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Total Corporate Responsibility: Addressing System Flaws That Drive Corporate Scandals and Humanity's Unsustainability

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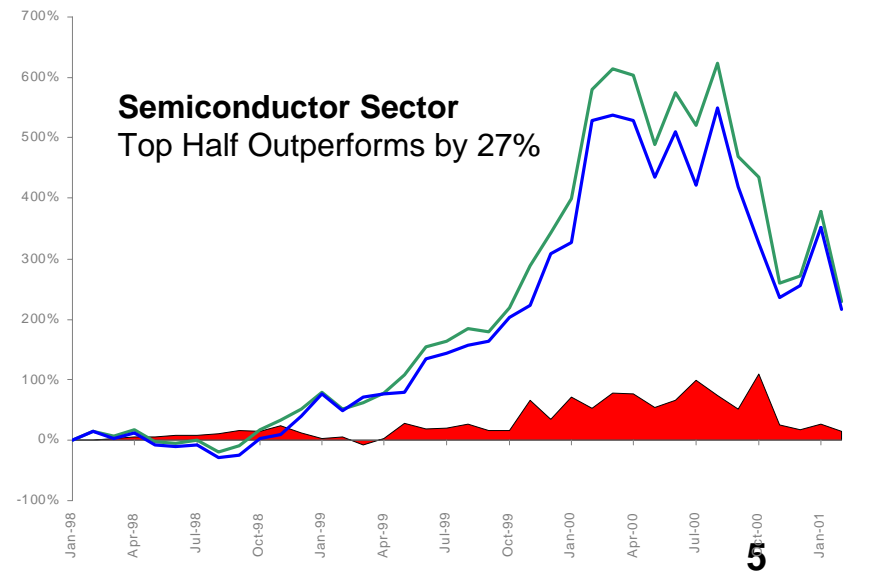
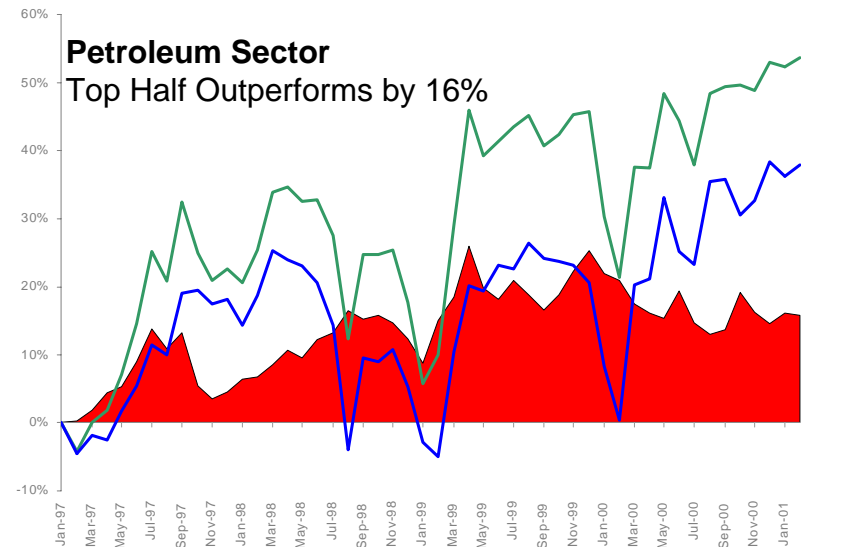
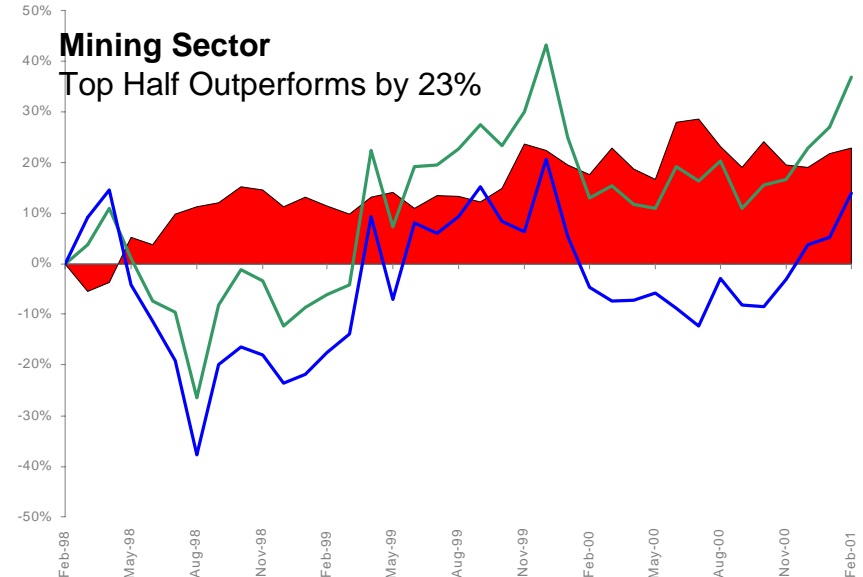
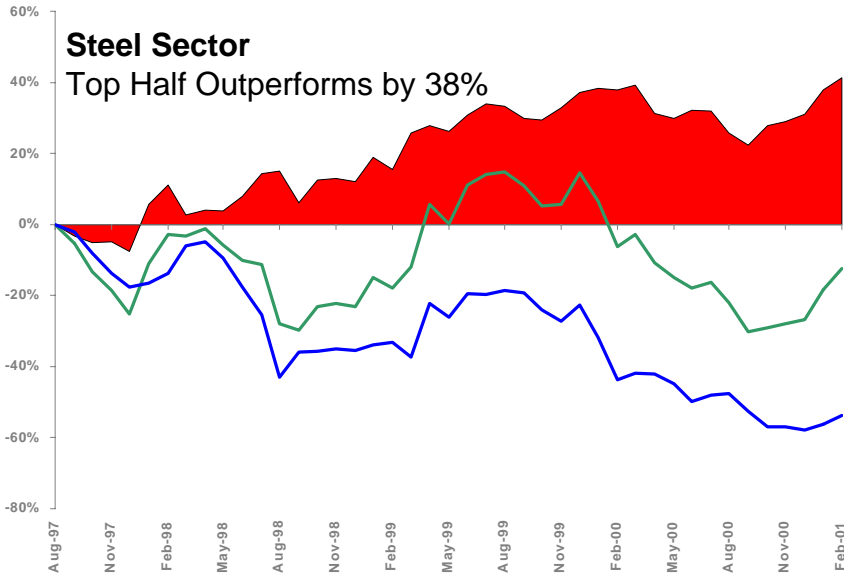
- **No firm is even close to being sustainable (in spite of strong sustainability efforts)**
- **Main problem: economic and political systems compel firms to be irresponsible and unsustainable by not holding them fully responsible for negative impacts on society**
- **Systems developed from a reductionistic perspective are inherently flawed because they fail to consider the total system**
- **Not holding firms fully responsible increases risk of catastrophic investor losses and makes unethical behavior more likely**

