Global Sustainable Capitalism
From the Ashes of the Great Global Recession

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Abstract

The challenge of responsibly designing economic systems and developing responsible business leaders to transform the failed form of U.S. disaster capitalism into global sustainable capitalism is vividly demonstrated by the current global financial risk management crisis. This conceptual paper makes a contribution to understanding the current U.S. subprime mortgage and credit crisis that has adversely impacted the global financial system in ways in which bad actors and flawed processes at the macro, meso, and micro levels have unilaterally shifted risks and harms onto innocent global stakeholders who now are demanding global reckoning and reform. An alternative international business and ethics model, the global business integrity capacity model (GBICM), is proposed that inclusively balances types of capitalist, moral accountability and human nature theories and provides a blueprint for economic system redesign and responsible management education reform.

Introduction

While the epicenter of the Great Recession that began in 2008 was located in the U.S., it has been devastating to financial systems, economies and people throughout the world (Zandi, 2009). The conventional U.S. type of investor/speculator capitalism has been criticized repeatedly as a failed form of disaster capitalism that is used as a rationale to advantage Wall Street over market Main Street practices and as an excuse for managers to impose privatization, deregulation, and slashed social/environmental risks onto unsuspecting global stakeholders (Krugman, 2008; Posner, 2009; Korten, 2009). To replace the failed form of U.S. disaster capitalism with global sustainable capitalism will require not only structural changes in global economic and political systems but also substantial innovative redesign of management education. This paper is focused on promoting that transition by using the current global crisis as an opportunity for structural capitalism reform, innovative management education redesign, and global integrity capacity development. The organization of this paper consists of the following order: (1) causal factors of the Great Global Recession; (2) Global Business Integrity Capacity Model (GBICM): an alternative business model for sustainable global capitalism; and (3) a conclusion.

Causal Factors of the Great Global Recession

The major contributor to the Great Global Recession has been and remains the U.S. subprime mortgage and credit crisis based on Wall Street rules involving irresponsible actors and flawed processes at the micro, meso and macro levels.

Micro Level Factors

At the micro level, individual borrowers apply with small local mortgage brokers and/or small local lenders to qualify for funding of subprime mortgages. Individual subprime borrowers with credit scores of 500-620 (as determined by Equifax, TransUnion or Experian) and insufficient financial literacy demand or are persuaded to want more house than they can afford.

Four conditions facilitated this micro level expectation (Muolo, 2008). First, the Depository Institutions Deregulation and Money Control Act (DIDMCA) of 1980 made the subprime business legal by allowing lenders to charge higher rates and fees to appropriately qualified borrowers. Second, the Alternative Mortgage Transaction Parity Act (AMPTA) of 1982 allowed the use of variable interest rates through adjustable rate mortgages (ARMs) and balloon payments. Third, the Tax Reform Act (TRA) of 1986 prohibited the deduction of interest for consumer loans but allowed it for mortgages on a primary residence, thereby increasing the tax-based demand for mortgage debt. Fourth, by late 1993, with interest rates going up, loan volume in the conforming market was shrinking, and to fill that void, brokers began originating subprime mortgages and lenders closed the loans in their own names with their own funds on a large scale.

Also at the micro level, since U.S. mortgage brokers are independent agents who do not work for the lender or represent the borrower, their prime motivation is to close the loan and their fiduciary duties/priorities remain unclear and unregulated, creating tremendous potential for abuse (Phillips, 2008). Finally, the small lenders must be constantly vigilant because lending money to people with bad credit is always a risky proposition, and since mortgage brokers have no direct financial interest in a loan's performance and face no legal liability for non-performance, small lenders face that risk alone – unless they can shift some or all of that risk to the meso level players.

Meso Level Factors

At the meso level, big industry lenders/investors purchase subprime mortgages from the micro level. Then they sell conforming mortgages to Fannie Mae or Freddie Mac, government-sponsored entities (GSEs), or use investment firms to package ("securitize") loans into nonagency mortgage-backed securities (MBSs) of various risk ranges. The investment firms, in turn, use credit rating agencies, like Standard & Poor's and Moody's, to rate nonagency MBSs (Gordon, 2007). Both agency MBSs and nonagency MBSs are sold to other domestic and foreign financial institutions such as hedge funds, pension funds, government-backed banks, sovereign wealth funds, and other outlets. U.S. mortgage industry standards and professional associational influence were relatively weak and the meso level also suffered from lax government oversight and enforcement of limited regulatory standards. Due to the relative lack of transparent disclosure processes of the actual risk that was being sold to various industry parties in complex instruments and the financially unwarranted credit rating of many securitized products as "Aaa," many individual and institutional stakeholders in the industry purchased far more risky packages than they were led to believe (Tett, 2009).

As the complexity of the risk-shifting, structured finance instruments increased in the form of sophisticated derivatives, collateralized debt obligations (CDOs), credit-default swaps, and structured investment vehicles (SIVs), additional risk burdens were being involuntarily imposed on ordinary borrowers (Phillips, 2008). Furthermore, as hedge funds, private equity firms and other liquidity factories began to replace commercial banks and bank lending as the major sources of expanded credit, a shadow banking system emerged unconstrained by government regulatory intervention and protection of borrowers. Since the non-transparent sale and faulty credit ratings of numerous varieties of risk-shifting, securitized packages in the shadow banking system were extremely lucrative for parties at the meso level and effective government oversight and regulation was non-existent, the irresponsible contagion of reckless risk-shifting, global gambling and greed prevailed.

