



Know how Know you

A low-angle photograph of several modern skyscrapers against a clear sky. On the left is the Burj Khalifa. In the center is a tall, rectangular building with a grid of windows. On the right is a building with a curved, glass facade. In the bottom right foreground, a white, tiered architectural element is visible.

Capitalism: Can it truly be conscious?

March 2023



Foreword

On 7 February 2023, we joined up with Nomura and Latham & Watkins to host our flagship Crossroads event, where the debate centred around the conscious capitalism revolution, and how we can act as the champions of good in the industry.

Capitalism in its current state has created a number of challenges, as we've found ourselves in a situation where:

- 42 people together hold the same wealth as [3.7 billion of the world's poorest](#)
- 50% of the world's population have seen no increase in wealth
- 815 million people in the world (one in ten) are [malnourished](#)
- One in nine people lack [access to clean water](#) and one in three people lack access to a toilet

As a result, entrepreneurs have been prompted to do business differently, conscientiously – opening the door for 'conscious capitalism' and making money whilst doing right by the world. Its arrival is timely, as alongside the issues mentioned above, challenges in geo-politics, the global economy and environment are all having a major impact on society. Luckily, the concept of conscious capitalism has emerged as a solution to solve the issues that we are currently facing.

Therefore, in our eyes, conscious capitalism can't be seen as a nice-to-have, it must be the only way to do business. It's the natural evolution of capitalism, and with a new generation coming through who think very differently to their predecessors, creates a deeper meaning and purpose beyond profits that allows your businesses to scale and remain relevant in the future.

Of course, many are still sceptical about whether "conscious" and "capitalism" can exist in the same sentence, but with more companies beginning to consider additional stakeholders, the debate continues: Is doing well by doing good really possible?

For us, the answer is yes. We help global investors focus on impact investing and preserving capital in a sustainable and ESG-compliant manner.

Our belief is clear – the investment industry has a massive role to play in ensuring that the conscious capitalism revolution really takes off. Investors are already starting the trend, as they are increasingly allocating capital to businesses that strive to make the world a better place.

Alongside panellists Augustin Duhamel from 17Capital, Nicole Curti from the Alliance of Swiss Wealth Managers, Andrew Bowley from Nomura, our chairman Serge Krancenblum and keynote speaker Dr Pippa Malmgren, we discussed where the conscious capitalism concept comes from, what it looks like in reality, its necessity for clients and employees alike, and how we need a change of mindset to push the boundaries of what we believe in.

By Emma Crabtree, Group Chief Commercial Officer at IQ-EQ



Preface

Nomura's own founding ethos nearly a century ago, had conscious capitalism at its heart.

"Our mission is to enrich the nation through the securities business. This is something we must absolutely see through."

Those were the words of our founder Tokushichi Nomura II who encapsulated that notion of capitalism having a higher purpose.

At Nomura, we are more passionate than ever about contributing through finance to a more sustainable world which our children and grandchildren will inherit from their 20th century forebears. Nomura management recently put forward a vision to "achieve sustainable growth by resolving social issues" together with a 5-year target of \$125 billion in sustainable finance projects by March 2026 to support our clients' efforts to decarbonize their businesses.

As a reflection of our commitment to the Environmental, Social and Governance thematic, 3 years ago, we acquired a truly innovative business called Greentech, now Nomura Greentech. This is the largest specialist team of bankers in our industry working with clients to make all of our systems from water to energy, food and transport more sustainable.

We have also been active in ESG bonds. Our debt capital markets business acted on the EU's 17bn euro social bond as part of the bloc's post-pandemic response and the EU's first ever green bond. We were also the top underwriter of ESG bonds in Japan last year and have led the charge in helping industries transition to become more energy efficient.

This is important for one very important reason. Climate change is the greatest challenge of our times. If we don't stop temperatures rising above 1.5C we risk unleashing cascading climate impacts. Already last year, 30 million people in Pakistan were displaced due to devastating floods that left more than a third of the country underwater. On the positive side, decarbonizing the planet is a long term megatrend for the 21st century and will create whole new industries and jobs. But it will take the coordinated efforts and resources of business to fully realise this kind of conscious capitalism.

In just the past 12 months, huge shifts have changed the energy equation. Russia's invasion of Ukraine set off a sea change in the energy systems of the global economy as fossil fuel prices spiked and European countries decided they could

no longer rely on Russian natural gas and to a lesser extent, oil for their energy needs. That caused further spikes in volatility and energy prices, which affected consumers in all major economies.

The old energy ecosystem no longer works. It's dependent on a number of states which control fossil fuel resources and can set the marginal price. Many are not democracies that are integrated into the global economy.

