

The crisis of world capitalism is about values

By Michael J. Phillips

When it comes to the state of world capitalism, something is rotten. Some assert that all the pistons in the economic engine are working; that this is all to do with the bursting of the tech bubble and the inevitable excesses associated with a long bull market. Others shout from the side streets that the global markets are keeping the small person down, catapulting the rich, the greedy, and the amoral to dizzy heights of wealth.

Naturally, there is no easy answer. What can be said, however, is this: a well-reported crisis of world capitalism is under way.

We cannot hold a meeting of international business leaders without demonstrators in the streets outside. The leaders of some of our largest corporations are accused of abuse of their office for personal gain. The integrity of some of the largest financial service companies is questioned because of alleged abuse of conflicts of interest. Corporate financial statements, the structural foundation of our capital markets, are treated with suspicion.

The engine by which the West was won is cranking out black smoke. We need to review in a radical way the most basic building block of world capitalism, the joint stock company. I believe it is the evolved state of the modern company, in particular its values, that is at the core of the problem.

Clearly there is a major problem with corporate governance. Better corporate governance really equates to stronger corporate values and better ethics. Companies have to become more like people, entities who in their daily lives aspire to multiple values, not all of which are concerned with financial return. Leaders of companies need to take the main responsibility for this happening, with effective and independent boards providing checks and balances to ensure that the process does not go off track.

A company that truly seeks to optimize a number of values, only some of which involve pure shareholder return considerations, is a different animal from the one we have today. To move to this situation will require radical thinking and action. But it can be achieved with hugely positive results. In addition to being a more balanced and better governed organization, an ethical, value-oriented company (just like an ethical person) cannot ignore the great humanitarian issues that confront the world. This logic provides a “solve-for-both” solution.

Reengineer the capitalist system to become more sensitive to ethical considerations, and we will address not only the concerns that we have lost our way and caused a crisis of public confidence, but we will also better tackle some of the global humanitarian and environmental problems that confront us all.

Do this effectively, and most of the popular opposition to “globalization” and “corporatism” will evaporate in time as corporations assume their rightful role, not just as well governed and ethical citizens in their parochial business environment, but also as proactive agents addressing with vigor, insight, and good humor the problems that confront our world.

At the heart of the problem with current corporate values is the return-maximization orientation of companies. Of course it makes sense to prioritize shareholder financial return. But in many cases, without adequate checks and balances, management has subverted the return-maximization requirement of companies to seek short-term rewards for shareholders and themselves.

In this sense the corporation is a legal person with a single value. Real people have multiple values, they clearly require a return (compensation), but they live their lives taking into account other, non-return-seeking values—like family, environment, sustainability, and their community. But many companies believe they cannot afford the luxury of adhering to multiple values.

As company leaders view the world around them—the digital divide, the enormous health problems of the developing world, and many other humanitarian issues—the conventional

corporate response is an abrogation of significant responsibility. They say simply, “Gee, I would like to help more, but I cannot reduce our shareholder return in any material way to alleviate these problems.” This attitude implies that management of companies may be more focused on their *own* return rather than that of the shareholders. That is why boards need to be more motivated to hold management accountable for their motives.

The time has come for companies to show that they are good corporate citizens pursuing a value-centered approach.

Leading companies attract the best knowledge workers because they have strong people centricity and demonstrable values. They care for their people, and they aspire to a set of values higher than those imposed by their regulators and the law. These are the companies that will be the pace-setters of this change. The CEOs of companies should be willing to look shareholders in the eye and tell them, “We are not seeking financial return maximization and mere compliance. We aspire to a higher, more complex set of values and, yes, there may be a small reduction in shareholder return as a result.” Shareholders who do not respect that position will presumably sell their stock in favor of companies for which financial return maximization is the single objective. That is a price that value-centered companies should be cheerfully willing to pay.

The most successful knowledge-based organizations are those that recognize that the critical interaction in the company is based on respect for each other’s dignity as a human being. They acknowledge that employees have different compensation levels, but recognize that this has to do with their *market value*, not their *worth as human beings*. Organizations that walk this walk, and demonstrably value and respect their people, find it easier to attract, motivate, inspire, and *retain* employees.

The company is slowly evolving to reflect the values of its employees, and therefore must consider family, community, environment, and sustainability as well as pure financial return. That is a multiple-value orientation rather than a single, return-focused one.

Companies that do *not* follow this course of action to become more value-centric will find it increasingly difficult to attract and retain the finest knowledge workers, top CEO and COO talent, and top-level independent directors. They will find themselves to be increasingly targets for protest, and more likely to receive increased attention from regulators.

This requires radical thinking and action. An incremental approach will not get us where we want to go. To take things to the next stage, we need to create an action-based organization that seeks to focus the corporate sector’s contribution to global ethical causes and to interact with other similar organizations in the non-corporate world.

I propose a global infrastructure to coordinate the allocation of resources from the corporate sector to ethical causes of all kinds. I have called this, for want of a better name, the *Global Responsibility Fund (GRF)*. The Fund would do the following:

- Identify, collect, and distribute corporate resources to areas of need.
- Identify inefficiencies inherent in the current approach and take action to avoid duplication of effort and create synergies.
- Collaborate with other global organizations, governments, NGOs, and charitable organizations to aid efficiency here also.
- Provide public recognition to companies contributing to the GRF via an accreditation process.

The GRF needs a sponsor, of course, because to create a credible structure of this nature requires significant resources. There are a number of candidates among supra-government organizations and even the bigger foundations. At this stage, I am floating the idea to discover to what degree the corporate sector will accept this kind of concept. The presence of a high-profile organization of this nature could do much to address the criticisms of the anti-globalization movement and help to restore the dignity of the modern corporation as it sits alongside other institutions committed to addressing ethical issues on a global scale.

Companies that embrace this framework will be demonstrably superior corporate global

citizens. More effective deployment of existing and incremental resources will create a discernible change in the plight of billions of our fellow human beings.

The kink in the machine is perhaps the fact that it should not be a machine after all, but instead an organic, sentient entity, trying, as we all try, to make the world a better place for generations to come.

This article is a condensed version of a paper prepared for the 2002 World Economic Summit meeting in Davos, Switzerland. At the time, Michael J. Phillips was Chairman and CEO of Russell Investments, Tacoma, Washington. Mr. Phillips is currently Chairman of Altaira Wealth Management, Geneva, Switzerland. Although the paper was prepared in 2002, for the conditions of the time, students are encouraged to consider Mr. Phillips' comments regarding values in light of our current economic crisis in 2009.