When mortgage payments became delinquent and foreclosures ensued resulting in a massive domestic and global financial meltdown, meso level players disavowed responsibility and followed a pattern of privatizing the short term gains and socializing/externalizing the costs onto the government and innocent taxpayers through bailouts (Muolo, 2008).

Macro Level Factors

At the macro level, the growth of the U.S. national trade and budget deficits are indicators that the country as a whole is spending far more than it is generating in revenue. The national savings rate is far below that of most nations and the national consumer debt level is among the highest in the world. The consequent devaluation of the U.S. dollar on the global currency exchanges is notorious. With U.S. interest rates near 0%, the global appeal of holding financial instruments denominated in U.S. dollars has been undermined. The U.S. has become the world's largest debtor nation and is vulnerable to the global "balance of financial terror" from Chinese, Japanese and Middle Eastern creditors, who can start pulling assets out of the U.S. and touch off a global run on the U.S. dollar (Steingart, 2008). The net result at the macro level is a volatile, vulnerable and unstable economic system. Furthermore, the absence of strong international institutions to govern the global financial system in a way that effectively and fully includes and incorporates the consensus views of all nations regarding new financial system standards and policies leaves a large power vacuum that is often filled with special rather than global interest agendas (Wolf, 2008; Galbraith, 2008).

In addition, both major U.S. political party leaders contributed to the eventual subprime and credit crisis by overemphasizing their respective ideological orientations. In the mid-1990s, the Democratic Party under President Clinton used his top housing official, Henry Cisneros, to accentuate the party ideological concern for low-income families by loosening mortgage restrictions so first-time buyers could qualify for loans they could never get before. However, people were put into homes that they could not afford as if access to mortgage credit was a right to which they were entitled through the housing expansion efforts of companies like Countrywide Financial, the largest mortgage lenders in the nation at the time, and KB Home, one of the largest real estate builders at the time. When foreclosures inevitably occurred, borrowers were abandoned and taxpayers were left holding the bag (Jordan, 2009).

Again, in the late 1990s and up to 2008, the Republican party under President Bush, after the legal de-regulation of the banking industry in 1999, used a variety of housing and financial officials, including maestro Alan Greenspan, to accentuate the party ideological concern for business and investor interests by relying on deregulated markets so that the shadow banking system and Wall Street risk-shifting financial shenanigans could expand the ownership society unconstrained by government oversight. However, when foreclosures inevitably occurred, Treasury Secretary, Henry Paulson, begged Congress for an emergency $700 billion taxpayer-funded bailout for the financial services industry, contravening the party belief in market triumphalism (Muolo, 2008; Fraser, 2008). Again, the initial borrowers were abandoned and taxpayers were left holding the bag (Jordan, 2009). The net result was that irresponsible government leadership compounded irresponsible business leadership to victimize many domestic and global stakeholders (Galbraith, 2008). The arrogant assertiveness of the U.S. during its “unipolar moment” must now face its day of global reckoning.

Day of Global Reckoning and Reform

The day of global reckoning for irresponsible economic and political leadership is now at hand. Emergency economic-stimulus measures are needed to “stop the bleeding” of the nation in the short term but long term strategic measures are being taken to ensure accountability for irresponsible leadership and to reform actors and processes at the micro, meso and macro levels. The pattern of reckless finance, failed politics, and excesses of the U.S version of capitalism has harmed too many domestic and global stakeholders. While President Obama is trying to do what is politically feasible to reform the U.S. version of capitalism, it is time to provide an alternative business model based on integrity capacity development that inclusively balances types of capitalist, moral accountability and human nature theories and provides a framework for reforms at the macro, meso and micro levels designed to prevent a reoccurrence of the current financial meltdown, to re-create long-term systemic financial institution integrity, and to promote responsible management and sustainable prosperity for current and future generations.

