

Staying power

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My column from early September discussed the 'August Surprise'. By that I meant the pleasant event during the relatively distracted month of August where the Business Roundtable announced a redefinition of the purpose of a corporation.

At the time, I wondered to what extent the announcement would be lost in the noise of our unsettled times. The number, range and intensity of national and global issues can drown out important discussions.

The issues on the front pages of newspapers and featured on social media create compelling stories and can have immediate and significant impact on our lives.

Cerebral topics, such as the role of corporations, typically do not have immediate and direct impact.

I am very pleased to say that the topic does appear to have staying power. There continues to be media coverage.

Various groups from around the world have held roundtable discussions to explore the topic. More events are being scheduled.

In this column, I will use a fresh approach to explore this new definition.

Capitalism has proven to be a very powerful way to create economic strength.

It is unrivaled in its power. That said, capitalism is amoral — it is a powerful tool that can be used for good or bad.

Capitalism lacks an inherent moral code. One of the purposes of the new definition is to create moral capitalism.

This new definition depends on 'enlightened' business leaders who understand the long-term and less immediate connection between stakeholder management and business success.

Not all business leaders will be enlightened. Society needs additional ways to reduce the risk of bad behavior within capitalism.

Governance is the tool to help assure capitalism is used in a manner that is constructive to society. For the most part, governance has been a successful tool.

Capitalism in democratic societies has produced great wealth and improved the lives of many.

No system of governance is perfect, so every country has governance weaknesses.

The lack of perfect governance in the context of amoral capitalism creates risks.

Fortunately, country-level governance around the world is slowly improving.

We have seen some large problems caused

by amoral capitalism and imperfect governance.

The US has historically had a very powerful capitalist engine and one of the better systems of governance.

Over the last two decades, the US has dealt with the accounting scandals of the late 1990s and the Great Financial Crisis. Fraudulent accounting led to the rapid collapse of well-known companies, including Enron, Worldcom and Arthur Andersen.

The collapse of the residential mortgage-backed securities market from fraud and a variety of other issues led to the Great Financial Crisis.

In the aftermath of each, legislation was enacted to prevent the recurrence of the problem.

The accounting fraud led to Sarbanes-Oxley and the Great Financial Crisis led to Dodd-Frank. While both attempt to improve governance, both are akin to closing the barn door after the horse has left.

The next problem probably will be different from the problems we have already experienced. What are we doing to find other barn doors that are still open (ie how do we prevent problems from happening)?

There is no silver bullet that can magically fix all issues. However, there are things we can do:

- First, the risks of a company having a major issue are connected to the quality of governance at the company level. Well-governed companies are less likely to have major issues and those issues are likely to be less severe.
- Second, the valuation of a company and its attractiveness as an investment should include the risk of problems.

I look forward to exploring the aforementioned topics in future columns. ☺