So during 2022, all companies, economies and governments took a hard look at not only the need for decarbonization, for planetary health and to mitigate the impacts of climate change, but the need for energy independence, which leads to renewables as a core foundation of the future energy economy.

The US already passed the Inflation Reduction Act, the EU has proposed the Green Deal Industrial Plan and the US SEC is set to mandate that companies disclose their carbon emissions. Together, these efforts are combining to make the future more about conscious capitalism. The winners will be those incumbents that adapt to the new world and startups that take into account societal benefits and impacts.

In the UK, former energy minister Chris Skidmore published the government's net zero report setting out the 'historic opportunity' offered by decarbonization goals. He noted that an additional £100 billion of private investment in green industries will support an additional 480,000 UK jobs in low carbon businesses by 2030.

Green technologies are cropping up across sectors from green plastics to concrete, hydrogen and biofuels to vertical farms.

Conscious capitalism is here to stay and the finance industry is ready to embrace it for the new businesses and jobs it will create and the positive effect it will have on our societies.

By Guy Hayward-Cole, Managing Director, Co-head of Investment Banking EMEA, Head of EMEA Advisory



Chapter 1: Is conscious capitalism a new concept?

The modern idea of conscious capitalism was popularised by Whole Foods' owner John Mackey and marketing professor Raj Sisodia in a 2013 book entitled *Conscious Capitalism - Liberating the Heroic Spirit of Business*, which presented the blueprint for a new system of doing business grounded in a more evolved ethical consciousness. However, the idea has been a concept for hundreds of years.

In the East

In Japan, as our co-hosts Nomura mentioned, the idea of 'Sanpo Yoshi' has been around since the Omi Shonin merchants in the Edo period of Japan. It is seen by many as the beginning of modern corporate social responsibility (CSR). The Omi Shonin merchants were a group of merchants who would travel across Japan selling goods and returning with local specialties from their travels. Between the 17th and 19th centuries, they expanded and became one of the most successful and influential merchant groups around. 'Sanpo Yoshi' was the reason for their success.

The saying means 'three-way satisfaction' and the concept ensures that any trade is beneficial for the buyer, the seller, and the greater community. The Omi Shonin merchants, as they travelled far and wide to do business, knew that they had to be accepted by communities to achieve success, which meant they needed to build trusting relationships with those they were selling to. They understood that their success was entirely owed to their customers and society, so they ensured that they gave back. In practice, they would build schools and bridges, support local shrines, and pay taxes for poor families.

In the West

In the western world, the concept of striving for profits whilst also looking after the community dates back to the Victorian Age.

In a time when the industrial revolution was booming, communities were destroyed by factories and the work staff were condemned to living in poor conditions. Philanthropic industrialists such as Titus Salt, Joseph Rowntree and George Cadbury took it upon themselves to build model factories and Utopian new towns for their workers to rectify this.





In the mid-1800s, when the Cadbury's factory in the centre of Birmingham became too small, George Cadbury had a new vision for the future of the company, which went further than solely making a profit. In the search for a new home for Cadbury's headquarters, he made a great deal of effort to ensure that the company would be a great place to work and all stakeholders would be satisfied. In 1878, Cadbury found a new location south of Birmingham's city centre. 'Bournville' was the name given to the factory. Employees lived in far better conditions than they would have in crowded central Birmingham. The new site had easy transport links (canal, train and road), a good water supply, and plenty of land for expansion. It became a place for industrial workers to truly thrive away from city pollution, which in turn meant more workers were determined to work for Cadbury.

Centuries before the emergence of buzzwords such as CSR and conscious capitalism, Omi Shonin in the East and Cadbury in the West were acting as responsible corporate citizens, inspired by a sense of purpose, faith and legacy. And they were doing well financially too.

In the modern world

The modern idea of 'conscious capitalism' is still based on these historic approaches. It resembles corporate social responsibility, but differs from the traditional understanding of CSR, which is much broader than conscious capitalism. By focusing on its broader societal impact, businesses can understand how their practices may affect other stakeholders. Conscious capitalism is guided by four key principles:

1. **Higher purpose:** This should be included directly in a company's business plan and should influence every decision that is being made. According to Mackey and Sisodia, a business must seek to "elevate humanity" through its higher purpose. Without this, there is a lack of direction and purpose for a company beyond the simple fact of wanting returns. In practice, this can be a philanthropic endeavor, for example in the case of 17Capital, which pledges a portion of its carried interest to a long-term charity partner.

2. **Stakeholder orientation:** This means aligning your company and its objectives with the best interests of all stakeholders, from customers to suppliers to employees, and bringing them along on the mission. For conscious capitalism, there is another stakeholder to consider: the community and surrounding area where the business is headquartered. This surrounding area can be affected by negative factors such as pollution, dumped waste and job losses. Thus 'conscious' businesses are those that actively take care of all stakeholders by creating jobs and boosting economic development, guaranteeing that their local communities thrive.

