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Taking responsibility for the whole

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From Current Business Paradigm to the Second Renaissance

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The current business paradigm can be summed up in its four flawed principles:

- The business of business is business
- A business exists to maximize value for its shareholders
- Short-term profits are maximized even at the expense of a company's long-term financial health
- Compliance can be equated with business ethics

Current paradigm: the business of business is business

Business being the most pragmatic of all social organizational forms, it historically has focused narrowly on its economic activity without being distracted by the demands of political affiliations, societal and communal needs, environmental concerns, individual aspirations or civic pursuits, except for those which have been legislated or decreed by regulatory agencies, or the occasional token donation to a cultural charity such as the opera.

The principle that "the business of business is business" is derived from the belief that a business can best serve its societal purpose by focusing on doing what it does best—the efficient production and distribution of goods and services.

Current paradigm: a business exists to maximize value for its shareholders

"The social responsibility of business is to increase its profits," said Milton Friedman (*The New York Times Magazine*, 13 September 1970). "So the question is, do *corporate executives*, provided they stay within the law, have responsibilities in their business activities other than to make as much money for their stockholders as possible? And my answer to that is, no they do not."

Focusing on maximizing short-term profit allows an unambiguous bottom-line measurement of, and reward for, the company's and business executives' success on a quarter-to-quarter, year-to-year basis. The singular and seemingly objective measurement of profits creates a common language and benchmark for company analyses and makes it possible to communicate a "snapshot" of the monetary financial health of companies to the investing public.

This provides a significant tool, although by no means the only tool, to create a stock market that provides valuation, liquidity, investment opportunities and wealth creation for participants in the economy. And, in fact, rising short term quarterly profits will actually consistently raise the market capitalization of a given business, which in turn leads to a greater value of the shares held by shareholders.

This is the linkage that is often relied upon in using the term "maximizing shareholder value." There are other methods used to maximize shareholder value (*e.g.*, layoffs to reduce payroll, splitting companies up so that shares will achieve a higher multiple separated than they enjoy when combined—such as Abbott Laboratories' decision to split in two), but each of these has the same intended result: yield higher quarterly profits and achieve a higher price earnings ratio on those quarterly profits.

Even if one accepts the questionable assumption that the stock market is a good arbiter of a company's value—by looking primarily at its quarter to quarter earnings—to accept Milton Friedman's dictum, one would need to make the further logical leap that only by taking care of "business" are executives adhering to the basic purpose of the corporate entity (*i.e.*, maximizing shareholder value in the abstract, detached from the broader societal framework within which the corporation exists).

It is quite clear to the present authors that Milton Friedman's dictum is operating as the current business paradigm. Although it lacks depth, contextual relevance, and historical perspective, the vast majority of business executives and most of Wall Street (excluding the large, growing, and more profitable funds that operate in the socially responsible investment arena) actually believe the mantra that business exists to maximize shareholder value. For better or worse, it is the current paradigm.

Current paradigm: short-term profits are maximized even at the expense of a company's long-term financial health

Many institutional stockholders erroneously focus on short-term stock price performance and exert significant pressure on management to increase short-term profits at the cost of long-term financial health. Focusing on quarterly financial reporting requirements, many companies have adopted an orientation of maximizing short-term financial performance instead of seeking long-term growth and sustainable earnings. This puts a company's future at risk. Financially, short-termism is a system-wide problem, co-created by corporate managers, boards, investment bankers, institutional investors, and government.

For a corporation to conduct itself so as to maximize short-term profits and in the process destroy itself, as Enron and many others have done, definitely *is not* the way to maximize shareholder value. Every farmer knows that you can vastly improve this year's grain sales if you sell your seed corn, but that means you won't even be in the business of growing corn the next season.

The best way to ensure long-term growth in profits is to maintain a maximally effective balance between all the corporate stakeholders such that today's short-term profits reflected in the snapshot financials are based on underlying relationships that will permit profits and net assets to continue to grow over time for the benefits of all stakeholders.

Current paradigm: equating compliance with business ethics

The ethical foundation of the current economic and business system is based on the limited view that ethical obligations arise out of social mandates as expressed by current laws and regulations. Because the human mind is so ingenious, corporations have never failed to find legal loopholes to game any system; they therefore can commit legal actions that are unjust to employees and damaging to the society and environment. And, all too often, corporate executives actually take *illegal* actions in the expectation they will "get away with it," which all too often they do. As new social issues and new technologies arise, they are usually ahead of what legislators can understand and resolve through appropriate legislation.

