Macro-Prudential Accounting: a Theory Regarding Magis

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MACRO-PRUDENTIAL ACCOUNTING: A Theory Regarding Magis

A thesis submitted to Regis College
The Honors Program
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for Graduation with Honors

by

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I’m driving down I-25, between the exits for East 58th Avenue and I-70, about a mile stretch in Denver, Colorado, and I can’t avoid the overwhelming stench of fumes akin to burning oil or smoldering rubber. I exit east on I-70 and the unappetizing scent of dog food overpowers the coffee in my hand. I arrive at work and am overcome by the aroma of buttery popcorn. I access my email and the first words I read are “Doctor Warns Consumers of Popcorn Fumes.” Apparently pulmonary specialists at Denver’s National Jewish Medical and Research Center have written to federal agencies that they believe they have a strong case of a consumer who developed lung disease from the fumes of microwaving popcorn. In the letter, doctors refer to the potentially fatal disease by its common name “popcorn lung,” terminology used in lawsuits by hundreds of workers in food factories exposed to chemicals used for flavoring.

This got me thinking…How do we account for malignancies, such as toxins that dramatically increase the development of cancer? Should the effects of synthetic carcinogens be tallied under “pollution” or “diet?” How do we monitor and measure sustainability like donating time, money, or expertise to the community from which a corporation benefits? How long will the long-term effects of chemically produced commercial materials remain untested?

Sandra Stiengraber, an accomplished author and biologist, asks similar questions in her book, Living Downstream, about environmental contamination and its concrete connection to disease and cancer development in humans and animals. Steingraber inquires, “How can the environment’s death toll be calculated at all when the vast majority of industrial chemicals in commerce have never been tested for their ability to cause cancer?” (265). Most remain untested,
she asserts, because today “lifestyle” is the scapegoat of health experts. Experts place the blame on not exercising enough, eating too many fattening foods, having too much stress, etcetera, etcetera. While it is undeniable that health and diet are also related to cancer, it is also indisputable that commerce has introduced large quantities of chemicals that act as catalysts in disease and cancer development.

A major study by the National Research Council reported that “a variety of types of cancers are encountered more often than would be expected in human populations exposed to contaminants at waste sites. The blood, urine, and body tissues of many people living near such sites contain detectable residues of many of the chemicals found at the sites, including suspected carcinogens such as PCBs, chlordane, and other chemicals banned for use” (qt. in Striengraber, 69). Living Downstream paints a frightening account of the grave short-term and long-term effects industrial waste has on human health, animal life, and vegetation. It is estimated that, in the United States alone, at least thirty funerals everyday are directly related to the abuse of our environment, or 10,950 deaths per year. “This is more than the number of children and teenagers killed each year by firearms—an issue that is considered a matter of national shame,” (269).

Firearm deaths are accounted for and made known to the public in many ways. Why, then, do we not demand a system to report the plethora of deaths caused by chemicals, genetically altered substances, industrial waste, and other profit-producing junk? Without this information compiled and reported, companies will continue to obliviously wreck our environment and exponentially thrust the death toll from 30 funerals a day to hundreds of thousands. Many times one line of evidence alone is insufficient proof, but when several lines of evidence are viewed together, a startling picture emerges from the patterns.
Stiengraber wisely reminds us, “From the right to know and the duty to inquire flows the obligation to act” (117). In this thesis, I propose a method of macro-prudential accounting that combines the stakeholders’ right to know with their duty to inquire in hopes that the obligation to act will flow from both the corporation and the community. First, I describe a necessary paradigm shift in accounting theory resting on the theories of communicative action and dialogical education. I believe that creating dynamic relationships between corporations and community members is the most effective way in crafting a lasting obligation to honor social duty and sustainability. Next, I illustrate six qualities foundational to an accounting system based on such theories and attempt to provide specific examples of how each of these qualities might be concretely implemented. Once I describe in greater detail what a macro-prudential accounting system might look like in comparison to existing models, I explain the type of management style necessary to support such a system. This management style is rooted firmly in Saint Ignatius Loyola’s theory of magis. Finally, I conduct a brief case study to determine whether investor and consumer behavior rewards macro-prudential efforts communicated through annual reports in a financially significant way.
Chapter 1: The First Revolutionary Shift in Accounting Dialogue

Accounting underwent an important shift in perspective and application in the 1960s, and times are calling for yet another shift. As the consumption of our planet evolves and expands, principles of accounting must evolve and expand with it. Einstein told us decades ago that we cannot solve our problems with the same mode of thinking that created them.

The first accounting revolution began with a man named William Henry Beaver. The American Accounting Association honored Beaver with the Notable Contributions to Accounting Literature Award in 1983 for two separate significant books based on over thirty years of accounting research. One of these books, An Accounting Revolution, provides a description of the transition from a stewardship perspective on financial reporting to an informational one. This book holds such authority in academia today that the Accounting Hall of Fame inducted Beaver in 1996 for his enduring contribution. Beaver asserts that in the late 1960s when academic accounting declared its autonomy, the specialized academic environment stimulated a different way of talking about and approaching accounting (3-6). Primarily, the objective of accounting before the late 1960s emphasized internal managerial use of financial reports in order to make critical fiscal decisions. The revolution Beaver speaks of is a shift in perspective and application of financial statements from an internal decision-making guideline, to an external economic information model (22-34). In simpler terms, the purpose of accounting transitioned from a primarily managerial tool to a principally investor-focused disclosure mechanism. While it is undeniable that managers still use these financial statements to make crucial business decisions, the chief audience considered in disclosure purposes changed.
This revolution is important because now the notion of corporate disclosure emphasizes an information obligation to the investing society, so that investors can accurately measure the risk and profitability involved in a particular investment. Recognizing this obligation is critical to the theory of societal transformation I propose because it gave rise to a related duty, situated in social theory. An accounting paradigm focusing on disclosure mechanisms useful to an outside community relying on the reported information bridges the concept which holds that a corporation owes a duty to society by means of a social contract. With both concepts, the corporation is held responsible, like any citizen would be, for the information it disseminates and for the operations it engages in. Shocker and Sethi first anticipated this concept in 1974 in their book entitled *The Unstable Ground: Corporate Social Policy in a Dynamic Society*. They state, “Any social institution—and business is no exception—operates in society via a social contract, expressed or implied, whereby its survival and growth are based on: 1. the delivery of some socially desirable ends to society in general, and 2. the distribution of economic, social or political benefits to groups from which it derives its power” (67). More recently, in the late 1990s, a renowned corporate lawyer, Robert Hinkley, redefined this notion in terms of U.S. law.

According to Hinkley, current government legislation takes a “where and how much” approach to curb corporate abuse of public interest, which instead of curing the problem only treats the symptoms. He explains, “The cause of most corporate abuse is no secret. The thing that keeps greenhouse gases pouring out of smokestacks and tailpipes is the same thing that results in vendors of designer sneakers paying Third World children less than a dollar an hour…That thing is the dedication of the corporation to the pursuit of profit” (www.c4cr.org/aritcle7.html). This relentless pursuit of profit is legitimized because some people assume that corporations are established for one purpose only, which is to make money
for shareholders-- otherwise known as the *doctrine of shareholder primacy*. Hinkley’s Proposal for a Code of Corporate Citizenship would basically make Shocker and Sethi’s idea of social contract legally enforceable by adding merely 28 words to the doctrine of shareholder primacy. Those 28 words begin “…but not at the expense of the environment, human rights, the public health or safety, the communities in which the corporation operates or the dignity of its employees” ([www.c4cr.org/article7.html](http://www.c4cr.org/article7.html)). While the doctrine of shareholder primacy is currently not law, the expressed pact in these 28 words creates a binding social contract that could make it common law.