3. **Conscious leadership:** The leader at the head of the company must uphold the higher purpose of the business, while inspiring those around them to do the same. They must show a desire to go beyond their paygrade for the sake of innovation and improvement. This can be done by acknowledging mistakes, working towards win-win solutions, focusing on longer term objectives, and continuously learning and iterating. However, ultimately, conscious capitalism is also designed to empower everyone to be a conscious leader in their own right.

4. **Conscious culture:** A company culture needs to act as "the social fabric of a business, which permeates the atmosphere of a business and connects the stakeholders to each other and to the purpose, people and processes that comprise the company." It is the responsibility of the leadership to deliberately cultivate a culture that adheres to the higher purpose of the business and correctly considers the opinions and views of its stakeholders.

The policies of conscious capitalism are based on togetherness; working together and everyone in the wider ecosystem buying into the bigger purpose. Nicole Curti, President of the Alliance of Swiss Wealth Managers, summed it up nicely with her statement, "it's about we, not me."

Chapter 2: Why should people pay attention?

For any investor, the first and most important goal is securing a return on their investment.

According to Rajendra Sisodia, co-author of *Liberating the Heroic Spirit of Business*, his research showed that organisations following the principles of conscious capitalism returned 1,025% during his decade-long study. The S&P 500 yielded 316% during the same time. In other words, conscious capitalism companies outperformed the S&P 500 by more than three times.

Apart from financial returns, conscious capitalism has other important benefits.

It brings higher trust among stakeholders, a deeper customer understanding and connectivity, and higher employee engagement coupled with extremely low levels of employee turnover. Costco, for example, has made caring for their employees their number one priority, which has led to Costco retaining over 60% of its workforce for more than five years and 33% for 10 or more years.

Augustin Duhamel, Managing Partner at 17Capital, agreed that having a higher purpose and empowering your employees to create a workplace that works with them must be of vital importance to ensure that your business can continue to grow. In 2023, [45% of UK employees](#) would consider quitting a job if the company's values didn't align with their personal values, and a staggering 48% would take a pay cut to do so.

In light of the 'great resignation' that we currently find ourselves in, companies need to consider the wider impact of

their actions and how they are viewed by the outside world. For example, an alcohol company or a fast-food company that solely focuses on increasing their bottom line without recognising the social cost of addiction, obesity, heart disease etc., is unlikely to perform as well financially but also internally with their colleagues. The modern consumer expects recognition of social issues, especially when your operations directly contribute to them.

And the role of the investment industry?

Impact investing is the investment industry's way of showcasing their conscious capitalist mindset. It goes one step further than following traditional ESG metrics. Global Impact Investing Network (GIIN) describes 'impact investing' as "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return". It's the fastest growing investment sub sector, with the global market now estimated to be [US\\$1.164 trillion](#), and will only continue to grow as the next generation gain increased decision-making power.

According to a 2020 report by Wealth-X and IQ-EQ, the generational wealth transfer is upon us, with more than \$15 trillion of wealth expected to be transferred to the next generation within the next few years. A new wave of investors is emerging that has a different view of the world and how to invest their money. Currently, [according to UBS](#), only 26% of families in the U.S. are investing in ESG or impact funds, but this number will certainly rise as the wealth transfer continues.





The new times will be a challenging period for sure, but it's also the perfect opportunity to reset our mindset, as Dr Pippa Malmgren mentioned, in terms of what we believe in and where we invest our money. Now is the chance for us to move to a more sustainable and globally beneficial model of profit-hunting.

Chapter 3: What does it look like in real life?

We've discussed the theory behind conscious capitalism, where it comes from and why it is important for us all to focus on, but we need to establish this concept in every aspect of business.

Companies such as Patagonia are a great example of brands that should be followed more closely. They've set up a very successful brand, [making over \\$100 million a year in profits](#), but also take care of their employees and are committed to helping the communities in which they operate.

For years, the owner, Yvon Chouinard, has been donating millions of dollars to grassroots nonprofits. In addition, Patagonia hosts annual trainings for activists in the U.S. and Europe; builds global supply chains around better-quality raw ingredients such as organic cotton and sustainably grazed wool; provides on-site childcare at its offices; whilst also being one of the most politically-engaged companies in the world. It's made Patagonia a better place to work and has led to greater financial success for the business.

The network of ethical companies is growing too, with companies such as Whole Foods, Starbucks and Costco following the lead of Patagonia by creating a higher purpose that gives the business direction beyond purely being profitable. Taking into account the state of the world at the moment, we need to follow the lead of these companies and their new way of approaching capitalism more than ever before.