A good example of this phenomenon is the AIG financial products called credit default swaps, which were too complicated for most to understand and remained unregulated even as they were identified as the major contributor to the recent collapse of the U.S. financial system.

A better system of ethics, meaning a system more productive and therefore more conducive to making profits, is one based on what one believes one "ought" to do based upon one's heightened sense of a moral compass.

The question for corporate executives is not, "What can we get away with?" The question must be, "Given our power in society, what ought we to do to solve these enormous challenges consistent with our ongoing requirement to accumulate appropriate levels of surplus called 'profits' as we do it?" Failing to do what we ought to do, whether or not it is required by a statute or government regulation, should be seen as an ethical failure; such a failure by any company is a predictor that its profits ultimately will decline.

The only social aspects that the current system can value, capture and measure are those that can be immediately quantified in transitory monetary terms (*i.e.*, reflected as positive on the quarter-to-quarter profit statement). Businesses, being the most dynamic and powerful economic engines, must also be evaluated in their contributions to the societies and communities in which they operate. There simply is no choice but to look at the bigger picture since failure to do so would be like rearranging deck chairs on the Titanic rather than addressing the crisis that is at hand.

The current system in the Western industrialized societies can measure economic contributions, but fails miserably in accounting for the damage and cost to society of the so-called "externalities" that are ignored when profits are made by destroying the public commons without taking into account the cost to society of that destruction in computing the true "profit" earned.

All such externalities must be costed out so that they can be taken into consideration when making economic decisions. A great example where society did this recently on an international level was the adoption of standards governing acid rain. Fortunately, the acid created by one oil company's refineries in one country fell on that company's and other companies' refineries in other countries, thereby demonstrating the essential truth that a "cost" is a "cost" even if you can escape, for the time being, having to pay it.

We are not far from realizing in the business community, as has already been almost universally acknowledged in the scientific community, that the "costs" of climate change will extract a devastating price from all sectors of society, including business. Once the business community realizes this, and accepts forever more that "there is no free lunch," it will begin to lead the reconstruction of the environment.

Fortunately, the companies who understand the symbiosis that occurs when they work with natural systems rather than ignoring or fighting them will be the companies that will profit most from the looming environmental disasters.

It is also time for the business community to realize that a loss of moral bearing, fed by insatiable greed, can lead to highly dangerous business conditions. For example, when business leaders lose their moral bearing, this system provides an ideal vehicle for creating personal wealth through highly inappropriate means: (1) pressuring the board for outsized stock grants, (2) manipulating accounting results, (3) manipulating stock option dates and the company stock price, and (4) taking incalculable or disproportionate risks. All these executive manipulations are often disguised as actions necessary to maximize shareholder value.

Executives hire expensive corporate lawyers to advise them so they can play on the edge of accounting rules and SEC regulations. While playing on the slippery slope of legal gamesmanship, many executives did slip downward into outright frauds, resulting in serious damages to company reputation, stock price collapse, and often bankruptcy of the company and jail time for the executives.

Billions and billions of value evaporated overnight, thousands of jobs were lost, and the value of pensions earned over hard-working years was wiped out without a trace. And in the process, through the stock market's crash, much of the paper wealth that those same executives were creating was wiped out —along with the savings of the butcher, the baker and the candlestick maker.

Consequence of current paradigm: reckless short-term pursuit of profits for shareholders at the expense of all other stakeholders

The continuing narrowing of business perspective over the last half century cumulated in the single-minded pursuit of profit maximization by corporations, often at the expense of all other stakeholders, which include employees, suppliers, the community, and protection of the public commons.

Compounding this problem is the relentless pressure by the investment community for short-term, quarter-to-quarter returns, driving many companies to focus on short-term financial results instead of building long-term market position and value for all stakeholders. Adding to all these factors is the belief that business can legitimately equate legal compliance with business ethics. The combination of these factors underlies many of the problems of the business world today.