This idea of social contract created between primary and secondary stakeholders and corporate citizens promotes a new revolution in accounting that ultimately eliminates macro-prudential reporting as an *option* and demands it as a necessary component of societal accountability. The current lack of uniform regulations of macro-prudential reporting only encourages the misuse and abuse of our most precious assets, including people and the living environment. This increasingly imperative social justice issue cannot be fixed, unfortunately, by merely adding 28 words to the doctrine of shareholder primacy. Rather, I propose a revolutionary approach to accounting and management that can provide momentous means of social change through communicative action and dialogical education. Building relationships with stakeholders founded on mutual understanding and consensus formation can lead to crucial changes in how corporations assume their obligation to act as responsible citizens. It will also change stakeholder perspective of corporations because a measurable list of macro-prudential benefits (i.e. wind-power, donations to reputable charity programs, etc.) can be weighed against community costs (i.e. chemical waste, carcinogens in products, pollution, etc.). Socially
responsible investors could make better informed decisions and play an active role in the dialogical education process.
Mandating an accounting system capable of reasonably reporting socially responsible (or irresponsible) activities obligates all of our citizens to take responsibility for imminent social justice issues exacerbated by their activities. While there are a handful of existing environmental standards and codes of ethics, none mandate the active communication necessary in creating the relationships that secure a social contract obligation. Communicative action theory and dialogical education create forums in which relationships are formed thereby further assuring subsequent action. Jürgen Habermas and M. Kettner, two important communicative action theorists, maintain that human “agreement,” or pseudo-agreement, is an important part of behavior and necessary for social progress. Pseudo-agreement might be a better word for “consensus formation” because communicative action theory does not mandate that each participating member reach an agreement of opinion; this is impossible. It means, rather, that each member engages in a dialogic encounter, reaching a type of intellectual union or connection. The dialogic encounter (Figure 1) outlines the various elements essential in communication to fully connect or communicate. It does not only require talking and listening, but it creates a relationship through respect, reflective opportunity, self-awareness, and other interactive qualities capable of creating “consensus formation.” The dialogic process, done appropriately, is deemed to change the behavior of the communicating parties, leading to social progress. (Refer to Figure 1 at the end of this chapter for additional qualities involved in creating this type of encounter.)
Existing Sustainability Models

Currently five major models of macro-prudential reporting exist. Joining the theories of communicative action and dialogical education, the model I propose merely expands and refines these guidelines. In order to identify how, I will provide a very brief recapitulation of the existing models. Working chronologically, the first model set down the basic principles established by The European Commission in 1995 in what is known as the *Eco-Management and Audit Scheme* (EMAS). Its original purpose focused on improvement of environmental performance in the manufacturing arena; however, in 2000 it was expanded to include principles applicable to any public or private entity wishing to participate. Participating entities (note the *option* to participate) develop environmental statements that EMAS audits and validates through principles they have outlined. Further, entities are required to document ongoing improvement through the implementation of suggested policies, programs, and management systems, which are subsequently evaluated by a systematic and objective checklist. EMAS obligates the participating firms to inform the public of the results of these evaluations. In 2001, EMAS strengthened its approach by requiring, instead of suggesting, ISO 14001 as the only environmental management system acceptable ([http://www.europa.eu.int/comm/environment/emas/emas_reg_en.htm](http://www.europa.eu.int/comm/environment/emas/emas_reg_en.htm)).

ISO 14001, the *International Organization for Standardization 14000 series*, outlined an environmental management system in 1997, later modified in 2002, which intended to introduce some consistency in environmental accounting. Also new to this model is the shift from compliance and control approaches, to prevention and continual improvement approaches through the commitment of various management checkpoints. An example of a prevention checkpoint includes completing *long-term* testing of potential products for health and
environment dangers. The participating firms are required to document and communicate each of these checkpoints, plus their methods of management, to the public after the “verification and review board’s” confirmation. In Section 3.2 of ISO 14001, “environment” is defined as “surroundings in which an Organization operates, including air, water, land, natural resources, flora, fauna, humans, and their interrelation.” This definition clearly includes the interest of all societal contract parties, including primary and secondary stakeholders (http://www.asq.org/qic/display-item/index.html?item=22711). In other words, this system covers everything from labor practices, to charitable giving, to environmental impact.

Additionally, the Social Accountability Standard 8000 Series (SA8000), also known as Social Accountability International, addresses central corporate social responsibility practices imperative in honoring the social contract. The SA 8000 focuses on fair labor practices worldwide (published in 1998). It is mainly divided into purpose and scope, normative elements (and their interpretation), definitions, and CSR accountability requirements. The accountability requirements contain specific documentation for a wide variety of macro-prudential considerations. A few important documentation requirements include: child labor, forced labor, freedom of association and right to collective bargaining, disciplinary practices, and control of suppliers. This model is unique because it recognizes the documentation of the control of suppliers. This accountability aspect requires those choosing to adopt this standard to encourage or even necessitate that their suppliers comply with the requirements as well. (http://www.CEPAA.org/sa8000.htm)

At the Third International Conference on Social and Ethical Accounting, Auditing, and Reporting in 1999, Ernst and Young, KPMG, PriceWaterhouse Coopers and the House of Mandag Morgan collaborated to develop the Copenhagen Charter. The charter explicitly
focuses on developing sensitivity to the values of stakeholders by means of dialogue. It is designed as a “…management guide to stakeholder dialogue and reporting” (Section: Introduction). The charter provides provisions on how to include the involvement of top management; how to revise vision strategies and how to identify critical stakeholder values; and how to report these aspects through consistency and dialogue. Most notable of this charter is the emphasis on dialogue, not one way reporting. The charter recognizes the essential quality of knowing the stakeholder’s values and by researching them through two-way communication (http://www.1000ventures.com/business_guide/biz_model_new_inclusive_co_cc.html)

The final model, established only six years ago, is known as the Global Reporting Initiative Sustainability Reporting Guidelines (GRI). The main objective of this model is to provide globally applicable guidelines for preparing sustainability reports. The most notable aspect of this model is its inclusion of Financial Accounting Standards Board (FASB) postulates and principles such as entity, monetary unit, time period, scope, going concern, matching, recognition, disclosure, conservatism, comparability, consistency, uniformity and materiality (Refer to endnote vii for further explanation). All of these principles are used in creating consistent financial reports in the United States. World-wide application of these principles advocates comparability among the nations (www.globalreporting.org).

Adding Communicative Action and Dialogical Education to the Mix

Each of the aforementioned models contains a unique aspect of macro-prudential accounting that lends itself to the theory of communicative action. One aspect, however, that sets my theory apart from the others is the absence of the option to participate. Corporate citizens should not have the option to participate in social contract because their contributory
actions involve them in ways that cannot separate them from their contractual duties. As the most dominant and powerful human institution that man has ever developed, I expect that business will be at the forefront in this revolution of leadership.

Parts of the existing models for sustainability reporting include aspects of communicative action in their standards, namely ISO 14001 and the Copenhagen Charter. However, both of these models fail to clearly satisfy the many criteria of communicative action theory. Some of the necessary elements of this theory correlate with already specified principles and postulates of Generally Accepted Accounting Principles (GAAP). GAAP criteria are important to recognize but are not the only principles necessary to create the accounting revolution required to initiate social change. Therefore I created a list combining GAAP, communicative action, and dialogical principles. This list of criteria includes: truth and transparency, sincerity, accessibility and autonomous evaluation, power neutrality, co-evolution and interaction, and reflective opportunity.

