ever."

Simrit Kaur
University of Delhi

Kaur pointed to the United Nation's involvement in recent years with a trilogy that seeks to identify, evaluate and promote the role of companies with regard to its three founding pillars: human rights, development and peace-building. The basic focus here is that in order for a company to contribute to peace, it must have a "conflict sensitivity" perspective – that is, it must adopt policies/elements that lower tension and minimize violence within their area of influence. It is in this context that she argued that the private sectors of the two countries have a lot to learn from international experience.

Turning her analysis to the conflict between India and Pakistan, she quoted Collier-Hoeffler's "greed" and "grievance" theory, suggesting that rebels conduct a civil war for "loot-seeking" and "justice-seeking" reasons. To the extent the private sector generates productive employment in the region, it will lower *grievance* among the youth, thereby de-motivating them to join a rebel group. Also, if higher growth due to enhanced private sector investments increases per capita incomes, the opportunity cost for a household to become an anti-state actor rises. Not only will it lower the greed factor, but it will also simultaneously lower the probability of grievance as a factor to rebel. "If the private sector provides opportunities for our youth and appropriate education is also provided simultaneously, it is likely that these young people will not seek to profit from these horrible acts." However, as she cautioned, education and economic opportunity must run in parallel because "if our youth doesn't have economic opportunities while they are being educated, it will create more educated and more dangerous members of anti-state organizations."

In conclusion, she pointed to the underlying challenge that the private sector in both countries faces a poor business climate. As she pointed out, in terms of "ease of doing business," Pakistan is ranked 105, while India ranks at 132 out of 183 countries. She thus argued that much needs to be done in making the investment climate friendlier in the two nations. According to Kaur, "this challenge, to say the least, does not require bilateral talks – that may even fail!"

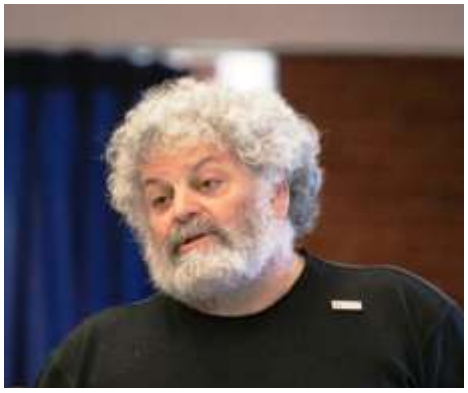
CAPITALISM AND THE FUTURE ENTERPRISE:
TRENDS, CHALLENGES AND POSSIBILITIES

The closing plenary panel, moderated by **Cynthia Clark**, *Assistant Professor of Management and Director of the Harold S. Geneen Institute of Corporate Governance at Bentley University*, focused on trends, challenges, and possibilities with respect to the enterprise of the future. **R. Edward Freeman**, *Elis and Signe Olsson Professor, Academic Director of the Business Roundtable Institute for Corporate Ethics, and Senior Fellow of the Olsson Center for Applied Ethics at the University of Virginia's Darden School of Business*, began the conversation by examining the issues underlying responsible capitalism and ways that the current business model could be improved. Freeman emphasized four core challenges – the need to recalibrate the traditional business model, broaden the idea of purpose, focus on creating value for a broader range of stakeholders, and recast the narrative about business.

Cynthia Clark
Bentley University

Criticizing the dominant model of shareholder maximization, he argued that this model "misses the mark in terms of understanding what business really does." As he continued, "Consider the limitations when attempting to think of a company that only cares for shareholder value… many firms, especially large corporations, engage in philanthropy and corporate social responsibility (CSR)." In moving toward a model of responsible capitalism, Freeman emphasized the importance of entrepreneurial spirit. "Most entrepreneurs start their business precisely because they want to remake the world," he argued. As a way of remaking that world, he suggested that the idea of shareholder value must be broadened to include philanthropy, CSR, sustainability and stakeholder value, which lie at the core of conscious capitalism.

As he continued, it is important to think about how businesses work instead of how markets work, stressing the entrepreneurial purpose of improving customers' lives. "Businesses start with a purpose and that purpose evolves," Freeman noted, pointing to Whole Foods' John Mackey who started his business to provide good food to the community. Whole Foods's purpose expanded as it evolved, but it "was never to maximize shareholder value… we can think about responsible capitalism as turning loose our entrepreneurial spirit."