Such problems unfold in many different ways. On the more obvious level, unsafe products for customers, legal exploitation of employees, harsh tactics with suppliers, total disregard of community interests, pollution of the environment, and dangerous financial manipulations are only some of the examples resulting from the relentless drive toward profits for shareholders at the expense of other constituents.

On a more disguised level, executive compensation tied to shareholder value as reflected in the stock market actually provides a powerful incentive for executives to maximize profits in the short term to maximize their own wealth.

Growth for the sake of growth is the ideology of a cancer cell.

Since profitable revenue growth is perceived to be the most powerful engine for creating shareholder value and executive wealth, many executives develop an insatiable appetite for growth. Growth for the sake of growth is the ideology of a cancer cell. So it is no surprise that growth for the sake of growth has led to many overpaid mergers and acquisitions, often justified by unrealistic assumptions of financial or strategic synergies.

Failed mergers and acquisitions have been a top destroyer of shareholder value. The prospect of enormous wealth for top executives has often induced them to take reckless risks that led to company collapse—or even the collapse an entire industry, like the financial industry in 2008.

More shareholder value has been destroyed in the pursuit of profits in the name of shareholder value maximization than for any other reason. In fact, shareholder maximization not only failed to occur in the run-up to the Great Recession from 2008 to 2009, but shareholder value was destroyed on a massive scale while societal costs were created that will be borne by the next several generations.

Business education in the U.S. became science-envy, separated from moral philosophy and political economy.

For a business to survive and prosper, it must provide a return to shareholders that is comparable to similar companies in the market. Shareholder value is created as the result of management providing superior goods and services in the market it serves. Creating shareholder value is neither the purpose of a company's existence, nor a company strategy.

Consequence of current paradigm: under-realization of the human potential

Lack of a larger purpose beyond profit maximization naturally has resulted in a failure of understanding of the humanistic aspect of business. You can trace the origin of such a blind spot to the scientific revolution that started in the 17th century and gave birth to the Modern Era. Scientists introduced a vigorous empirical method to investigate the physical world. This scientific method allowed an evidence-based search for knowledge of physical phenomena that for the first time was free from the church's absolute decrees about nature. This great accomplishment in human history propelled both the Renaissance and the Industrial Revolution in the West followed by the Technological Revolution that continues until the present.

Unfortunately, as science achieved its great heights in its ability to understand the natural world and increase the standard of living for humanity, it began to confuse its methodology with claims to truths in all areas of human endeavor. The belief that empirical methods are the only means of knowing in all aspects of human endeavor is sometimes called scientism.

An accompanying belief from scientism is that all human experiences, including our subjective experiences of thoughts and feelings, can be understood and reduced to biochemical interactions in our body. The interest in the study of psychology probing the inner depths of the human psyche declined and gave way to behavioral studies in which humans are assumed to behave according to rewards or punishments, pleasures or pain. In this view, our mind and emotions are merely the results of the neuron interactions in our brain. For centuries, science did not place a great deal of value in first-person subjective experiences. What science could not objectively measure and quantify, it dismissed as non-existent.

Under such influence, business education in the U.S. became science-envy. As part of the trend in specialization, business education was separated from moral philosophy and political economy and new independent business schools were created to pursue their own paths outside the larger philosophical, ethical, political and social context explored during a liberal arts education. Over the years, business schools continued to narrow their focus and become increasingly quantitative and analytical instead of contextual and humanistic.

There are a number of severe consequences. First, business ignores the rich interior of the individuals working in corporations—their aspirations, the power of their intention and vision, their need for a community, their need to belong, and their search for meaning and purpose in their work life.

The current business paradigm recognizes expertise and experience, the need for economic rewards, and the need for recognition of accomplishments and creativity. It gives only limited recognition to interior dimensions because they are difficult to ascertain and therefore considered largely irrelevant. Instead, business focuses on observable behaviors and concerns itself only with results and outputs that can be objectively measured and that relate directly to revenue or cost.

As a result, it has taken a long time for business to begin to recognize that each of us is a whole person—body, emotions, mind, and spirit—and to recognize how we desire to relate to others in a deeper and more meaningful way. Business wants us to bring body and mind to our jobs but does not understand how our emotional and spiritual yearning affects us in our work and personal life.