Truth and Transparency

Financial markets have strict disciplinary mechanisms which, over time, penalize firms that communicate inaccurate information. Such mechanisms do not yet exist for macro-prudential accounting. Many of the models discussed earlier incorporate or recommend the use of processes designed to ensure the accuracy of reported information. EMAS participants, for example, must undergo a systematic and objective evaluation of reported information, which they must subsequently make available to the public. ISO 14001 demands participants to implement verification and review boards, and participants must obtain the board’s confirmation before publishing information. GRI also includes much of the FASB principles which address issues of truthfulness and transparency. However, I specifically suggest that a review board, or
group of auditors must be independent parties certified through ICE (Independent Certification Examination) or similar tests in order to verify truthfulness. Full service accounting firms like Clifton Gunderson, Rothstein Kass, Ernst and Young, Zarleno Raub, and Deliotte (to name a few in Denver) could provide verification and review boards for macro-prudential reporting. It is important to outsource this type of job because it further assures the objectivity of transparency measures. Since many corporations outsource accounting services or have to be independently audited for debt services anyway, this is a reasonable consideration. Macro-prudential reporting is unique because it is particularly difficult to measure and assess. Therefore, some form of standards of measurability would be necessary to create consistency in these private evaluations.

Truthfulness and transparency cannot begin and end with auditing and assurance services, however. This criterion is essential in establishing the “dialogic encounter” (Figure 1). Shareholders must be able to rely on the words of corporate leaders. The effectiveness of communication is completely diminished if there is no legitimacy behind the words and numbers. Hence, a system of evaluation must be implemented so that shareholders can measure corporate truthfulness. While shareholders will rely on auditors expressed opinions, additional evaluation is necessary. Shareholders can use evaluation techniques such as comparing corporate promises to fulfilled actions, maintaining access to employee evaluations of management, and following litigation concerning questionable corporate practices and policies, to name a few examples.

**Sincerity**

Since there are no formal standards for macro-prudential reporting, it is possible for firms to pick and choose which items to include in the report and which to leave out. Consequently, it
would be perfectly possible to have a report which meets the transparency criterion (truthfulness of facts stated), but paints an inaccurate picture of performance because of omitted information. Disclosure and communication about macro-prudential management system frameworks can fill this gap. These frameworks generally include a company’s environmental and public relations goals, strategies, processes, measurement and reward, and feedback components. Stakeholders can therefore compare performance measurements against company objectives to evaluate sincerity of reporting. Currently there are several frameworks like ISO 14001, however I propose a very specific management framework discussed in Chapter 3 to compliment my model of macro-prudential accounting. Yet even my description of management objectives does not satisfy the sincerity criterion considering its brevity.

I think that management should be obligated to publish specific, time oriented goals, and then provide a follow up on these goals as to whether or not they were accomplished and why. Providing detailed goals allows the shareholder to determine whether expectations are met on a very intimate, personal level. Shareholders will come to know managers, those who succeed at reaching goals, and those who continually fall short, and will then begin to put more or less faith in the sincerity of their plans and promises.

EMAS, ISO 14001, and the Copenhagen Charter specifically address how to embed environmental management into accountability. SA 8000 even extends this notion beyond a firm’s internal activities to those of their suppliers. Major suppliers to these firms must operate under similar macro-prudential management systems. The Copenhagen Charter implies sincerity on the part of top management by creating the ability of stakeholders to communicate through controlled dialogue, and SA 8000 implies sincerity by conducting business only with socially responsible companies. In the following chapter, I will discuss in detail the type of
leadership and management I believe necessary in order to facilitate social progress through communicative action. For now, it would suffice to say that sincerity is demonstrated by saying something and then following it with the appropriate action. Shareholder’s can better determine if a company is sincere by participating in upper managements’ objective setting and then seeing them evidenced by measurable data entries.

**Accessibility and Autonomous Evaluation**

Communicative action theory is based on the assumption that the more people involved in the dialogue, the more constructive and progressive the connections/relationships become. Jürgen Habermas believes that equal accessibility and fair representation (for those who could not represent themselves like future generations) unlocks conversational doors that would otherwise remain closed. While it would prove truly difficult to converse with every person affected by the corporation’s activities, the Internet allows for greater accessibility and participation. Granted, some secondary stakeholders such as non-human species and future generations will need representatives, but accessibility is possible for all interested parties, not only the elected representatives given the power to communicate. Companies can create discussion areas where stakeholders and top management can meet with ease. These discussion areas could look similar to a “chat room,” but would need to be anonymous and more structured. Currently some companies maintain such chat rooms for stock owners, but these pages resemble more of a comment board than a discussion area…the difference being that conversations rarely flow through the posted comments and management takes no interest in it at all. I think each company should provide a discussion area as a link from their homepage, easy to find and operate. Companies could offer electronic opinion polls as links to discussion boards to collectivize the voices. This way anyone wishing to participate in the discussions or wanting to
learn what others have to say on the subject can review or create posts before voting in the opinion poll. Obviously several different discussion boards would be posted to focus on individual topics or concerns. Managers, employees, primary or secondary stakeholders alike may participate and vote in the opinion polls. Many corporate stakeholders live outside the community where the corporation actually exists. The Internet allows these individuals to communicate for little or no money. Because expense limits and deters full participation, an inexpensive and expansive medium facilitates best.

Autonomous evaluation, a foundational element of the dialogic encounter, requires that each stakeholder participating in the discourse be allowed to express opinions, make proposals, raise and question claims, and engage in other speech acts necessary without the fear of repercussion. In other words, these discussion boards either need to be completely anonymous, or there must be strict regulations set in place that allows freedom of speech, no strings attached. Steingraber emphasizes the restrictive effects of the lack of autonomous evaluation in communicative action. She “acknowledged the constant threat of defunding that hushed many government scientists” (17). This “silence” is evidence of the many corporation policies that if exercised, can limit shareholder input. Although it would be complicated to achieve, strict disciplinary mechanisms could be set in place to alleviate some of the “bullying,” so to speak.

Power Neutrality

Corporations are able to “hush” shareholders because there is no power neutrality in the dialogue. None of the reporting frameworks seriously address this foundational criterion for mutual understanding and consensus formation. This principle requires democratic participation in discourse, a situation nearly impossible to achieve in a corporate stakeholder engagement. All participants involved in discussion about corporate social activity must have an equal voice in
determining outcomes. This implies that each participant will also have equal knowledge or access to knowledge of corporate performance and possibilities. Therefore, access to resources like macro-prudential reports, carbon emission reports, and many others must be available in “layman’s terms.” To be clear, however, this does not mean that each individual has equal power in decision-making. Obviously the managers will still be making the final call, but the manager must also assume the obligation of “hearing out” those in the community in which the corporation benefits/affects.

The dialogic encounter is deeply rooted in this principle. It basically means that there is no teacher or student involved in the discussion. Knowledge is “equal” and each participating member learns from the other. One of the corporate loopholes that allow companies disempowering legal options is callable stocks. A company wishing to exercise silencing power merely needs to “call” or buy back a stock, terminating ownership rights. In other words, a dialogic encounter can only transpire in a setting free of coercion and fear of recourse.

The authors of Getting to Maybe, a book about successful social change, demonstrate the necessity of power neutrality. Ulysses S. Seal, one of the leaders of the species conservation movement in the United States said, “Sometimes it takes a lot of effort to make sure all the key players are in the room. Then I work to remove the power issue entirely” (Westley, Zimmerman, and Patton, 104). Seal is saying that equal power within a discussion is valuable even if equal power isn’t available, or desirable, for decision-making. One reasonable way to remedy this challenge is to create a dialogical environment in which primary and secondary stakeholders can feel free to say what’s on their minds, like a “safe zone.” Assuming that decency requirements are maintained, participants can post comments anonymously or they can tag their name to their comment. Management would have the responsibility of reading comments and participating in
the discussion. Also, notice that one stock does not equal one vote in the opinion polls. Rather, one person equals one vote; no votes can be bought under these principles. Management would be responsible for considering opinion polls before making decisions. This requirement also aids in measuring sincerity because participants can review management’s comments and determine whether or not management makes an honest effort to follow through with promises and concerns.