Ed Freeman
University of Virginia

Turning to stakeholder theory, which he argued is how businesses actually work, the underlying challenge is to "find a way to simultaneously satisfy customers, suppliers, employees, community, our shareholders." As he continued, friction in any area of business can be a source of value creation. Using green technologies as an example, Freeman underscored that these advances emerged from community concerns, the push for good working environments, and the quality movement. "Just like in theatre, creativity is generated by the constraints of business."

Concluding his comments, Freeman turned to his fourth challenge of remaking the narrative about business, which should be "concerned with purpose and creating value for stakeholders." The reason capitalism works, he argued, is because human beings are complicated – not because we are selfish. "When people want to be great they want to be part of something that is bigger than they are… when we make voluntary decisions to collaborate to work together and create value, society flourishes." Finishing his remarks, he noted that business is an "institution of hope," but he cautioned that business schools are falling short of raising an appropriate level of awareness about these critical challenges – and that "calls for reform."

John Hasnas, *Director of the Georgetown Institute for the Study of Markets and Ethics, and Associate Professor of Business and Visiting Associate Professor of Law at Georgetown University,* drew attention to the trend toward "crony capitalism," in which businesses advance through political favoritism rather than success at satisfying customer needs. He claimed that this trend is not a result of intentional corruption, but is a "byproduct of moral imagination." He argued that the essential characteristic of human beings is not rationality as Aristotle claimed, but imagination, and that crony capitalism can arise from "too much moral imagination." He pointed out that although free markets do indeed produce what economists call market failures, our imagination allows us to believe that these can be corrected by an ideally functioning government. Specifically, our imagination allows us to erroneously view the market and the law as separate realms. Thus, we overlook the regulatory force of the rules of common law that are embedded within the market.

John Hasnas
George Washington University

As he continued, "in contrast to common law, statutory law is shaped by the politically dominant interest rather than the public interest." Further, the burden of statutory regulation tends to "increase the cost of market activities, which creates a competitive advantage for larger, heavily capitalized firms that can more readily bear a heavy regulatory burden." Yet, because of "intellectuals' ability to imagine that regulations function costlessly," our government continues to create new regulations, which creates "ever larger firms that have proportionally greater political influence."

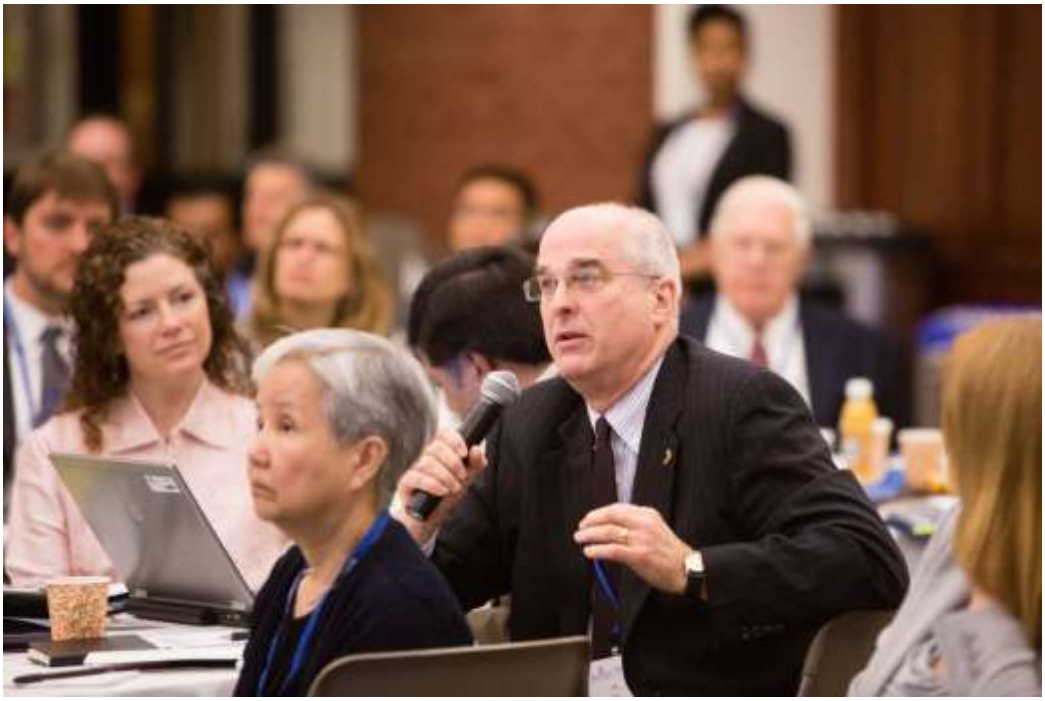
In conclusion, Hasnas emphasized the importance of accepting failures in capitalism, noting that "the free market is the embodiment of trial and error… which calls for patience." Our imagination, however, makes us impatient. Because we can imagine that regulations can cure market failures immediately, we are unwilling to accept a world in which market imperfections are resolved gradually as human beings learn what works through experience. The unfortunate and unintended result of such impatience is crony capitalism.