In its disruption of global supply chains, the war in Eastern Europe has shone a light on the decarbonisation crisis that we're facing. Dr Pippa Malmgren highlighted how this "growing megatrend" has gained pace as the war emphasised our over-reliance on Russian fossil fuels and showed us that the supply chain was flawed. We are lagging a long way behind net zero targets set in 2015, and we need a rethink of how we produce and consume energy as well as a radical switch to renewables and low carbon sources. However, as Nomura pointed out, we also need to consider the social issues of the change.



By moving away from coal and other fossil fuels in parts of the developing world, we are removing a large portion of their trade and income. We need to find a way of replacing this. Whilst businesses can play a big role in this (such as Nomura, which is aiming to be net zero by 2030, playing a key role in the EU sustainable bond and working towards £1 billion in sustainable financing by March 2026), we also need governmental partnerships to truly bring the desired impact. The green transition will create an influx of £100 billion and 480,000 jobs, which could be a game changer in raising the value of the emerging markets – but only if we use our intelligence in a conscious way.

And alongside this, we need to look to the untapped, which can provide the minerals and clean energy necessary.

The new Space Race

Our keynote speaker, renowned economist Dr Pippa Malmgren, is a key believer that “conscious capitalism is more about imagination than analysis.” For this to be a success, we must consider different perspectives, and see how far we can push the boundaries of what we believe we know. For her, there’s one untapped area that could leave us with an abundance of clean energy and technology for centuries to come: outer space.

NASA’s recent mission to see if they could blow up an asteroid was reported in the press as being a preventative measure; in case an asteroid ever got too close to Earth. It was, in fact, proactive. Asteroids contain unlimited green energy, with an abundance of rare minerals meaning we wouldn’t necessarily have to rely on excavating Earth in our pursuit of fuel. However, it’s not only asteroids that present

an opportunity in space; satellites are also being fitted with mirrors that can help reflect the sun’s rays back to our planet, providing access to unlimited solar energy on earth.

There’s one thing holding us back from this being a universal success: the current capitalist desire to make a profit. We’re in the middle of the space equivalent of the Cold War between the U.S. and China as they fight to get to space first and tap into its endless possibilities that would leave them with a substantial profit. It’s causing guerrilla warfare of satellites being blown up and plans being foiled. If we can find a way to work together, the idea of conscious capitalism can show its true value in the mission for a better world.

Final thoughts

“Profitability and purpose.” We believe that this quote from our keynote speaker Dr Pippa Malmgren is a good motto for all businesses to live by. The current iteration of capitalism has led to a number of issues and left us in a state where we have several problems that must be fixed.

The investment industry holds substantial influence regarding where capital is deployed; thus, we must play our part in moving the needle. The ESG revolution and impact investing in relative terms are still both in their infancy but will only continue to gather steam. Now is the time for a change of mindset in how we hunt for returns and focus on investing in initiatives that provide a strong financial reward whilst also playing into a bigger purpose.

If we can keep the idea of ‘Sanpo Yoshi’ front of mind, we can take steps in the right direction, and guarantee that the future is most definitely conscious.

About IQ-EQ

IQ-EQ is a leading investor services group that brings together a rare combination of global technical expertise and deep understanding of client needs.

With over 4,750 people across 25 jurisdictions, we have the know-how and the 'know you' to provide a comprehensive range of administration, compliance, asset and advisory services to fund managers, multinational companies, private clients and family offices operating worldwide. We have more than \$750 billion in assets under administration and work with 11 of the world's top 15 private equity firms.

We act as a trusted partner to our clients, helping them to invest and preserve their capital in a sustainable and compliant manner. Our teams are director-led and each senior team member has a minimum of 20 years' experience. The services and specialisms we provide are underpinned by a robust global platform, including a number of proprietary technology tools supported by in-house technical and technological experts.

We are proud to offer the most complete service offering to alternative fund managers globally.

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Latham & Watkins delivers innovative solutions to complex legal and business challenges around the world. From a global platform, our lawyers advise clients on market-shaping transactions, high-stakes litigation and trials, and sophisticated regulatory matters. Latham is one of the world's largest providers of pro bono services, steadfastly supports initiatives designed to advance diversity within the firm and the legal profession, and is committed to exploring and promoting environmental sustainability.

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About Nomura

Nomura is a global financial services group with an integrated network spanning over 30 countries and regions. By connecting markets East & West, Nomura services the needs of individuals, institutions, corporates and governments through its three business divisions: Retail, Investment Management, and Wholesale (Global Markets and Investment Banking). Founded in 1925, the firm is built on a tradition of disciplined entrepreneurship, serving clients with creative solutions and considered thought leadership.

For further information about Nomura, visit www.nomura.com.

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