GBICM: An Alternative Business Model for Sustainable Global Capitalism

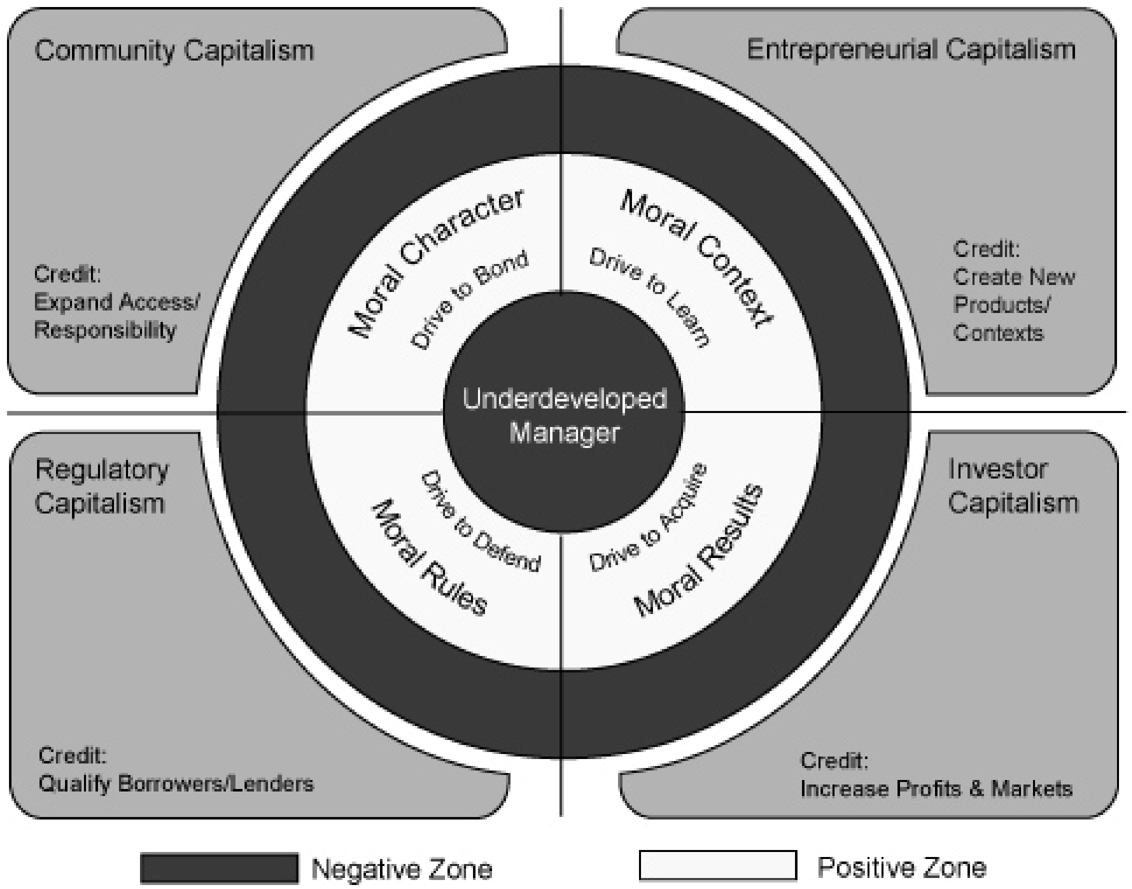
The appeal of an alternative global business model for sustainable global capitalism is dependent on a number of factors: the severity and duration of pain inflicted upon stakeholders under the current business model; the global economic balance and sustainability of an alternative model; and the universal scientific foundation for and moral soundness of the alternative model. Since the severity of the global negative impact of the Great Global Recession has already been historic and is likely to be the longest U.S. recession since the Great Depression, the first condition for openness to an alternative has been met. The magnitude of this financial crisis presents the opportunity to transform global ideas and institutions ushering in generation-spanning change that could create an enlarged global middle class (Ikerd, 2005).

The Global Business Integrity Capacity Model (GBICM) provides the promise of economic balance and global accountability rather than mindless repetitive cycles of economic bubbles and busts, and offers sustainable prosperity for multiple domestic and global stakeholders in a way that the current system is unable to provide (Petrick & Quinn, 2001). It is also based on a broader range of human science research and anchored in more profound, sound moral judgment (Petrick, 2004). Figure 1 below provides a graphic image of the GBICM, the types of global capitalism that are currently viable, and the credit and risk management policies they entail.

There are three circles and four major quadrants in Figure 1. The figure is an adaptation from the competing values theory of management consisting of three circles of increasing size divided into four quadrants (Petrick & Quinn, 1997). The smallest darkened inner circle represents underdeveloped managerial competencies, the largest darkened outer circle represents overemphasized managerial competencies, and the inner white circle represents different degrees of appropriately balanced and inclusive managerial competencies, much like a properly balanced white wall tire on an automobile. The upper half of the circles represents approaches that demand managerial flexibility and the lower half of the circles represent approaches that require managerial control. The optimal sustained managerial and collective performance is secured by inclusively balancing all four quadrants of inner white circle competencies to avoid both underdevelopment and overemphasis in any of the quadrants.

This theory is also grounded both by scientific evidence and research regarding parallel and complementary human nature drives (Lawrence & Nohria, 2002) and moral accountability theories, as well as parallel theories of types of capitalism (Petrick & Quinn, 2001). These, in turn, reflect the bases upon which credit is provided, the level of acceptable risk management

Figure 1. The GBICM: Types of Capitalism and Credit Policies



responsibility determined, and the business model assumptions endorsed with respect to the primary purpose of credit in a financial system (Petrick, Scherer, Brodzinski, Quinn & Ainina, 1999), as illustrated in the four quadrants. The GBICM contends that sustainable global business in the 21st century requires that business, government and civil society leaders inclusively balance in a non-extreme manner the economic, psycho-social and moral demands of market and nonmarket stakeholders in all four quadrants and be held accountable for lapses in judgment for not doing so (Petrick & Quinn, 2001). The intangible strategic global asset of integrity capacity that anchors the essential reputational capital needed for global financial and economic leadership can no longer be sustained by operating in only one or two quadrants, i.e., conventional U.S. business models for handling financial risks based on specific types of capitalism no longer command the international respect required of true global financial leadership and they need to be systematically supplemented with other approaches.

The implementation of this model would have a major innovative impact on transforming management education from preparation for expanding disaster capitalism to preparation for contributing to sustainable capitalism (Petrick, 2004; Porritt, 2007).