**Co-Evolution and Interaction**

Two reasons why communicative action theory has been avoided in accounting standards, so far, is because of the difficulty rooted in power neutrality and the inherent “messiness” in dialogical thinking. Accounting is believed to be a primarily objective set of standards. Many people are reluctant to include “messy” standards because of the increased probability of lack of consistency, which is imperative for comparability measures. True, measurability issues and consistency issues will take many years to iron out. However, the goals are attainable, especially considering advancements in technology that allow greater precision in estimates. Plus, macro-prudential reporting would not appear in the annual financial statements; rather, they would be included as other RSI (Required Supplementary Information) along with the MD&A (Management’s Discussion and Analysis). Therefore, it would not distort the financial statements *economic substance focus*.

The authors of *Getting to Maybe* exhibit the necessity of connections with individuals interested in participating in a common goal. The interactive quality of these individuals is what gives the method power: “Early power and resources for change are often found through connections, through *joining together* with fellow travelers, like-minded individuals whose chief resources are their passion, their time and their energy. If successful at this stage, the community
creates movement…” (99). Dialogue educates, but it also transmits the obligation to act; it “creates movement.” Co-evolution of interacting participants is part of the process of education and action. Co-evolution in macro-prudential accounting standards means that accounting guidelines must take an open-attitude to new ideas and ways of measuring things. I am not proposing that methods be changed on a whim, just because it seems like the majority believes it is a good idea; however, I am suggesting that accounting theory takes a broader understanding of what needs to be held in accountability and how we measure and present that. Currently accounting theory follows the monetary unit postulate. This postulate would be incongruent with macro-prudential accounting since many items will not be able to be measured in dollars and cents. It will be important to set standards so that comparability among industries would be possible, but macro-prudential accounting theory demands that open-mindedness and co-evolution of standards be welcomed when reasonable.

**Reflective Opportunity**

Reflection is what signals evolution. *Getting to Maybe* devotes an entire chapter to the importance of “standing still,” or the magnitude of reflective opportunity. Macro-prudential accounting standards must include a set appointment for reflective opportunity. The most appropriate time of year for this would be after the release of financial and macro-prudential reports, mostly likely quarterly or bi-yearly. The reports will allow shifting patterns to emerge. Providing such information opens dialogue to every affected individual. Allowing every stakeholder the opportunity to update their thinking with current information and reports also promotes consensus formation as well as co-evolution.

For accounting purposes, reflective opportunities may only come bi-annually or quarterly; however, reflection is such an imperative process in building effective leadership, that
reflective opportunities should be seized more than even once a day. By Ignatius Loyola’s standards, the founder of a successful 450 year old company, reflection should occur at least thrice a day. Discussed in detail in the following chapter, personal and managerial reflection is a continuous process of learning and applying knowledge in tangible ways.

The Obligation to Act

Scary and imminent environmental consequences are already emerging as a result of the lack of accountability and the doctrine of stockholder primacy (in the relentless pursuit of profit). The scariest characteristic of these environmental consequences, however, is that people seem to believe that they are getting better. Stiengraber elucidates, “...loopholes in reporting requirements allow industries to play an elaborate shell game with their wastes. Some analysts believe that substantial decline in emissions from 1987 to the present, for example, partly consist of phantom reductions—such as changes in accounting methods or the contracting of highly polluting processes to other facilities” (101). My revolutionary model of communicative action and dialogical education obligates every company to confront their participation in environmental contamination. And as discussed earlier, it is from this confrontation and dialogic encounter that the obligation to act flows.

For example, a representative from the Chemical Industry Council of New Jersey admitted, “I’ll be honest with you. [Our reductions in emissions] probably would not have occurred if that data had not become public information. It was something that caught everyone’s attention, including the corporate leaders” (qt. in Stiengraber, 102). Though the form of public information she is speaking of is not consistent with the standards necessary to build
long-lasting social progress, the main point is that no chief executive officer wants to be the biggest polluter in a community.

Dialogical education facilitates a forum for human inventiveness that is not focused primarily on profiteering. The documentary *Who Killed the Electric Car* paints a bleak picture of how profits have already deterred inventiveness to prolong the deepening of pockets. The old saying “if it ain’t broke, don’t fix it” seems to suggest that as long as the company is raking in the dough, then there is no problem. Yet our planet and health are telling us otherwise, and clearly the long-term costs are beginning to significantly out-weigh short-term profits. Such a revolutionary shift must be supported by the entire management team because old habits die hard, and without the uninterrupted support of every employee and stakeholder, this shift will be incomplete.

FIGURE 1: DIALOGIC ENCOUNTER
Existing macro-prudential management systems like ISO14001, focus on “best practices” regarding social responsibility management decisions. However, many of these guidelines fail to provide the tools necessary to transform raw talent into long-term success. In accounting firms, many intelligent employees shine during the number-crunching roles assigned to beginning staff, yet flame out dramatically when challenged with the “humanistic” tasks integral to company leadership and prosperity. Unfortunately textbook wits don’t easily extend to thinking, feeling human beings, who are less easily manipulated than spreadsheets. Macro-prudential reporting demands a significant shift in the way businesses report. It demands a bigger audience, a different way of interacting with stakeholders, and a broader range of issues of concern. If the reporting is to be consistent with communicative action theory, it needs to be reflective, creative, heroic, and focused on all stakeholders.

Current leadership models central problem derives from main motivational techniques always concerned with only one objective: generating profit. As a society we have learned to admire broken models of leadership like Donald Trump’s Apprentice or Gordon Ramsay’s Hell’s Kitchen, in which money and fear are the major motivational drivers. Yet this form of motivation appears to be successful only because our understanding of the word “company” diverges dramatically from its original meaning. The words “company” and “companion” actually derive from the same Latin root. In the 16th century, the word “company” meant a band of comrades united for a similar cause. St. Ignatius Loyola founded the 450 year old Compañía
de Jesus, the Company of Jesus, which is a companionship of men whose ultimate cause is for the “greater glory of God.” While it is true that this company is a not-for-profit enterprise, calling it a company highlights the parallels between their compañía and our modern companies. Though many people will grapple with this comparison, including die-hard free marketers and even some Jesuits, the larger issue still remains: why has the word company drifted so far afield from its earlier meaning? Perhaps by taking management back to its roots, we can learn how to build sustainable, successful enterprises.

Many elements of the Jesuit approach to leadership “carry the uncomfortable and even kooky ring common to provocative new ideas,” (5) forewarns Chris Lowney author of Heroic Leadership. Lowney lived for seven years as a Jesuit seminarian, practicing vows of poverty, chastity, and obedience. After learning the methods of St. Ignatius Loyola, Lowney morphed into a corporate man. He served J.P. Morgan, a successful investment bank, as a managing director in Tokyo, Singapore, London, and New York, and he served on the firm’s Asia-Pacific, Europe, and Investment Banking Management Committees. He points out, “…I, who apprenticed in a seminary, and Management Committee colleagues, who apprenticed in the world’s best business schools, all grappled with the same challenge of recruiting and molding winning teams” (2). He learned that this leadership challenge knew no geographic boundaries.

Lowney noticed one common thread throughout the different leadership systems he studied across the globe: the only leaders involved in the system were managers and other employees who were “in charge” of a number of subordinates. The leadership position, therefore, excludes a wide audience, ultimately suggesting that leadership is not an important part of their duties. The Jesuit principles of leadership, on the other hand, have momentous transformational abilities because their principles are rooted in the notion that we are all leaders
and that our whole lives are filled with leadership opportunities. Redefining leadership to include everybody instead of only key players lends itself well to the theories of communicative action and dialogical education, which require that each person is equally involved in leadership roles; each person is a teacher as well as a student. This view forces us to let go of the preconceived notion that somehow only those holding authority can be leaders. However, in the same way, we must realize that a leader’s impact may not become apparent within an hour, year, or even a lifetime. Typically we tend to measure leadership effectiveness by determining the amount of change we can clearly see. However, understanding a leadership model rooted in communicative action theory means understanding that a leader’s impact may not be apparent and may not even manifest itself until a generation later through those they raised, taught, and mentored.