- **Provide an effective “Enron Screen”**
- **Identify firms with undisclosed liabilities that could cause large investor losses**
- **Provide an accurate indicator of management quality**
- **Enable funds with superior financial and sustainability performance**
- **Engage capital markets in driving system changes that hold firms fully responsible**

- **SRI has grown 40% faster than all other assets in the US since 1995; currently \$2.2 trillion**
- **Fund performance -- Morningstar and Lipper give 75% of largest SRI funds top scores**
- **Research -- most studies show positive correlations due to proxy value for management quality and financial benefits of superior sustainability performance**

- **Pension fund laws -- eight European countries require consideration of environmental and social issues**
- **Growing distrust of accounting numbers and traditional financial analysis**
- **Increasing regulations around the world**
- **Demographics -- Baby Boomers interested in SRI**
- **Growing corporate awareness of competitive benefits**
- **Evolving interpretation of fiduciary responsibility**

Alpha Generation



- ABN-AMRO Bank
- ABN-AMRO Asset Management
- ABF Capital
- ABP Investments
- Aeltus Investment Management (ING)
- Bank Sarasin
- BNP Paribas
- BP Pension
- Brown Brothers Harriman
- CalPERS
- Contra Costa County Employees' Retirement Association
- Daiwa Securities
- Dreyfus Investment Advisors
- Friends, Ivory & Sime
- Frontier Capital Management
- Glenmede Trust
- Hermes Pensions Management Ltd.
- IBK Capital Corp.
- John A. Levin & Co.
- Legg Mason Funds Management
- Lombard Odier & Cie
- Mellon Capital Management
- Mellon Equity
- Neuberger Berman
- Rockefeller & Co.
- Schroders Investment Management
- Societe Generale
- SNS Asset Management
- Swiss RE Asset Management
- State Street Global Advisors
- T. Rowe Price
- Wellington Management
- World Bank

- **Every major environmental system is in decline (World Watch Institute, State of the World):**
- **50% of Forests cleared**
- **50% of wetlands gone**
- **Accelerating biodiversity losses**
- **Global warming exacerbated by greenhouse gas emissions**
- **Topsoil erosion, salination of soil, and aquifer depletion ongoing**
- **Every major ocean fishery at its limit or in decline**
- **Dispersing 80,000 synthetic chemicals into the land, air and water**
- **Irretrievably releasing genetically-modified substances into nature**