Only in the last decade, business started to wake up to the role of emotional intelligence, after the publication of the book bearing the same title by Daniel Goleman. The fact that emotional intelligence had been part of our normal human capabilities for eons and that we had lived it with family and friends, but it took someone to write about it to get the attention of the business world is quite revealing about how far our business culture has fragmented our life and reduced our wholeness in our work life.

At the same time, we've seen a culture arise in Silicon Valley that has begun to highly value the whole person, that asks how good employees and colleagues feel about coming to work, how they can be creatively stimulated, and how they can be shown appreciation. The Silicon Valley companies most famous for this culture, such as Google and Apple, are the legends of our current business landscape. This illustrates how the companies that first recognize our inherent interconnection with the natural world will be the most profitable in the decades ahead, just as those companies that first recognized the intrinsic wholeness of humans have been far more successful in tapping into human creativity, with profits that show it.

Business has not grasped the full potential for intentionality, passion, ingenuity, and creativity in its employees.

Spirituality is the sense of inner stirrings, the search for a deeper self-knowledge, the quest for meaning as a result of becoming part of something bigger than the self, and an opening to the infinite. The longing is often expressed in the care for our fellow human beings, communities, and the environment, as well as in some forms of transcendental divinity. Under the current paradigm, individual spirituality and values are considered distracting and undesirable in the workplace. And yet such spirituality has the biggest untapped potential for motivation and inspiration in the workplace that business has yet to understand. Business has not grasped the full potential for intentionality, passion, ingenuity, and creativity in its employees.

Most business leaders and executives are decent, hard working and moral individuals. But when they enter into business, they seemingly enter into a game with its unique, unhealthy paradigm, value sets, mantras, cultural mores, and idiosyncratic rules. We play by the rules and we play to win.

Unfortunately, in playing to win, other far more important value sets are discarded or ignored. That blindness, or lack of a sense of stewardship for what we are entrusted with, can become a set of blinders that causes great environmental and human damage that ultimately also compromises profits and real, long-term shareholder value.

It is long past time for business as an institution and individual business people to see the incredible opportunity that exists for rich human relationships in the workplace at every level of the hierarchy, and the potential each individual has to enhance their contribution to their fellow humans and to the planet itself.

Consequence of current paradigm: loss of trust

As a result of the current business paradigm, over the years there has been a steady decline in the public trust of corporations. In a 2009 survey, when respondents in the U.S. were asked about trust in business in general, only 38% said they have faith in business to do what is right, a 20% plunge since the year before. Moreover, only 17% of the respondents in 2009 said they trust information from a company's CEO. Both the 17% and the 38% numbers represent lower levels of trust than those measured in the wakes of Enron, the dot-com bust, and Sept.11, 2001.

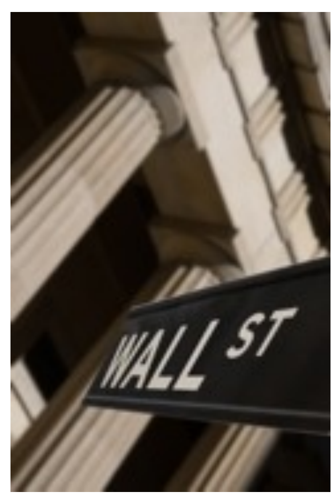
Unfortunately, if the same survey were taken today it would likely reveal an even lower level of trust as a result of the public's perception that business takes care of itself and does so at the expense of other sectors of society. There could be no greater testament to this complete lack of trust in business than the growing Occupy Wall Street movement which continues to grow and expand to cities around the U.S. and throughout the world.

This decline in trust also is playing out in people's everyday lives. More than three-fourths (77%) of survey respondents in 2009 said they refuse to buy products or services from a company they distrust, and 72% said they have badmouthed a distrusted company to a friend or colleague.

It has been a couple of catastrophic years for business, well beyond the evident destruction in shareholder value and the need for emergency government funding during the financial meltdown in 2008 and subsequent recession.

The financial sector drives instead of supports the real economy—the tail is wagging the dog

Our financial system is supposed to support the real economy of goods and services. However in the last 30 years, the unhealthy situation has developed that the real economy has suffered from excesses in the financial sector. These include disproportionate risks in leverage; the creation and worldwide distribution of huge amount of unregulated derivatives which were little more than gambling chips; the use of public-subsidized, low-cost credit for high-risk proprietary trading; and fraudulent underwriting of mortgage loans.