Credit and the Investor Capitalism Quadrant: The U.S. Primary Business Model

The lower right quadrant is the portion of the GBICM which serves as the U.S. primary business model and upon which maintaining the current U.S. financial system is based. This quadrant is labeled *investor capitalism* since it emphasizes the preeminence of rapid, legal wealth accumulation by prioritizing the short-term financial interests of investor stakeholders, e.g., mortgage lenders, investment banks, pension funds, sovereign wealth funds.

The main purpose of selling credit according to this business model is to increase profits and expand markets for investors. Furthermore, if credit risks from a mortgage originator can be profitably resold and shifted to others, investor capitalism supports this financialization of economic risks since any collateral damage and loss to other stakeholders can be externalized or socialized through government bailouts, i.e., ultimately paid for by current and future innocent taxpayers. It is true that this legal process creates a severe moral hazard, i.e., a condition in which one party is insulated from risk and does not bear the full consequences of its actions and therefore has a tendency to act less carefully than it otherwise would, leaving another party to bear some responsibility for the consequences of those actions. Investors who can profitably and continually shift credit risks onto others in the open market with financial and legal impunity tend not to carefully qualify borrowers, responsibly care about the long-term welfare of borrowers, or exercise due diligence in evaluating new financial instruments for shifting those credit risks.

Investor Capitalism and the Drive to Acquire

This form of capitalism is based upon a selective group of human science studies that establish that there is a fundamental cross-cultural human nature *drive to acquire* tangible goods like money and intangible goods like status, so making money is psycho-socially motivating (Lawrence & Nohria, 2002). The drive to acquire is a drive to seek, take, control and retain objects and personal experiences humans' value. In a competitive world of limited resources, humans who achieve relative success in acquiring regular (food and money) and positional (status) goods have both literally and figuratively better survival prospects. The classic model of human nature advanced by Hobbes and Adam Smith, which claims that humans are best understood as individuals' maximizing their rational self-interest in competition with others, emphasizes this drive to acquire. Evolutionary economists, however, maintain that while the pursuit of self-interest is important, it fails to explain the full range of human behavior. For evolutionary economists, the purpose of human motivation is not to make us happy but to make us more likely to succeed against the competition, so that relative status beats absolute well-being and emotion may overrule rational self-interest. The prehistoric roots of this drive occurred when humans were forced to kill prey for food rather than wait for tomorrow for fear that if they waited, their prey would be killed by competitors. With regard to financial risk and credit decisions, the rejection of external or internal regulation of the trafficking of securitized debt instruments reflects the continuing human inability to restrain ourselves when others might get ahead, even though the consequences might be the collective disaster of global financial meltdown. The twin passions of ambition and envy can make the drive to acquire insatiable and through cutthroat competition adversely affect human and natural sustainability, e.g., in North America 73% of the large mammal population were quickly eradicated by acquisitive, growing human populations. Furthermore, by specializing and trading, both competition and cooperation can be used to enhance consumption expectations. The drive to acquire, however, can be restrained when a sense of fairness is violated. While some traditional economists explain fairness restraint as motivated by long term reciprocal benefits, most observers of human behavior claim that another human drive offers a more likely independent explanation. Nevertheless, financial risk management standards anchored exclusively on the human drive to acquire, without factoring in the latest human science findings regarding three other independent human nature drives, is founded on inadequate, bad management theory which, in turn, has undermined responsible global financial risk management practices (Ghoshal, 2005).

There is also a parallel ethics theory of moral accountability, teleological ethics theory, which maintains that good results determine the ethical value of human actions (Petrick & Quinn, 1997). If more benefits than costs are achieved for all relevant stakeholders under investor capitalism forms of credit risk shifting, for example, then teleological ethics endorses the goodness and *moral results* of that action.

Investor Capitalism and the GBICM

According to the GBICM, however, extreme and exclusive reliance on this business model in the investor capitalist quadrant, with its selective parallel human science findings and limited moral accountability theories, is that it will not only produce distorted and unbalanced credit policy judgments but will also offend other stakeholders in the long run, erode organization/industry cohesion and destroy trust in the financial marketplace. That is exactly what has happened. Individuals and institutions that become compulsively and relentlessly acquisitive dehumanize themselves and others and are rightly held accountable for the system of moral hazards they perpetuate. It is a classic case of bad management theory and bad economic theory undermining good financial risk management practices.

The limits of credit policies which legally shift risks, based on investor capitalism priorities, become evident when the domestic and global market for flawed U.S. securitized debt products evaporates (which it has) and when U.S. taxpayers resist further exploitation and revolt (which they soon may). The collateral damage that this form of investor capitalism credit has inflicted on foreclosed borrowers, bankrupt institutions that purchased flawed U.S. securitized debt instruments, unemployed workers, and the global disrepute and disgust felt toward the U.S. financial system will endure for years to come. This business model of under-regulated processes of privatizing credit gains and externalizing credit costs onto innocent current and future taxpayers institutionalizes a fundamentally unfair, dehumanizing and unsustainable form of capitalism. To counter the adverse impacts of relying exclusively on this business model based in investor capitalism and the extreme credit policies it institutionalizes, the GBICM endorses the inclusive, balanced and non-extreme application of the four complementary and supplementary forms of capitalism to avoid the harms of single quadrant thinking or otherwise inadequate analysis and resolution.