So why were, and why are, these Jesuits successful? What caused them to succeed over 230,000 other religious orders (Lowney, 57)? What lessons can we learn about companionship in order to fully recognize the theories of communicative action and dialogical education in macro-prudential efforts? What spurred their inspiration, vigor, and innovation?

**The Four Pillars of Success**

After much research and reflection, Chris Lowney postulates that the success of the Jesuit order lies primarily on four pillars: self-awareness, ingenuity, love, and heroism. While these pillars carry the “uncomfortable and kooky ring common of provocative new ideas”, they are increasingly finding validation in recent research—for example, Russ S. Moxley compiled extensive research on the link between self-awareness and leadership in his book *Leadership and Spirit* and Viktor Frankl’s *Man’s Search for Meaning* relates motivation to finding a purpose in
life. These four pillars capture the broad spirit of a simple Jesuit model: *magis*, Latin for “the greater.” Jesuits maintain a restless drive to imagine whether there isn’t some even greater project to be accomplished or some better way of attacking the current problem. This four-pillared formula deeply rooted in communicative action theory still molds Jesuit leaders today, nearly five centuries later, with no end in sight.

**Self-Awareness**

Chris Lowney said of the first pillar, self-awareness, “Our claim to leadership is who we are and what we value most. Knowing our strengths, weaknesses, priorities, and worldview allows us to pursue challenges passionately. Leaders thrive by becoming aware of unhealthy blind spots or weaknesses that can derail them and by cultivating the habit of continuous self-reflection and learning” (Regis University speech). Becoming aware of one’s self, or knowing one’s self intimately, theorizes Lowney, is the foundation of the four building blocks of heroic leadership. We must first accept the fact that we are being faced with leadership opportunities constantly, and second, act in light of our personal objectives. A personal objective is not, however, a goal like sell $500 dollars of product today, but it’s rather an ideal version of how we answer the question “How ought we to live?” Because we are living in an ever-evolving world, daily reflection of the answer to this question is a crucial element.

Vicktor Frankl, a heroic survivor of the Nazi concentration camp, Auschwitz, witnessed the stark contrast between the fate of humans who either (1) discover one’s self and the leadership opportunities present even in light of tragic circumstances or (2) “forget his human dignity, and become no more than an animal” (67). In essence, the terrorized physical and sociological conditions of the concentration camp caused a lifetime of daily leadership opportunities to be concentrated into two fundamental paths: meaning and hope, or death of the
emotions and loss of dignity. Although this example takes place in extreme circumstances, it highlights the absolute necessity of self-awareness and understanding in leaders. Frankl also comments on the importance of reflective nature when he draws the connection between considering the “moral values that a difficult situation may afford [us]” in order to “add a deeper meaning” and purpose to our lives (67).

Therefore, I propose a macro-prudential management framework designed to facilitate reflective opportunity. This essential component of magis sets the groundwork for an educational dialogical encounter that is sincere and truthful to one’s spirit. St. Ignatius suggests that this exercise be practiced thrice daily. Timothy Gallagher eloquently describes the five steps of contemplation in his book *The Examen Prayer*. The five steps include:

**Step One:** Gratitude. Remember “the highest grace and everlasting love of Christ our Lord” (Gallagher, 22). By remember what we are grateful for, we refocus our original line of thinking to incorporate a reverence for the precious world we live in. Even if somebody is not a believer, by focusing on what we are appreciative of, we probe our inner conscience in a way the forces us to consider others.

**Step Two:** Petition. Praying for assistance and asking for wisdom and strength refines our thinking to incorporate the aid of others. Many times leaders believe that they have to do it all, but by petitioning for help, we actually complete the dialogical encounter.

**Step Three:** Review/reflect. Answer the questions: What is my objective? How ought I to live? What is my purpose? Seeking the wisdom of the spirit guides us to remember *not* to negotiate personal objectives for business policies that act in contrast with deeper values. Reflecting on at least one lesson learned from the last time engaged contemplation helps us take a proactive approach to continual quality improvement.
**Step Four:** Forgiveness. Forgiving ourselves and our trespassers allows healing to push us forward in our journey of magis. Grudges act as a barrier against growth opportunities by limiting the full potential of personal relationships and the full effect of the dialogical encounter.

**Step Five:** Renewal. Proactively focusing on what greater we can do in our leadership roles in the future, commits us to renewed energy for change.

This five part technique remains relevant today, Lowney explains, “precisely because it was designed to allow busy people to ‘reflect on the run’” (28). With the accelerated pace of change, roles and tasks evolve constantly, requiring development of the contemplative capacity. This exercise of the mind develops the skills Peter Drucker, a pioneer in management and leadership for the past three decades, argues as imperative for successful careers in the *Harvard Business Review*. He says, “Successful careers are not planned. They develop when people are prepared for opportunities because they know their strengths, their methods of work, and their values.” (Qt. in Lowney, 107).

Contemplation not only leads to greater self-awareness, it also gives us fuel for change. Harvard Business School professor Joseph Badaracco comments on the significance of self-reflection as a personal motivator in order to energize our efforts. It not only forces us to dig below the surface of our daily lives to refocus on core values, but “acts as a springboard for shrewd, pragmatic, politically astute action” (qt. in Lowney 97). Self awareness allows us to craft an authentic and indifferent identity based on personal objectives, rather than somebody else’s idea of what we should be. Frankl witnessed the concrete reality of this motivational force when those who could not craft an authentic existence in the concentration camp lost hope and physically deteriorated shortly after. However, those who could grasp this “genuine inner
achievement” (Frankl, 87) were invigorated anew in their lives and found ways to survive the most impossible situations. A self-aware management style supports the type of communication I advocate for macro-prudential reporting because it unchains a new and unique flexibility, allowing greater faculty for mutual consensus formation.

**Ingenuity**

This five part exercise conjointly inspires ingenuity by re-crafting an authentic approach that is a derivative of inner calling, rather than a reaction to personal attachments. These personal attachments are often learned through culture, like an attachment to money or status or pride. Ignatius believed that these personal attachments only serve to confuse people and muddle the process of self-understanding. Personal awareness cannot truly be attained without this active resistance to subtle prejudices. Chris Lowney maintains, “Only by becoming indifferent—free of prejudices and attachments and therefore free to choose any course of action—do recruits become strategically flexible” (119).

This exercise, however, is much easier said than done. Sometimes attachments are not learned but are deeply ingrained in our sense of self. For example, Andre Dubus, a passionate military man and touching author lost the use of his legs while trying to push a man and a woman out of the way of a speeding car. The man died, the woman survived, and Dubus lived but lost his career, his understanding of life’s purpose, his marriage, and his motivation. The process of self discovery after such a life altering experience is a slow and painful one recalls Dubus. On this stormy journey of self discovery, Dubus faced many demons. He recalls, “For ten days, I woke and lived with this storm, and with the rain were demons that always come on a bad wind; loneliness, mortality, legs” (209). Dubus struggled for months to free himself of his attachment to his legs, his physical life, and his fear of being isolated.
Understanding personal attachments means “overturning personal rocks to see what crawls out” (Lowney, 119). Dubus’ method of overturning personal rocks was to write it. He said that he wrote “not to rid [himself] of it, because writing does not rid [him] of anything, but just to go there, to wherever the woman [who had witnessed the accident] had taken [him], to go there and find the music for it, and see if in that place there was any light” (209). Although the music was dissonant, off-beat, and choppy, Dubus found the “light.” There may not have been harmony along his journey, as he hoped, but he arrived at his destination by opening his heart to an ingenious personal perception. When Dubus simply says, “I’m here” (209) a truth has been revealed to him, and that truth is the same truth that Frankl tries to reveal. When counseling two men considering suicide, Frankl observed, “Both used the typical argument—they had nothing more to expect from life. Yet in both cases it was a question of getting them to realize that life was still expecting something from them” (79). Redefining their personal responsibility allowed them to live for something again. Although Dubus’ journey, like Frankl’s, was lacking any melody, by freeing themselves of attachments, they were able to find a new sense of self; the “light” of spiritual wisdom and self-awareness led to ingenious developments in character and purpose. As for Dubus it led to nine novels, the Malamud Award, the Rea Award for excellence in short fiction, the Jean stein Award from the American Academy of Arts and Letters, the Boston Globe’s first annual Lawrence L. Winship Award, and many others.