Andrew Hoffman, *Holcim (US) Professor of Sustainable Enterprise, and Director of the Erb Institute at the University of Michigan* continued the discussion, focusing on sustainability and defining it as a "re-examination of the role of the corporation in society." Noting that business is the most powerful institution in the world, he explained that capitalism is "constantly adjusting, a set of malleable man-made

institutions that continue to evolve." Yet, "our MBAs suffer from the misconception that capitalism is one of those laws of nature and that if only government would get out of the way, everything will be wonderful."

Andy Hoffman
University of Michigan

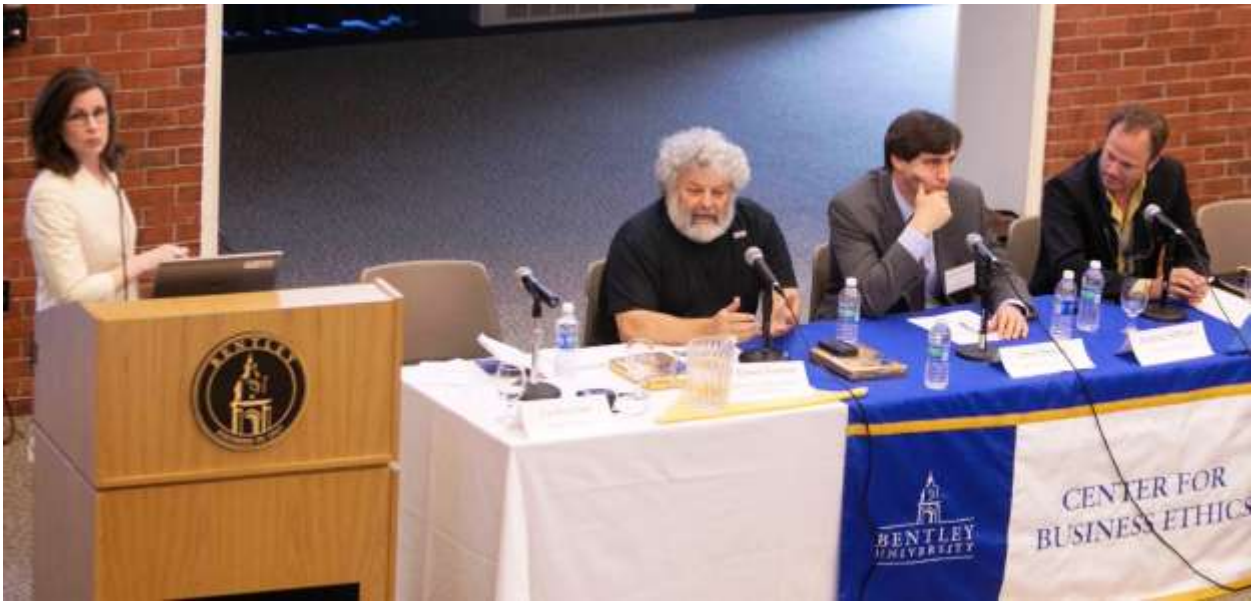
Noting many of the social and environmental problems in the world today, Hoffman argued that over the years we have turned to different institutions – the church, government and now business – to solve these challenges. Yet, framing the issue as CSR is ineffective, just as attempting to teach CSR in business schools falls short of intentions. As he explained, in most of their classes students are exposed to the view that the ultimate purpose of business is to maximize profits – net present value, return on equity, return on assets – yet in a CSR course they are asked to focus on a different set of values. "This contradiction is not sustainable and doomed to fail." As he argued, for business to pay attention to these issues, they must be framed in terms of a market shift, linked explicitly to the language of business.



Hoffman explained that sustainability can be seen as a market shift, that "market shifts create winners and losers." As he continued, "these market shifts are not always a steady linear trend but rather shift more abruptly through periods of punctuated equilibrium." As an example, he argued that concern about environmental sustainability started decades ago, when people thought it could be solved by creating regulations, literally attempting to "sue the polluters away." Yet as a new set of issues eventually emerged

– concerns from insurance companies, investors, consumers – it became apparent that that environmental sensitivity could be a way of generating comparative advantage, which caught business' attention.