Credit and the Regulatory Capitalism Quadrant

The lower left quadrant of Figure 1 is labeled regulatory capitalism. *Regulatory capitalism* focuses on and emphasizes compliance with government regulations and laws designed to both ensure a domestic and global even playing field for market transactions and to protect stakeholders when market failures occur (Light, 2002; Moss, 2004). Since imperfect information (e.g., undisclosed financial risks embedded in securitized debt instruments), negative externality costs (e.g., taxpayer bailouts of irresponsibly managed financial institutions too big to fail) and inadequate provision of public goods through the pricing system (e.g., inadequate public green spaces in neighborhoods and cities due to unregulated real estate development) are regarded as symptoms of inherent market failure, government regulation is needed to rectify many of those defects.

The main purpose of selling credit according to this business model is to efficiently protect financial system stakeholders from unnecessary risk by properly qualifying borrowers and lenders. When large numbers of borrowers are not properly qualified, i.e., borrowers are financially cleared to buy residences they cannot truly afford, the snowball of irresponsible risk management gathers momentum until financial institutions like Lehman Brothers go bankrupt and taxpayers are politically forced to bailout the whole risk shifting system. While the nature and extent of regulatory structure reform of the banking, insurance, securities, financial services, and futures industries is debatable, there is a consensus that some form of major regulatory reform appears to be globally, nationally, regionally, and locally necessary and desirable, and it is especially advocated in Germany. Too many domestic and global stakeholders have not been protected from severe financial harms (Wolf, 2008). The basic regulatory norms necessary for the efficient and fair functioning of capitalism, such as disclosing the truth about products/services in a transparent manner, holding oneself accountable for keeping promises and honoring contracts rather than shifting credit risks onto the highest bidder, providing enough information so that financial transactions can be understood and undertaken as a result of informed free choice, and avoiding externalizing financial risks and costs onto innocent stakeholders are endorsed by regulatory capitalism. All of the basic norms have been violated in one way or another during the U.S. subprime mortgage and credit crisis (Jordan, 2009). Under-regulated capitalism in the industry has led to widespread dishonesty, fraud, violations of moral rights, as well as unfair and unjust treatment of all stakeholders, especially current and future taxpayers, in the current credit selling value chain.

Regulatory Capitalism and the Drive to Defend

Regulatory capitalism is based upon a selective group of human science studies that establish that there is a fundamental cross-cultural human nature *drive to defend* oneself and others from the unacceptable risk of loss of life, property and well-being, so properly qualifying borrowers and lenders and protecting innocent stakeholders can be psycho-socially motivating (Lawrence & Nohria, 2002). The human drive to protect oneself, our loved ones, our property and our accomplishments whenever we perceive them to be endangered is activated by perceived threats to one’s own body and physical and experiential possessions, by threats to one’s bonded relationships, by threats to one’s financial security, and/or by threats to one’s own cognitive representations of one’s environment and one’s self. The emotions aroused include fear escalating to terror, anger escalating to rage and violence, loss escalating to despair, and loneliness escalating to depression (Lawrence and Nohria, 2002). Defensive responses can occur at the collective level as well, expressing themselves as intergroup rivalry, verbal and physical sparring, and even to full-scale financial, economic and/or military warfare. The drive to defend sets a tone of caution at the individual and collective levels when any of the other drives are expressed; when defensiveness enters consciousness it is termed reactive but when it does not enter consciousness it is termed reflexive. For this reason, some extreme potential borrowers and lenders tend to be unable to take any type of financial risk, even one that could be easily managed. The dark side of the drive to defend is human warfare and, in the absence of a world government, warfare of one form or another is likely to continue. However, the drive to defend is not the drive to aggress; war need not get out of hand or be the first resort if the costs of acquiring are too high and other, less risky ways of fulfilling the drive to acquire are available.

There is also a parallel ethics theory of moral accountability, deontological ethics theory, which maintains that fulfilling obligations, doing one's duty and following the *moral rules* determines the ethical value of human actions, regardless of the outcome (Petrick & Quinn, 1997). If standards of justice, fairness and rights are maintained for all relevant stakeholders under regulatory capitalism during the process of borrower and lender qualification, for example, then deontological ethics endorses the rightness of that action.

Regulatory Capitalism and the GBICM

According to the GBICM, however, extreme and exclusive reliance on this business model in the regulatory capitalism quadrant, with its selective parallel human science findings and limited moral accountability theories, is that it will not only produce distorted and unbalanced credit policy judgments but will also stifle economic and financial progress and neglect possibilities for more process and product improvements. In light of the harms inflicted on so many domestic and global stakeholders by de-regulated investor capitalism, however, there is a definite risk of over-regulation backlash. That is exactly what may well happen. Individuals and institutions that become compulsively and relentlessly overly-protective dehumanize themselves and others and are rightly held accountable for the economic system stagnation they perpetuate. To counter the adverse impacts of relying exclusively on this business model based in regulatory capitalism and the extreme credit policies it institutionalizes, the GBICM endorses the inclusive, balanced and non-extreme application of the four complementary and supplementary forms of capitalism to avoid the negative consequences of hyper-regulatory policies that will also produce a credit freeze or otherwise inadequate analysis and resolution.
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Credit and the Community Capitalism Quadrant