In short, by freeing ourselves of attachments, we become strategically flexible, which naturally leads to ingenuity. Ingenuity is an essential component of macro-prudential reporting because a broader range of concerns requires a broader range of ideas. Managers must embrace ingenuity as a part of communicative action theory and the dialogical encounter in order to attain the creative fidelity necessary to attack ever-evolving social justice issues.
Dubus points out the importance of witness in his contemplative journey. The woman’s recollection of that dreadful night possessed his inner emotions in a way that forced him to confront all the creepy crawling things escaping from beneath the rocks. Witnessing and sharing are key elements in the dialogical encounter, as well. In order to learn from each other and co-evolve, conversation must sometimes stray from business topics and focus on connecting experiences in order to build relationships and encourage sincerity, truthfulness, trust, and healing. It is easy to forget the human aspect of business, especially because employees are constantly on the run, but social progress depends on the growth of people mentally and spiritually. Macro-prudential accounting is one way to evaluate managers on their ability to tap into the field of emotional intelligence. Emotional intelligence is comprised of five core competencies jarringly similar to Lowney’s four pillars. Those competencies include:

- **Self-Awareness**: the ability to recognize and understand your moods, emotions, and drives.
- **Self-Regulation**: the ability to control or redirect disruptive impulses and moods; the propensity to suspend judgment—to think before acting.
- **Motivation**: a passion to work for reasons that go beyond money or status.
- **Empathy**: the ability to understand the emotional makeup of other people.
- **Social Skill**: proficiency in managing relationships and building networks; an ability to find common ground and build rapport. (Excerpt from Lowney, 109)

Daniel Goleman, author of *Emotional Intelligence* and *Working with Emotional Intelligence*, reported, “When I compared star performers with average ones in senior leadership positions, nearly 90% of the difference in their profiles was attributable to emotional intelligence factors rather than cognitive abilities” (qt. in Lowney, 109). Notice that this set of skills focuses
on development of a *compañía* rather than a company in the modern sense. Business leaders should create balanced score cards that evaluate employees not only on financial performance and cognitive abilities, but also on emotional intelligence factors. Adding another dimension to manager evaluation assists in crafting a program that recognizes the competitive advantage in separating the “star performers from the average ones.” Star performers understand communicative action theory as a key element in employee development and stakeholder relations.

**Heroism**

Chris Lowney’s idea of heroism diverts quite dramatically from the typical sense of the word. Typically, Andre Dubus would be deemed a hero for his shining moment of selflessness and courage while attempting to save two lives. However Lowney would deem Dubus a hero not for a single brilliant moment, but for a lifetime of making choices that seek the wisdom of his spirit. To Lowney, heroism means dealing with reality, but simultaneously holding on to our personal vision of how human beings can live, learn, and interact together. It is a balanced mixture of idealism and practicality. Like Sir Thomas More, the hero fights for his inner conscience in a way that employs practical techniques but rests on idealistic values. Sir Thomas More’s approval symbolizes a sense of self-acceptance in Robert Bolt’s play *A Man for all Seasons*. His consent is important to the king and other characters because his approval would make them feel and appear better (or more moral) than they really are so that they could more easily accept themselves. When Wolsey indignantly suggests that if More could see the “facts flat on” without his “horrible moral squint,” he “might have made statesmen,” More gracefully points out the consequence of not having a “moral squint.” He says, “Well,…I believe, when statesmen forsake their own private conscience for the sake of their public duties, they lead their
country by a short route to chaos” (Act One, Scene Two). More recognizes the importance of seeking the wisdom of his spirit in making crucial business and life decisions. Along with being aware of his values, he is steadfast and idealistic, never allowing an individual to persuade him to bend his rules, not even his wife, not even the king.

More absolutely refuses to sacrifice his personal objectives, even as he sacrifices his career, friends, family, and ultimately his life. Part of Lowney’s model of heroic leaderships lies in the notion that a company must create a culture that stresses such heroism and gives each person the opportunities to enlarge himself/herself by contributing meaningfully to an enterprise greater than his/her own interests. By creating situations in which employees can meaningfully contribute to something greater than themselves, a company promotes a healthy balance between idealism and practicality. Too much of one element or not enough of the other leaves us in a stormy situation. For instance, More’s reverence for being practical is rooted in the law. He says to Roper, “Oh, and when the last law was down, and the devil turned on you, where would you hide, Roper, all the laws being flat? This country is planted thick with laws from coast to coast, man's laws not God's, and if you cut them down -- and you're just the man to do it -- do you really think that you could stand upright in the winds that would blow then?” To More practicality stands as the trees that temper the winds of idealism. Without a firm anchor to reality, idealism’s whirlwind is too strong to withstand.

This balance between practicality and idealism is much like Viktor’s Frankl’s observation that human potential is similar to trying to fly a plane in crosswinds. If you intend to reach a certain destination, you must “crab” north of the airfield, otherwise you will fall short of your destination. He explicates, “If we take man for what he really is we make him worse, but if we overestimate him, or seem to be idealists, you know what happens? We promote him to what he
really can be. So, we have to be idealists in some way in order to unlock our fullest potential” (http://www.youtube.com/watch?v=fD1512_XJEw&feature=related). In other words, idealism is the key that allows us to access our fullest reality. The very idea of macro-prudential accounting and managing currently is idealistic, but without considering the ideal, we will always fall short in the arena of leadership and sustainability. Communicative action theory permits us to embrace an idealistic perspective because talking about idealistic ideas is a practical way of discovering realistic opportunities that share in idealistic viewpoints. By sharing with a broader audience in safe discussion boards, we are allocated the opportunity to debate the ways in which pragmatism and idealism co-exist, in an open environment conducive of consensus formation.

Love

The final pillar in Lowney’s model of heroic leadership is love. Lowney is not suggesting that we start telling co-workers that we love them. No, instead he proposes that if a CEO loved his colleagues, who have entrusted him with investments, that CEO would not gamble their money on risky, self-serving investments. In other words, love to Lowney is respect for communicative action. Without this love and respect, sincerity, truthfulness, accessibility, autonomous evaluation, and power neutrality are all called into question. Love is certainly one of those uncomfortable and kooky words not often used in the business setting; however, love-driven leadership, in combination with communicative action theory, unlocks motivation and talent that will otherwise lie dormant. Lowney insists that love-driven leadership is

- “the vision to see each person’s talent, potential, and dignity
- “the courage, passion, and commitment to unlock that potential
Love is not only seeing other people’s gifts, but it is helping them unlock them as well; it is an action. Therefore, love, in today’s business world, drives the manager who takes the time he/she does not have to help the passable employee do better to initiate difficult conversations or to give them the tools to contribute more fully in company meetings. Individuals perform best when they are respected, valued, and trusted by those who genuinely care for their well-being.

A dialogical encounter must have these elements in order to create a spirit of companionship. Back in 1954 Peter Drucker said, “It is the spirit of companionship that motivates, that calls upon a man’s reserve of dedication and effort, that decides whether he will give his best or just enough to get by” (qt. in Moxley, 21). Camaraderie fuels energy, motivation, and mutual support. By training employees to act in love, the word company reverts back to its original meaning and regains its novel encouraging nature.