As Hoffman continued, evolutionary science shows us that particular events and processes cannot be forced to happen, but rather they are a collection of ideas that come together. Using Steven Jay Gould's "The Myth of Cooperstown" and his interpretation of how baseball was created as an example, he argued that reality is ultimately structured through fundamental events, how they are interpreted, and the kind of solutions that are generated in response. Results are the outcomes of different experiments – from the "B" corporation, for example, and efforts to restructure the notion of what business can be – he reflected, "… who knows what the future will hold… the key is that these experiments connect sustainability to critical business issues – operational efficiency, consumer demand, cost of capital. That is how you get companies to begin to pay attention.



During his remarks, he also reflected on such scandals as the powerful "Killer Coke Campaign," in which the Coca-Cola Company was alleged to be involved in the harassment and killing of union officials in Colombia and issues of water depletion and contamination in India. Despite the corporation's size and power, "the campaign hit Coke very hard. It shows how corporations can get caught up in the social fabric of the countries in which they operate."

Concluding his remarks, Hoffman underscored the idea of a noble cause, that in business schools we need to evoke the notion of a vocation or a calling, to "use the power of business to make the world a better place." Hoffman believes there is reason for hope, that young people not only want to be good managers but also want to be capable of making the world a better place. As he concluded, Hoffman quoted Raymond Williams, noting 'To be truly radical is to make hope possible not despair convincing." In being hopeful, some people can see opportunities where others cannot. As William Gibson wrote "the future is already here, it's just unevenly distributed."

ACKNOWLEDGEMENTS

As director of the Bentley Alliance for Ethics and Social Responsibility, I wish to, once again, express my gratitude to the State Street Foundation for its continued support and multi-year commitment to this venture. I would also like to thank the speakers, panelists, and moderators in our eighth symposium for their willingness to share their work with respect to the evolution and current assessment of capitalism, and, most of all, for their good-natured colleagueship and support.

Special thanks and appreciation also go to Jonas Haertle, *Head, PRME Secretariat*, for his ongoing support and co-sponsorship, once again making the program a UN Global Compact PRME (Principles of Responsible Management Education) co-sponsored event.

Among my many Bentley colleagues, without whose continued effort and support the symposium series and follow-on teaching workshop would not have been possible, I would, once again, particularly like to thank Michael Hoffman, Bob Frederick, Mike Page, Cynthia Clark, Jeff Moriarty, Mary Chiasson, Michele Walsh, Joanna Howarth, Terry Tierney, and Gail Sands. Special thanks also go to Bentley University's President Gloria Larson for her unwavering commitment to our efforts.

As has been the case with all of our past symposia, we were faced with a number of difficult choices in capturing the essence of the ideas exchanged during the program. As we have done with the *Proceedings* for our earlier Symposia – "Ethics and Risk Management in a Global Environment" (2005), "Corporate Social Responsibility in the 21st Century: Coping with Globalization" (2006), "Business Ethics and Corporate Social Responsibility: Different Sides of the Same Coin? A Comparison of European and North American Perspectives" (2007), "Ethics, Governance and Enterprise Risk Management: A Global Perspective" (2008), "Building Responsible Global Cultures: The Role of Ethics, Corporate Social Responsibility and Sustainability" (2009), "What is Sustainability? Differing Perspectives on Sustainable Business Practice in the Global Context" (2010) and "Stakeholder Engagement in Practice: Global Challenges, Possibilities and Limitations" (2011) – we chose to focus on the remarks made by and exchanges between our panelists, unfortunately bypassing a wealth of ideas that were raised during interaction with the audience. Cemil Benli, my graduate research assistant, provided invaluable assistance in viewing tapes of the different sessions, culling key points and ideas, and helping to edit the proceedings.

I would also like to note the wonderful colleagueship and thoughtful participation of the faculty who stayed for the remainder of the week, taking part in our Bentley-State Street Foundation Teaching Business Ethics Faculty Development Workshop: Huma Baqai (*Institute of Business Administration, Karachi, Pakistan*), Elise Perrault Crawford (*College of Charleston*), Tracy L. Gonzalez-Padron (*University of Colorado in Colorado Springs*), Hashir Ibne Irshad (*FAST National University, Pakistan*), Jerome Joseph (*Indian Institute of Management, Ahmedabad, India*), Simrit Kaur (*University of Delhi*), Barrie E. Litzky (*Penn State Great Valley*), Margaret McKee (*Saint Mary's University, Halifax*), Jo Ann Oravec (*University of Wisconsin at Whitewater*), and Rommel (Bombie) Salvador (*University of Massachusetts-Amherst*), and Bentley colleagues John Beveridge, Donna Maria Blancero, Doris Kelly, Charles Malgwi, and Michael Ruff.