The upper left quadrant of Figure 1 is labeled community capitalism. *Community capitalism* emphasizes the role of managerial discretion in going beyond short term financial interests of investors to become corporate statespersons for social responsibility by developing social capital and ecological sustainability by respecting biodiversity wealth (Korten, 2009). With the separation of corporate ownership and control, domestic and global corporations need not necessarily be driven by the short-term interests of owner/investors to increase profits and GDP but may supplement that approach with the discretionary power of responsible leaders to improve the sense of belonging among stakeholders and the synergism between the natural and human communities within their scope of influence. In addition to meeting economic profitability and legal compliance goals, therefore, community capitalists are expected to act as solid corporate citizens through fair labor policies for employees, through microfinancing and philanthropic contributions that address domestic and global community poverty, and through ecologically friendly practices that respect nature (Yunus, 2007). Community capitalism is the foundation of building social capital, sustaining trustworthy credit relationships, and maintaining the credibility of the domestic and global financial risk management system. Once trust is betrayed, it cannot be bought or regulated into existence; it can only be re-earned with difficulty by trustworthy conduct. And it is the widespread domestic and global betrayal of trust that the U.S. subprime mortgage and credit crisis has instigated, undermining community capitalism bonds.

The main purpose of selling credit according to this business model is to expand access to financial credit to those who qualify for it and to exercise responsible risk management practices in all transactions among borrowers, lenders and investors. With regard to borrowers and lenders, improving access to financial credit for borrowers who deserve it is regarded as commendable from the community capitalism perspective. However, when borrowers demand to live beyond their means and attempt to over-leverage their debt through subprime mortgages or overextended credit cards, they are acting out of greed, impatience and immoderate acquisitiveness, moral vices that undermine character and ultimately erode community bonds. Furthermore, when lenders succumb to the temptation to become reckless financial speculators exhibiting callous indifference toward their victims and avoiding responsible engagement in risk management relationships through endless risk shifting that de-personalizes accountability instead of exercising due diligence, prudence and responsible handling of originated-mortgage obligations, they dehumanize themselves and dissolve the bonds of trustworthy communities around them. Community capitalists are expected to be building the moral character of borrowers and lenders through expanding access to credit for qualified borrowers and requiring responsible debt management practices from all parties in the credit markets.

Community Capitalism and the Drive to Bond

Community capitalism is based upon a selective group of human science studies that establish that there is a fundamental cross-cultural human nature *drive to bond* with others, to form attachments to them, and to care about nature and the unacceptable risk of loss of life, property and ecosystem viability, so expanding access to credit and responsibly caring about the fate of innocent stakeholders can be psycho-socially motivating (Lawrence & Nohria, 2002). This drive is usually demonstrated in the urge to form social relationships and develop mutual caring commitments with other humans that, in fact, is fulfilled only when the attachment is mutual. Groups of individuals who bond to one another had a better chance in prehistoric times to survive environmental threats, but bonding is an independent drive since there is no sustainable marketplace where one can exchange a lifelong friendship for a monetary sum. The drive to bond draws humans into cooperation and has the potential of being a non-zero-sum financial game, with all parties being winners. This pervasive drive to form and maintain at least a minimum quantity of lasting, positive and significant social and business relationships exists well beyond considerations of practical or materially acquisitive advantage, e.g., the sense of betrayal when people’s life savings have been destroyed by reckless financial risk shifting or the sense of empathy and sympathy for people who have been victimized by sophisticated Ponzi schemes. The drive to bond provides reproductive advantages since preference for sincere affection over opportunistic alliance-formation factors in mate selection, as well as, economic advantages since well-bonded teams can secure more economic benefits than poorly-bonded teams. Despite distance and difference in language, appearance and culture, humans, unlike many other social animals, are not innately constrained to bond only with kinship or other limited groups but can expand the closeness and duration of diverse social and ecological bonds, expanding the scope of moral concern. Tribal, organizational and planetary bonding can explain a wide range of community commitments when acquisition is not at issue, as is frequently the case in Japan and South Korea. In addition, as the size of collectives to which humans bond has been increasing over the years from nuclear family to tribe to nation, it is conceivable that large future, collective sustainability affections can be developed for a United Nations of the World, the elimination of world poverty, or the support of planetary biodiversity. The dark side of bonding, however, is genocide, ethnic cleansing and/or killing/ostracizing the out-group members resulting in human and market unsustainability, rather than learning from and trading with outsiders.

There is also a parallel ethics theory of moral accountability, virtue ethics theory, which maintains that becoming the kind of person or institution that exercises responsible care and cultivates the *moral character* to be ready to act ethically determines the ethical value of human actions, regardless of the results obtained or the rules followed (Petrick & Quinn, 1997). If character cultivation through the exercise of intellectual, moral, social, emotional, and political virtue occurs as credit access is expanded with borrowers and lenders acting responsibly, for example, then virtue ethics endorses the moral desirability of that development.