Viktor Frankl embodies magis-driven leadership when he speaks in the dark to the prisoners about what they had lost, what they missed, what they loved, what they sacrificed, and what purpose they derived from their experiences. This small action of camaraderie invigorated the prisoners with hope and courage once again. “When the electric bulb flared up again, I saw the miserable figures of my friends limping toward me to thank me with tears in their eyes. But I have to confess here that only too rarely had I the inner strength to make contact with my companions in suffering and that I must have missed many opportunities for doing so” (83-4). Even here, Frankl admits that leadership opportunities are often missed, but are always present. Even though he regrets missing many of those opportunities, he realizes that by having the

- and “the resulting loyalty and mutual support that energize and unite teams” (170).
courage and commitment to seize just one of these opportunities, allowed him to instill the most valuable survival tool in his friends: hope.

**Valuable Intangibles**

Such intangibles created out of self-awareness, ingenuity, heroism, and love just might, in the end, be more critical to personal and corporate success than the tangibles we prize when scanning resumes and financial statements. Dialogical education facilitates a forum for human inventiveness that is not focused primarily on profiteering. Instead higher priorities like environmental friendliness and social responsibility enter the conversation and consequently open new avenues for thought. Nonetheless, corporate managers will resist such uncomfortable and kooky measures unless their bottom line criterion is met. While it might be ideal to want managers to merely trust in the methods of a 450 year old company, it is practical to believe that more incentive may be necessary. Therefore, I have conducted a brief case study in order to determine whether socially responsible corporations tend to be more profitable than those that are not.
In order to correlate profit indicators with macro-prudential attentiveness, I conducted a content analysis of ten randomly chosen companies in the restaurant industry with a standard industrial classification (SIC) code of 5812. Within this specified industry, I identified two benchmark companies, one acknowledged for its macro-prudential activities and one notorious for its lack of such activities. These benchmark companies provide a meaningful comparison because they are two well known, highly competitive restaurants: McDonald’s and Burger King.

In 2007 McDonald’s was recognized second on Fortune’s Most Admired Food Services Company List, and in 2008 it moved into first place. Burger King listed 4th on Fortune’s Least Admired Food Services Company List in 2007 and 7th in 2008. Candidates for the list are subject to eight criteria: innovation, people management, use of corporate assets, social responsibility, quality of management, financial soundness, long-term investment, and quality of products or services. While McDonald’s scored top in its class for social responsibility, Burger King scored very last in this category. Companies were rated on community service participation, green initiatives, labor policies and practices, and other macro-prudential efforts. Also, for three years McDonald’s has been included in the Dow Jones Sustainability Index, which reflects socially responsibility efforts. Additionally, the U.S. Environmental Protection Agency named McDonald’s the 2007 Star Energy Partner of the Year for their energy efficiency program which resulted in an estimated 200,000 ton decrease in CO2 in emissions and energy savings of $30 million Systemwide in the U.S. (McDonald’s 2007 Annual Report,15).
After researching and selecting the benchmark companies, I randomly selected ten other companies with the same SIC code. The companies selected include: BJ Restaurants, Chipotle Mexican Grill, Starbucks, Yum!Brands, Denny’s Corp., Dominos, Jack in the Box, PF Changs, Red Robin Gourmet Burger, and Sonic Corp.

Once I identified the case candidates, I searched their 2007 annual reports for key words and phrases. I chose to search the 2007 annual reports because many CEO’s view the annual report as a major, if not the major, communication device to many constituencies, both internal and external (Beaver, 23). While some people maintain that the prose sections of annual reports are written by public relations staff sometimes even external to the firm, the truth is that the typical chief executive officer spends considerable time outlining the contents of the report (Beaver, 23). Initially, I coded these identified words and phrases into six major categories:

1. Code 01: Sustainability, social responsibility, commitment to community, and goodwill
2. Code 02: Environment, green initiatives, green strategies, environmentally friendly, environmentally safe, eco-friendly, conserve/conservation, and natural resources
3. Code 03: CO2 emissions, VOC emissions, toxins, pollution, waste management, waste disposal, and waste reduction
4. Code 04: Wind-generated power, renewable power, hydro-electricity, energy efficiency, energy savings, recycled/ recyclable, reusable, and solar
5. Code 05: Health, well-being, safety, nutrition, balanced lifestyles, organic, chemical-free, community involvement, animal welfare, antibiotics, and responsible purchasing
6. Code 06: Charity, not-for-profit, contribution, giving back, donation, helping others, serving other/the community, aid, and community development
I used the Adobe search engine to locate these words and phrases in the company annual report and tallied the frequency of each. However, because the Adobe search engine cannot filter words by context, for example “work environment” vs. “natural environment,” for each word or phrase located by the search engine, I consciously determined which matches were relevant to my case study and which were irrelevant. After determining the frequency of each code, I added the six code frequencies together to compute the social responsibility variable for each company as a means of comparison and correlation measurement.

Following the content analysis, I computed profitability measures using 2007 SEC filing financial statements for each company. I primarily identified eight basic measures of profitability:

1. **Price-to-Earnings ratio (P/E):** This figure is calculated by dividing the market price per share of common stock by the earning-per-share (EPS). It measures the amount that investors are willing to pay for each dollar of a firm’s earnings. The level of this ratio indicates the degree of confidence that investors have in the firm’s performance. Generally the higher the number, the better.

2. **Change in Diluted EPS from 2006 to 2007:** Diluted EPS is calculated under the assumption that all contingent securities that would have dilutive effects are exercised and are therefore additional common stock. This number is generally of interest to present or prospective stockholders because it represents the number of dollars earned during the period on behalf of each outstanding share of common stock.

3. **Percent change in stock price from 2006 to 2007:** Generally, higher stock prices represent more investor confidence. A company that continually increases in stock price from year to year, therefore, continually earns more investor confidence. I gathered the
stock prices from the Wall Street Journal website (www.wsj.com) by using the historical price search engine.

4. **Gross Profit Margin:** This figure is computed by subtracting the cost of goods sold from the sales and then dividing that number by total assets. It measures the percentage of each sales dollar remaining after the firm has paid for its goods. This number is best interpreted when compared to industry benchmarks. Too high of a percentage can be just as bad, or even worse, than too low of a percentage.

5. **Net Profit Margin:** Net profit margin is calculated by dividing the earnings available to common stockholders by the total sales. It measures the percentage of each sales dollar remaining after all costs and expenses, including interest, taxes, and preferred stock dividends, have been deducted. Generally a higher percent is better, but comparing this figure to industry standards is also important.

6. **Return-on-Assets (ROA):** ROA assesses the overall effectiveness of management in generating profits with available assets. It is calculated by dividing the earnings available to common stockholders by the total assets.

7. **Return-on-Common Equity (ROE):** This figure is computed by taking the earnings available to common stockholders and dividing it by total equity. This is a key figure to current and prospective investors because it quantifies the amount a firm earns on the common stockholder’s investment.

8. **Book Value per Share:** Book value per share relates the market value of the firm’s shares with its book value. It is a safety figure associated with individual shares after all debts are satisfied. Should the corporation decide to dissolve, the book value per share
Klausner represents the dollar value remaining for common shareholders after all assets are liquidated and all debtors are paid.

After calculating these figures, I computed the correlation between each profitability measure and the social responsibility variable. Therefore, if my hypothesis is supported, companies with higher code frequencies should have superior profitability figures than those with lower code frequencies. In other words, companies that talk more about macro-prudential topics should gain a competitive advantage over their competitors that do not. Also I set a significance level of 10%, meaning that the calculated p-value must be less than 10% in order to reject the null hypothesis that there is no correlation between the socially responsibility variable and the profitability figure.