Such excesses cumulated in the financial meltdown in 2008 and the subsequent recession of a depth unseen since the Great Depression.

Enormous wealth was transferred from the real economy to the financial sector. In 2007, the year before the bankruptcy of Lehman Brothers, the financial sector's profits accounted for an astonishing 40% of the entire economy.

Yes, the tail is wagging the dog. How else to explain that the "best and the brightest" in the financial community continually fall for an earnings story that derives from fatally flawed assumptions that end in financial chaos and often financial panic?

In 2007, the financial sector's profits accounted for an astonishing 40% of the entire economy.

None of the "best and the brightest" in the financial community foresaw the near collapse of the global financial system in 2008 even though many of us outside Wall Street did and warned our associates to abandon the financial markets before the crash occurred.

What were we seeing that the brilliant, extraordinarily over-compensated managers and analysts on the Street missed? Simple, we were looking at the fundamental instability and weakness in the financial system that was built on a securitization of paper that was tantamount to printing currency on a printing press with no thought of the value of the goods backing the printed paper.

Watching the creation of $750 *trillion* in derivatives when the entire global GNP of all countries on earth was only $60 trillion per year was another indication of a system wildly out of control in pursuit of inflated profits built on worthless paper rather than on real economic growth. The economic carnage that followed was the quintessential opposite of maximizing shareholder value, but pursuit of that single-minded goal while wearing blinders is precisely what created the debacle.

The history of the capital markets system over the last 250 years has been characterized by boom and bust cycles. There are many reasons for this, and some such cycles even take names from their perceived cause, such as an "Inventory Cycle." Other cycles are perceived to be precipitated by other directly causative mechanisms but they all have one thing in common: greed.

When someone gets greedy, they get carried away. When a whole bunch of people get greedy, it leads to marketplace excesses that ultimately cause a "bust" which then needs to work itself through the system until a new balance can be restored from which renewed growth can occur. Those various cycles normally occur with a somewhat predictable periodicity as long as one has enough data and one is able to isolate the other factors that might simultaneously be at work.

Most modern economics departments at every decent institution of higher learning study such cycles, and a great body of knowledge has been accumulated and published about them. Those cycles, however, are *not* at the core of what is currently ailing the global economy.

Something much more fundamental and destructive is at work. Hence, when a television or newspaper commentator blithely "reports" that "all recessions end and this one too will end in time," the reporter is doing the public a great disservice. Even if the reporter is oblivious, the business community should itself become more aware of the unprecedented situation we are facing today.

It is enlightened self-interest for the business community to begin to realize two critical realities at work simultaneously at this point in human history: (1) business is the most powerful institution on the planet and if it doesn't ensure long term sustainability of the economy and of human civilization itself, human civilization will experience the worst period of chaos and destruction in human history; and (2) *because* business is the most powerful institution on the planet, it not only single-handedly has the opportunity to alter the extremely negative future pattern that is evolving, it has the absolute responsibility to do so. The good news is that by rising to the larger mission covered in this article, the business community will in fact create a period of economic prosperity that will dwarf all other boom times.

Why is there any special urgency now for sustainable thinking?

The high probability of climate change *having already passed the tipping point* ensures a spiraling cycle of devastating environmental phenomena, including droughts punctuated by floods, decreasing food supplies, devastating storms with greater intensity and frequency (especially tornadoes), and a massive shortfall of adequate potable water supplies at the highest elevations (*i.e.*, all glaciers on earth, particularly the Himalayan High Plateau which feeds the great rivers of China and India) as well as in ground water reserves globally.

On both counts human civilization is out of time. That in turn means that corporate profits are in for a prolonged diminution over many, many years. The only way to ensure sustainable shareholder value increases is to address both threats and resolve them. Only business as an institution has the resources and training to do so. There is no other option.

What is the larger purpose of business?

It is to recognize that every human being on the planet has the right to have eight essential needs met: (1) adequate water, (2) adequate food, (3) adequate medical care, (4) adequate shelter, (5) adequate education without regard to gender, (6) adequate clothing, (7) air suitable for humans to breathe, and (8) a society free from violence, rape, torture, and war.