Community Capitalism and the GBICM

According to the GBICM, however, extreme and exclusive reliance on this business model in the community capitalist quadrant, with its selective parallel human science findings and limited moral accountability theories, is that it will not only produce distorted and unbalanced credit policy judgments but will also lead to the abdication of the authority of family, business and political leaders who must set responsible limits for risk management, i.e., say “no” to borrowers who want to live beyond their means or simply walk away from securitized debt offers that ultimately shift unreasonable risks onto innocent third parties. Furthermore, extreme community capitalism risks the slowing of legitimate economic productivity necessary for long term sustainable development. Individuals and institutions that become compulsively and relentlessly focused on forming community bonds dehumanize themselves and others and are rightly held accountable for the system of abdicated leadership authority and substandard economic development they perpetuate. To counter the adverse impacts of relying exclusively on this business model based in community capitalism and the extreme credit policies it institutionalizes, the GBICM endorses the inclusive, balanced and non-extreme application of the four complementary and supplementary forms of capitalism to avoid the negative consequences of gridlocked global trade and abdicated progressive leadership from single-quadrant thinking or otherwise inadequate analysis and resolution.

Credit and the Entrepreneurial Capitalism Quadrant: The U.S. Secondary Business Model

The upper right quadrant is the portion of the GBICM which serves as the U.S. secondary business model and upon which changes to the current U.S. financial system are based. This quadrant is labeled e*ntrepreneurial capitalism* and it focuses on generating innovation and leading change to stimulate and accelerate economic and financial transformational progress in the marketplace. Venture capital is drawn toward and rewards successful entrepreneurial capitalism. Venturing activities and technological progress in entrepreneurial capitalism are fostered by a variety of factors: market structures, government policies concerning markets and patents, access to venture capital, availability of tax incentives, technological opportunity, demanding consumers and organizational structural congruence (Baumol, Litan & Schramm, 2007). Favorable size and composition of markets, pro-competition government policies, tax incentives to encourage R & D investment, venture capital resources, technological market openness to product/service changes, and organizational configurations and processes that facilitate creativity all enhance entrepreneurial capitalism. In the U.S. not only has invention occurred in many fields, but the way in which inventiveness has been put to economic use has accelerated financial and non-financial innovations.

The main purpose of selling credit according to this business model is to create new risk shifting products/services and to continually improve the supportive contexts for current and future financial innovation. At the macroeconomic level, those industries and nations that engage in and support constant financial innovation will set the competitive pace for global economic progress or global economic disaster. However, financial engineering in the creation of opaque risk shifting instruments and the relatively de-regulated context within which tightly-coupled, complex debt trading occurs makes for an ideal environment for toxic financial innovation (Phillips, 2008; Gordon, 2007). In fact, U.S. innovative financial complexity has cloaked global economic catastrophe, resulting in the current global recession and credit squeeze along with the concomitant loss of U.S. financial reputation and economic credibility.

Entrepreneurial Capitalism and the Drive to Learn

Entrepreneurial capitalism is based upon a selective group of human science studies that establish that there is a fundamental cross-cultural human nature *drive to learn,* i.e., to satisfy curiosity, to be inquisitive, to explore, to appreciate, to have a passion for rational understanding, and/or to develop representations of the environment and of ourselves through a reflective, discovery process, so devising new financial products and promoting innovation-supportive contexts can be psycho-socially motivating (Lawrence & Nohria, 2002). This human push to understand, adapt to, and transform the environment is not reducible to any other drive and is often essential in guiding efforts to satisfy the human drives to acquire, to bond, and to defend. Faced with information gaps or inconsistencies, the human brain generates or imagines a set of possible resolutions (Variety) until it finds one that restores consistency (Selection), which is then preserved in long-term memory (Retention) and through symbolization (Symbolization), and it is this (VSRS) algorithm that propels the intrinsic reward of passionate learning (Deacon, 1997). As the learning process progresses over the life cycle, individuals accumulate more comprehensive world views, and through social interaction, build collective knowledge. According to evolutionary epistemologists, knowledge can potentially flow with only minimal cost in bonded networks, since it can be passed on without any loss of knowledge from its initial creator (Deacon, 1997). The drive to acquire something tangible for proprietary knowledge may impede but not permanently stop that rapid flow. Once this strong drive for learning is genetically transmitted and culturally reinforced it provides a useful competitive advantage for the offspring. However, the dark side of the drive to learn is that we can learn to waste resources on unrealistic projects or act in dysfunctional, unsustainable ways towards humans and nature, e.g., experimenting with and selling derivatives as weapons of financial mass destruction to destroy people and nature - simply because one can get away with it. Nevertheless, it is through prolonged formal and informal education that the drive to learn can be partially directed to creating more noble innovations that sustainably develop and respect current and future generations.

There is also a parallel ethics theory of moral accountability, contextual ethics theory, which maintains that the nature and extent of creativity and its supportive network for continual improvement of and innovation in ethical conduct determines the ethical value of actions. Contributing to and supporting *moral contexts* that sustain ethical conduct, regardless of the results obtained, the rules followed, or the character cultivated, is morally paramount (Petrick & Quinn, 1997). The metaphor of selecting good apples and placing them in a rotten barrel is often used to vividly convey the importance of neglecting moral context in ethical decision-making. Creating and sustaining a wholesome new barrel in which good apples can be preserved is an important moral challenge for the current U.S. financial system leaders. Since the barrel of the current U.S. banking, insurance, securities, financial services, and futures industries is now widely regarded as rotten or corrupt, the urgent moral challenge is to replace it, and contextual ethics endorses the moral desirability of that development.

