SOCIAL RESPONSIBILITY

‘from maximising financial return to maximising genuine wealth’

By Falco Valkenburg

The topic social responsibility seems to be the start of a lot of controversial opinions. Are companies there to “just” maximize their financial return for their shareholders or should they benefit the society at large? This is an highly ethical issue. It does sound very nice to serve the society at large, but this would distract from the fundamental economic role of businesses is what critics argue. Others are afraid that it would just give more power to governments as a watchdog over the highly independent operating large corporations. It seems a fact that there is no negative impact on shareholder’s financial results from social responsible acting by companies who do as compared to others who don’t. A significant number of studies support this finding.

Let’s just accept that it is the fundamental role of businesses to produce economic results. This reminds me of a very inspiring lecture of Satish Kumar where he told the story about when he was invited to speak for the London School of Economics. He asked “where is your Department of Ecology”? The answer was “Well, we do teach environmental studies, but we do not have Department of Ecology, as such”. Then Satish gave an explanation of where the words Ecology and Economy come from:

“*Ecology and economy are derived from three Greek words: oikos, logos, nomos. ‘Oikos’ means home: a place of relationships between all forms of life, sharing and participating in the evolution of the Earth community. ‘Logos’ means the knowledge of our planet home, and ‘nomos’ means management of that home.*

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Now what is taught at the LSE is economy; management of the home, and not ecology, the knowledge of home. How can anyone manage something they know nothing of? If you don't know your living room, bedroom, dining room, kitchen or garden how are you going to manage them? If you don't really know your mother, father, husband, wife or children, how are you going to manage those relationships?

So ecology should come before economy; knowledge before management. But at the LSE, as well as at most other universities, the study of the economy dominates. These universities are sending thousands upon thousands of young people into the world equipped with management skills but without knowledge of what they are going to manage. These graduates are half-educated, which is worse than being uneducated."

Satish then continued we need a third 'E': "*ethics. Our 'oikos', our planet home, has to be built on the firm foundation of ethical and spiritual values. Without such a foundation our home will be unstable and unsustainable. The credit crunch as well as the Nature crunch offer us a challenge and an opportunity to redesign our money system and our economies in such a way that we can restore the wellbeing of the human community as well as the Earth community.*"

Genuine Wealth Model 2.0

Satish has helped me looking at things in a different way. I am glad to have met him personally. In this last paragraph he talks about big things: redesigning our money and economies and restoring wellbeing of the community.

That lead me to another person I would like to introduce to you, my friend Mark Anielski. Mark is an Canadian economist and author of the book "Economics of Happiness". Mark has developed a Total Asset Management system, the Genuine Wealth Model 2.0. This model takes an integrated accounting approach to assessing well-being of a City, a region, a country, a set of countries or the world as a whole.

Mark shows that our measurement in pure financial terms, most of the times expressed in terms of Gross Domestic Product (GDP) is providing us with incomplete information. Example: if we experience a lot of people suffering from cancer it is immediately clear that this is a very undesired circumstance. When we measure the effect in the way we do, in terms of GDP, it has a very positive contribution to our GDP due to all the medical and medicine activity. So our statistics show that we have become wealthier due to the fact that a significant number of people suffers from cancer. What is wealth? Mark provides, similar as Satish Kumar does, background to the word wealth which originally means "the conditions of well-being".

So the supporters of Social Responsible behavior of businesses and the critisisers are both right. The issue is that our measurement is too one-sided. Mark Anielski has developed a model where we can measure wealth, not only financial, but genuine wealth is a combination of Financial capital, Human capital, Social capital, Natural capital and Built capital. There is not enough space here to touch deeper on these elements, but if you are interested you could take a look at some successful communities that started to use a more holistic measurement of wealth:

- City & region Well-being Index
  http://www.well-beingindex.com/stateCongresDistrictrank.asp
- Canadian Index of Well-being
  (https://uwaterloo.ca/canadian-index-wellbeing)
- Eindhoven Brainport Monitor
  (www.brainport.nl)

I have seen actuaries feeling sad that their message was not picked up

I think that we, actuaries, who help to put a value on many things, could drive change by suggesting measuring the value in a wider sense than only the financial aspect. The financial value only is not providing the right answers. My involvement over the last 3 decades has been in pensions. Big issues have appeared. These issues go beyond financial measurement only. It is about how we share money between groups of people, between generations. It is how we invest the pension savings in a way that those investments contribute to genuine wealth. For a long time a financial-only management can show very positive outcomes. Although we, experts, already foresee underlying issues that will pop-up on the longer run, we have difficulty getting attention for our warnings. I have seen actuaries feeling sad that their message was not picked up. I am convinced we should embrace a more holistic way of measuring. Not only the financial side but include the other elements that all together constitute genuine wealth. That would be a giant step forward. Since we could value the issues we already foresaw ahead of many other experts and by doing so be able to convey our messages in a much more powerful way, as guardians of society by always assessing issues in terms of genuine wealth. This is the next step ahead: the birth of the socially responsible actuary.

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