- **Population projected to reach over 9 billion by 2050**
- **Widening gap between rich and poor**
- **Many of the 2 billion young people entering the workforce over the next 20 years won't be able to find jobs**
- **Psychological impacts evident, even in prosperous regions**
- **Americans -- 2/3s overweight, 4 hours of TV per day, increasing use of anti-depressants**
- **Indicates growing sense of emptiness and dissatisfaction with life**

- **Failure to incorporate externalities into prices forces companies to act irresponsibly**
- **Failure to consider limits to growth creates system imbalance (like cancer)**
- **Means of measuring success (GNP) focuses on only one aspect of prosperity, thus making all other aspects lower priority**
- **Discount rate says future generations (and the resources that support them) are nearly valueless and therefore don't need to be considered when making economic decisions**

- **Financial influence of politicians by firms forces government to focus on the short-term and creates corporate welfare (ie: Chevron pays \$10,000 for \$30 billion of platinum and palladium).**
- **Limited liability corporate structure intentionally does not hold firms fully responsible for their actions. In a competitive market, this essentially forces firms to be irresponsible.**
- **Advertising prompts purchases by creating a perceived desire or need. Cumulative advertising causes a pervasive sense of emptiness and low self esteem, leading to depression and compulsive behavior.**
- **Access to media and financial resources gives firms ability to unfairly influence and mislead public opinion (ie: climate change).**

- **Complexity -- Systems thinking is the most complex challenge facing business and humanity**
- **System Problem, Not People Problem -- good people with good intentions operating in systems that often force them to do the wrong thing for shareholders and society**
- **Practicality -- system changes can only be achieved through a practical method that recognizes the realities of today's systems**
- **Inevitability -- continued environmental and social degradation is inevitable without system change**

- **Identify “world is flat” ideas**
- **Humility is needed -- Humanity is surrounded by vastly greater wisdom. Natural systems are 100% efficient and possess nearly infinite sophistication**
- **Humanity has access to this wisdom (the wisdom that guides all other creatures and causes them to be sustainable) through greater use of the intuitive function**
- **Greater use of intuitive wisdom will facilitate systems change and lead to large advances in technology, science and business strategy**

- **The primary goal of business is to enhance social well being, not maximize profits. Profitability is intended to be a means to that end**
- **Capitalism involves sending accurate price signals, holding firms fully responsible and focusing primarily on social well being**
- **Effectively implementing capitalism can be done if more intellectual resources are focused on this goal**
- **Capital markets strongly influence corporate strategy. SRI can be a primary driver of system change, sustainability and effective capitalism**

- **A new type of SRI focused on traditional CSR and assessment of system change efforts**
- **Promotes practical short-term actions while concurrently addressing longer-term issues through stakeholder dialogues and other processes**
- **Provides clear, relevant and actionable signals to investors and firms**
- **Best-in-class TCR ratings can be used to add alpha on many different fund types**
- **Primary Objective -- Facilitating the adoption of a systems perspective**

- **Interconnectedness -- Business is part of one interconnected system. It takes full responsibility for and seeks to mitigate all negative impacts. Assessment focuses on efforts to promote or block system change (ie: campaign finance, lobbying, etc.)**
- **Actualization -- The primary purpose of business is to help society achieve their highest potential. Impacts of advertising on cultural values are analyzed (ie: do ads imply purchases will fulfill non-material needs such as love, acceptance by peers and self worth)**
- **Posterity -- The primary obligation of this generation is to preserve society for future generations**

- **Risk Mitigation**
- **Product Development**
- **Industrial Ecology**
- **Stakeholder Relations**
- **Developing Countries**
- **Government Relations (Lobbying, Campaign Finance)**
- **Dialogue and Action**

- **Leadership**
- **Human Capital**
- **Organizational Learning and Development**
- **Advertising**
- **Media Campaigns**
- **Promoting Positive Social Messages**

- **Sustainability Goals and Initiatives**
- **Bottom of the Pyramid Strategies**
- **Conservation and Biodiversity Programs**

- **Expand traditional corporate social responsibility -- risk mitigation, eco-efficiency, stakeholder relations, eco-friendly products, etc.**
- **Honor, draw out and reward intuitive wisdom and action**
- **Create a culture that welcomes uncertainty and experimentation**

- **Lobby to hold all firms fully responsible for negative impacts**
- **Support complete public funding of political campaigns**
- **Support economic changes that emulate nature -- no externalities, limits to growth, zero waste**
- **Ensure socially-responsible advertising**
- **Work with stakeholders through dialogue and other means to define and develop a sustainable society**

- **Engages capital markets in driving system changes that hold firms fully responsible**
- **Provide best available “Enron Screen”**
- **Identifies undisclosed liabilities that could cause large investor losses**
- **Provides best available indicator of management quality**
- **Enables funds with superior financial and sustainability performance**