Entrepreneurial Capitalism and the GBICM

According to the GBICM, extreme and exclusive reliance on this business model in the entrepreneurial capitalist quadrant, with its selective parallel human science findings and limited moral accountability theories, is that it will not only produce distorted and unbalanced credit policy judgments but will also lead to wasting of valuable and limited resources on unrealistic projects and disrupting regulated operational efficiency of law-abiding market transactions. Individuals and institutions that become compulsively and relentlessly focused on devising new risk shifting vehicles dehumanize themselves and others and are rightly held accountable for the system of toxic financial innovations that waste financial and nonfinancial resources and impose financial losses and risks of losses onto innocent taxpayers and other stakeholders. To counter the adverse impacts of relying exclusively on this business model based in entrepreneurial capitalism and the extreme credit policies it institutionalizes, the GBICM endorses the inclusive, balanced and non-extreme application of the four complementary and supplementary forms of capitalism to avoid the negative consequences of toxic innovations from single-quadrant thinking or otherwise inadequate analysis and resolution.

The Global Reckoning and the GBICM

The global reckoning for the unsustainability of the current U.S. subprime mortgage and financial credit system based primarily on investor capitalism and secondarily on entrepreneurial capitalism is warranted and long overdue (Klein, 2008; Galbraith, 2008). By selling credit with existing financial products to increase profits and markets and then creating new complex debt instruments that will ultimately do the same, U.S. business leaders have engaged in a non-transparent scheme of endless shifting of financial risks onto innocent parties, continually capturing revenue gains for the few in the financially sophisticated private sector while externalizing any losses onto the public and civil sectors. Victimized stakeholders are demanding accountability for and significant reform of this form of capitalism and the institutionalized system of risk shifting it has legitimized (Zandi, 2009). Ultimately, bad economic and management theories based on negative and inadequate views of human nature have been destroying good global management practices for responsible global risk management and it is time to reverse that trend with an alternative model (Ghoshal, 2005). In other words, playing by current U.S. rules for legally responsible financial risk management is not globally sustainable and another model of global financial system integrity that is sustainable is needed.

The GBICM is one alternative business model designed to promote a sustainable form of global capitalism without relying on the endless, clever risk shifting ploys of the current U.S. financial system. Business integrity capacity is defined as the aggregate individual and collective capability for repeated process alignment of economic, psycho-social and moral awareness, deliberation, character and conduct that demonstrates balanced, inclusive and non-extreme judgment, enhances ongoing economic, psycho-social and moral development, and promotes supportive systems for economic, psycho-social, and moral sustainability (Petrick & Quinn, 2000, 2001). The GBICM is simply the judgment integrity capacity component of the construct and implicitly indicates that the purpose of business is not simply to earn profits for investors but to add value to the world by meeting market and nonmarket stakeholder demands for quality goods and services at a competitive price domestically and globally over time in a way that integrity capacity is sustained. Businesses and business leaders that regularly fulfill this purpose deserve to succeed and they do not need to clandestinely impose risks onto innocent stakeholders to ensure their sustainability. The GBICM , however, demands a new level of business judgment integrity that is shaped by the degree of economic, psycho-social and moral complexity that business leaders in industries and nations can handle in a balanced, inclusive and non-extreme manner. Overemphasis or underemphasis of any one or more of four competing and complementary quadrants will result in distorted credit policy judgments.

Yet, it is precisely the U.S. overemphasis on investor capitalism and entrepreneurial capitalism that has led to the current global financial meltdown (Barr, Kumar & Litan, 2007). Narrowly restricting the nature and scope of responsible risk management based on the type of capitalism that is embedded in a national culture is no longer globally credible. For example, for the U.S. to reduce responsible risk management to efficient, creative, legal risk shifting adhering to Wall Street rules, while other global stakeholders are systemically victimized because global community and regulatory concerns are ignored, is no longer globally tolerable. Responsible risk management systems must meet higher and more inclusive global standards of performance than simply being the profitable outcome of hard-working, creative people who abide by or push the limits of Wall Street financial rules. Furthermore, neither the West nor the non-Western forms of extreme capitalism are immune to the inevitable negative consequences of unsound judgment and irresponsible management of business integrity capacity in their respective systems. The GBICM provides an alternative structure for making sound business judgments that are globally sustainable. It is for these reasons that management education must be transformed from preparation for disaster capitalism to preparation for global sustainable capitalism.

Conclusion

This paper has addressed the causal factors of the Great Global Recession and recommended the adoption of the global business integrity capacity model (GBICM) as a global sustainable capitalism alternative for market and non-market stakeholders. The GBICM was proposed and delineated in terms of four quadrants that inclusively balance types of capitalist, moral accountability and human nature theories and provide an alternative framework for more responsible global financial risk management and sustainable global capitalism.

What U.S. financial leaders should be recognizing is that if they adopt a model like the GBICM and sustain a more balanced, inclusive form of capitalism that ensures the integrity of the global financial system, they will also preserve moderate forms of investor capitalism and entrepreneurial capitalism. But if they continue to engage in extreme forms of their versions of capitalism, persist in unregulated and non-transparent risk shifting, and unduly restrict the scope of responsible global financial risk management, they will eventually lose everything and harm many stakeholders, including future managers, in the process.

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