Some believe that achieving these goals is not possible. They are wrong. In fact, with business setting these goals for itself, business as an institution will unleash more wealth per capita by many magnitudes over every era that has preceded this one in history. In a word, creating these solutions will ensure sustainable business profits earned in totally appropriate ways.

The delightful thing about all of this is that ensuring these freedoms for all humans not only will ennoble all of those who labor to achieve these goals, but will also create undreamed of profits for generations to come indefinitely into the future. This is because, as noted above, greed begets ever larger and more destructive cycles of boom and bust. Actually acting sustainably toward all corporate stakeholders creates the opposite—a permanent wave of prosperity based upon abundance thinking rather than scarcity consciousness.

Because business is the most powerful institution on the planet, it has the opportunity and responsibility to alter the extremely negative future pattern that is evolving.

At a time when business profits are moving along at all-time highs in several industries, and the S&P 500 are churning out high profits as a group, the stock market has been extremely volatile and producing lackluster returns for investors.

The stock market today is beginning to reflect what the market sees as dysfunctional and what profits will be one and two years or more into the future. Why? Because the profits of all companies in the western democracies are in jeopardy as their middle classes are devastated and as their political institutions prove they are incapable of dealing with normal everyday challenges, let alone the challenges posed by climate change and our financial system.

How business can create the Second Renaissance —the Eight Human Rights and a healthy planet

A change in the way business perceives its role in society matched with a mentality for sustainability will yield the greatest economic opportunity in human history. Think about it. If you were a Florentine living in the early 1700's, you had an opportunity to realize the extraordinary wealth that was about to be created as a result of the end of the Dark Ages and the beginning of the Renaissance.

Stop and reflect for a moment on the shear brutish nature of life in the Dark Ages, and the flowering that occurred as the Renaissance began, bringing an explosion of wealth initially amongst the merchant classes and ultimately among western society as a whole.

The wealth that was created resulted from a change in mentality. It resulted from a collective change of mind. It all started with a single book: *On the Revolution of Heavenly Spheres,* by Copernicus. He observed, despite being forced to recant while secretly arranging a posthumous publication of his book, that the earth is not at the center of the universe.

In the Second Renaissance, we value the subjective experience of every human being and return the human to the center of our world, but in harmony with the planet and all its other living inhabitants.

From that humble beginning, humans began to question.

In less than 150 years from the publication of Copernicus' mind-changing book, human society saw: the beginnings of the scientific method which began to explain how the physical world really worked and which began to take the place of myth, legend, superstition, and "blind faith"; the Protestant Reformation that cracked the centralized control of the Catholic Church right down the middle and ended its dominance as the unchallenged organizer and controller of western civilization; the beginnings of the first European university at Bologna, Italy; the flowering of global commerce; the explosion of the arts; and, the beginning of the Renaissance. All that happened within 150 years from a global mind change brought on by one book.

A similar global mind change awaits us. In the Second Renaissance, we value the subjective experience of every human being and return the human to the center of our world, but in harmony with the planet and all its other living inhabitants. Reconstructing the planet and providing the Eight Human Rights will create an explosion of wealth like the one when the Dark Ages gave way to the Renaissance. Only, this time, the explosion in wealth will be many times greater.

Believing as we do in the next Renaissance, which will be characterized by providing the Eight Human Rights and global reconstruction of natural systems, it is a time of great optimism. We can do it. In fact, we have no other choice. The Two Global Drivers—climate change and our unhealthy financial system which still has a vast pool of unregulated financial derivatives—must be addressed without further delay as each day of delay will yield a cost far greater than humans would be willing to pay if they understood the reality.

Can the Two Global Drivers ultimately be defeated? Yes, if we begin at once. We are capable of it, although we are doing nothing at the moment to address them. In fact, our fossil fuel-based planetary energy system is literally adding fuel to the fire every day in the form of increased CO2 and methane emissions.

At the same time, we are optimistic that human society can, and must, confront these challenges. And, being people of science and commerce, we believe that no challenge exists on planet earth that cannot be solved with the existing technology and resources at our disposal. All that is missing is the collective will to do so.

It is our hope that the business community will face these enormous challenges, perceive its enormous power to alter the outcome, become aware of the profits which will be lost and the far greater ones that will be gained by providing the will and "can do" attitude to tackle our human dilemmas. To do less would be beneath us as a species. To do less would be profoundly unsustainable as an economic proposition.

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