The Results

The results for the code frequencies, beginning with the positive and negative benchmarks, are as follows:

<table>
<thead>
<tr>
<th>Code</th>
<th>McDonald's Corp</th>
<th>Burger King Holdings</th>
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<td>1</td>
<td>15</td>
<td>1</td>
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<td>10</td>
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<td>6</td>
<td>15</td>
<td>1</td>
</tr>
<tr>
<td>Variable</td>
<td>63</td>
<td>16</td>
</tr>
</tbody>
</table>
The three top companies within the random samples for macro-prudential awareness are Chipotle Mexican Grill, Starbucks, and Yum!Brands. Jack in the Box, PF Chang’s, and Red Robin’s Gourmet Burgers fall in the middle range slightly above the negative benchmark frequency of 16. Lastly, BJ Restaurant Inc, Denny’s Corporation, Domino’s, and Sonic Corporation all received less hits than the negative benchmark, placing them in the lowest awareness range.

**P/E Ratio**

The first profitability measure I chose to investigate is the price-to-earnings ratio. For each of the graphs illustrating the correlation between the social responsibility variable and the profitability
indicator, the variable appears in black and the profitability indicator in color. The correlation coefficient for this set of data is .6311. The data indicates, therefore, that higher social responsibility variables indicate higher P/E ratios. This set of data has a p-value of 0.027, which statistically rejects the null hypothesis and suggests that the correlation is statistically significant for a sample size of 12. In other words, for this sample of twelve, on average investors are willing to pay more for each dollar of a firm’s earnings when macro-prudential issues appear frequently in their annual reports.

![Bar chart showing P/E Ratio and Code Frequency for various companies]

**Change in Diluted EPS**

This set of data has a correlation coefficient of .6412. Therefore, on average, common stockholders are earning more per share in companies that are superior in macro-prudential awareness. The p-value equals 0.024, which means that the null hypothesis can be rejected. So far both of these profitability measures have significantly supported my original hypothesis that
talking about macro-prudential issues leads to increased corporate profitability.

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**Change in Stock Price**

The next profitability measure I chose to inspect is percentage change in stock price from 12/28/2006 to 12/31/2007. Notice that Burger King, the negative bench mark, actually has a slightly higher percent-change in stock price than McDonald’s. While this seems to work in favor of my null hypothesis, upon further research, I discovered that McDonald’s dividends have increased every year since they paid their first dividends in 1976 (McDonald’s annual report, 3). This makes McDonald’s a Mergent Dividend Achiever, something that Burger King has never been. In order to qualify for the Mergent Dividend Achiever award, a corporation must increase its dividends every year without exception. McDonald’s is the only company in this sample to achieve this. While change in stock price that ignores dividends seems to be the wrong measure, it is difficult to include dividends since many in the sample companies never give dividends and should not be penalized for this corporate policy. So, even though Burger King may have had a
3% advantage over McDonald’s this last year, McDonald’s proves to be the more consistent investment. This set of data is 80.23% positively correlated and has a p-value of 0.001. Statistically the correlation is significant, signifying that companies that express macro-prudential awareness in annual reports tend to have a great percent increase in stock price, reflecting greater investor confidence. From the data discussed so far, it would be reasonable to suggest that communicating socially responsible activities affects investor behavior in a positive way. Hence, it would be logical to suspect that deeper communication, creating a dialogic encounter perhaps, would drive investor confidence even higher.

**Gross Profit Margin**

Gross profit margin computed a negative correlation coefficient, which means the social responsibility variable increases, the gross profit margin decreases. This profitability measure is
a little more difficult to analyze because depending on the size of the corporation, the gross profit margin may vary significantly. Also, too high of a gross profit margin may indicate poor purchasing policies like buying low-grade beef or under-quality produce. Nonetheless, 21.27% is statistically insignificant because its p-value is 0.507, indicating that the null hypothesis cannot be rejected in this case.

**Net Profit Margin**

Net profit margin is usually a better profitability indicator than gross profit margin because it includes the deduction of all selling and administrative expenses as well as interest, taxes, and preferred dividends. For example, now compare Burger King to McDonald’s and the difference is dramatic. McDonald’s net profit margin exceeds Burger King’s by 14.1%, while Burger King’s gross profit margin exceeds McDonald’s by 24.1%. This means that Burger King accumulates a lot more selling and administrative expenses as a percentage of sales than McDonald’s. McDonald’s spends 24.1% more on direct materials (ingredients), direct labor,
manufacturing overhead, and other operating costs, yet still makes more profit as a percentage of sales. Despite the fact that this set of data is only 51.18% correlated, considering the small sample size, this can be viewed as significant since the p-value is only 0.089. Nonetheless, it spotlights an important difference in business strategy between Burger King and McDonald’s.

**Return on Assets**

Another profitability measure commonly used by management is the return on assets (ROA). ROA assesses the overall effectiveness of management in generating profits with its available assets. The correlation coefficient of this data equals .3336 with a p-value of 0.289, statistically insignificant. Therefore the null hypothesis cannot be rejected and no correlation seems to exist.
A better figure for current and prospective investors is the return on equity (ROE). It quantifies the amount a firm earns on the common stockholder’s investment. ROE and the social responsibility variable are 53.7% correlated and have a p-value of 0.071, which is statistically significant for the purpose of this content analysis sample size. Yet another profitability measure that seems to improve when macro-prudential topics are communicated in the corporation annual reports.
According to this sample size, companies that mention macro-prudential topics in annual reports have a greater book value per share, which typically is a measurement of risk. Its p-value equals 0.171, deeming the statistics insignificant. Overall, however, far more profitability figures support my hypothesis than negate it. While this is a small sample and no determinate answers can be drawn from such evidence, it does challenge the widespread notion that macro-prudential efforts are less efficient, less profitable, and less effective than cut-throat economics. This case study appreciably supplements my over-arching claim that conversation about macro-prudential topics makes fiscally positive difference.
Conclusion

My macro-prudential accounting and management framework systems simply demand consumers and investors to raise the bar on the American business system. We are seeing a definite shift in investor and consumer behavior as green issues gain more prominence in ethical considerations. Although it is a small case study on macro-prudential communication, we can distinguish a significant correlation between companies that are performing better financially and communicating their niche in social responsibility to their investors-- whether it is emphasizing quality, or labor standards, or local “community based” systems of distribution, or a more thoroughgoing sustainability altogether. Communicative action theory and dialogical education exist as relationship-building tools in the business setting. and as Michael Pollan said, “Relations are what matter the most, for even antagonists depend on one another.” (*Ominvore’s Dilemma*, 225).

The simple fact we *must* face is that the health of the soil, plants, animals, humans, and even the nation are connected along lines of commerce we can now begin to draw with empirical confidence. Imagine how much clearer the lines could be drawn and how much more confidence we could have in our decisions, as *responsible* consumers, if the information became required through macro-prudential reporting. Holding corporations responsible by making intelligent, ethical consumer-decisions based on reported information shifts the responsibility back in the hands of the most powerful and influential human made institutions for exponential potential for a social movement.
Primary stakeholders include stockholders or employees with a vested interested in the performance of the corporation, and secondary stakeholders include the natural environment, future generations, nonhuman species, and other members of the community who do not necessarily have a financial interest in the company.

Besides the specific documentation listed in the body of the essay, the model also requires documentation for health and safety instances, disciplinary practices, working hours, compensation, management systems, management review, company representatives, planning and implementation, addressing concerns and taking corrective action, outside communication, and access for verification of records.

The various sections of GRI include: objectives in relation to other initiatives, outlines of principles and qualitative characteristics, classification of performance reporting elements, ratio indicators, and the disclosure or reporting practices.

Generally Accepted Accounting Principles include the authority of a few predominant private accounting boards. The most authoritative is FASB Standards, APB Opinions, and AICPA Accounting Research Bulletins. These boards are regulated by a government agency called the Securities Exchange Commission (SEC). (Kieso, Weygandt, Warfield, Intermediate Accounting, Chapter 1).

Unfortunately I cannot provide an example of what this form of standards for measurability would look like. Macro-prudential reporting covers a broad range of activities and consequences. However, I can forecast that these measurability standards would need to be specific to each activity involved. For example, measurability standards would need to be tailored for specific activities like emissions, waste generation, consumption of raw materials, energy and water, noise and many other significant aspects.