2012 Business Ethics Teaching Workshop Participants

Finally the 2012 program also continued our fourth Next Generation ESG Scholars initiative. Due to the pioneering efforts of Bentley colleague Cynthia Clark, we offer a companion program focused on enhancing doctoral student research in the environment, society, and governance arena. In addition to serving as panelists during the symposium, Shawn Berman (*University of New Mexico*), Andy Hoffman (*University of Michigan*), and Kathy Rehbein (*Marquette University*) served as mentors in the Next Generation ESG Scholars Program. Our fourth cohort of Next Generation Scholars included Kelli Mayes-Denker (*St. Ambrose University*), Tiffany Maldonado (*University of Houston*), and Smita K. Trivedi (*George Washington University*).

Planning is in progress for our 2013 Bentley-State Street Foundation Global Business Ethics Symposium and Teaching Workshop, focused on "Responsibility and Accountability in Managing Organizational Integrity." I am looking forward to, once again, sharing many of the thoughts and ideas that will be exchanged during the 2013 program.

Anthony F. Buono
Bentley University
Waltham, Massachusetts

Additional information on the Bentley Alliance for Ethics & Social Responsibility can be found at:

http://www.bentley.edu/alliance

Further information on the Bentley Global Business Ethics Symposium series sponsored by the State Street Foundation can be found at:

http://www.bentley.edu/events/symposium

2012 Symposium Program

Welcome

Anthony F. Buono, *Professor of Management and Sociology, and Executive Director, Bentley Alliance for Ethics and Social Responsibility*

Gloria C. Larson, *President, Bentley University*

Keynote Speaker

Pamela F. Paton, *Senior Vice President and Chief Administration Officer, Corporate Development and Global Relationship Management, State Street*

Conscious Capitalism: The Future of Capitalism?

W. Michael Hoffman, *Hieken Professor of Business & Professional Ethics, and Founding Executive Director, Center for Business Ethics, Bentley University*

Rajendra Sisodia, *Professor of Marketing, Bentley University, and Chairman and Co-founder, Conscious Capitalism Institute*

Governance and the Responsible Enterprise

Moderator:

Patricia M. Flynn, *Trustee Professor of Economics and Management, Bentley University*

Panelists:

Shawn L. Berman, *Associate Professor of Management and a Bill Daniels Ethics Fellow, Anderson School of Management, University of New Mexico*

Matthew Patsky, *Managing Partner and Chief Executive Officer, Trillium Asset Management*

Kathleen Rehbein, *Associate Professor of Management, Marquette University*

RESPONSIBLE MANAGEMENT, RESPONSIBLE CAPITALISM: IMPLICATIONS FOR BUSINESS SCHOOLS

Moderator:

Will O'Brien, *Executive-in-Residence, Clark University Graduate School of Management*

Panelists:

Jean-Christophe Carteron, *Director for Corporate Social Responsibility, Euromed Management*

Jonas Haertle, *Head, Principles for Responsible Management Education (PRME) Secretariat, UN Global Compact Office*

Michael Johnson-Cramer, *Associate Professor of Global Strategy and Ethics, and Director, School of Management, Bucknell University*

LUNCHEON SPEAKER

Stephen B. Young, *Global Executive Director, Caux Round Table*

THE BUSINESS OF PEACE: INDIA AND PAKISTAN

Moderator:

Robert E. McNulty, *Director of Programs, Center for Business Ethics, Bentley*

Panelists:

Huma Naz Siddiqi Baqai, *Chairperson Social Science, Institute of Business Administration*

Hashir Ibne Irshad, *Assistant Professor, FAST National University and Head, Fast Consulting*

Jerome Joseph, *Professor, Indian Institute of Management, Ahmedabad*

Simrit Kaur, *Professor of Public Policy, Faculty of Management Studies, University of Delhi*

CAPITALISM AND THE FUTURE ENTERPRISE: TRENDS, CHALLENGES, AND POSSIBILITIES

Moderator:

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John Hasnas, *Director, Georgetown Institute for the Study of Markets and Ethics and Associate Professor of Business and Visiting Associate Professor of Law, Georgetown University*

Andrew Hoffman, *Holcim (US) Professor of Sustainable Enterprise, University of Michigan*

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