Pathways to Prosperity

Shyam Sunder, Yale University

It is a delight to know that so many companies in Borsa Istanbul have paid careful attention to improving their external communications and reporting.

It has been known for centuries that there are only four paths to prosperity for a society: discovery, production, exchange, and loot.

Discovery could be of minerals or knowledge. Oil was discovered in Arabia to become a basis of its prosperity, and laws of chemistry were discovered in Europe to become the basis of its prosperity.

Production is transformation of known materials into products of greater value and new uses. Anatolia made steel, India made cotton textiles, and China made silk; all prospered. Germany and U.S. prosper from manufacturing machinery, consumer goods, and computers.

The Netherlands prospered from exchange—trading goods bought cheaply in one part of the world and selling them where they are scarce and have greater value. For example they introduced sugar from tropical Indonesia to Japan.

Looting by force or stealth may appear to be the fourth pathway to prosperity. In the best of circumstances, loot is only a transfer not creation of wealth, and much of it is destroyed or lost in the process. Human history is full of pages written in blood about those who sought wealth by loot. Colonial powers through history looted untold ship loads of gold from subjugating the peoples in their colonies, but such prosperity does not last for long.

Every society, organization, and individual must choose for itself a path to prosperity. How will the business organizations present at Borsa Istanbul generate wealth for their employees, customers, owners, and the Turkish society as a whole?

I understand that they all have wisely chosen one or more of the first three pathways—discovery, production and exchange, and have decided to eschew the fourth.

Past century’s research has established without doubt that when business operates in environment of mutual trust, the time and cost of negotiating and consummating transactions is reduced, commerce and trade flourish, and societies become prosperous.

Publicly traded business corporations generate wealth when the total value of their output exceeds the total cost of their inputs of labor, materials, services, and financial capital. The difference between these two totals is the surplus, and represents the net addition to the

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wealth of society. Parts of this surplus are distributed among the employees, suppliers, customers, and shareholders, etc.

Wise financial reporting reports not only on how much surplus the firm has generated, but also on how it has been distributed among various classes of participants.

Only through such transparency can the firm generate enough mutual trust, cut transactions costs, and maximize the total surplus as well as divide it so everyone gets more.

I am glad to know that your organizations are committed to work towards that goal, and the process has already started.

Please accept my best wishes for your success, and collective prosperity.
Open Questions about Integrated Reporting

1. Creating value, unless further qualified, is interpreted by some as creating value for the firm’s shareholders. Others put emphasis on creating total value for all parts of society, including employees, customers, community, and environment. What do you have in mind when you talk about creating value?

2. It is true that “silos” in organizations can become an obstruction to making decisions which are better for organizations as a whole. But do silos not also serve a valuable function of delineating rights and responsibilities of various individuals and teams. Without such delineation, confusion would prevail in a large organization. Can eliminating or reducing the number of silos in an organization necessarily be a good thing?

3. How do you enhance accountability without forming some kind of silos in the organization?

4. Isn’t the multiple capitals approach itself imply construction of silos in the organization?

5. We all want long term decision making, but we would also like to fire an incompetent manager before he does too much harm to the organization. Doesn’t one have to balance long and short term considerations for this reason?

-Financial reports mainly focus on proposing the return of equity and income to investors in a backward looking manner. How should the value of a company be determined and where does integrated reporting stand in this respect?
-New generation is more responsive to sustainability and so on. How much integrated reporting is adapted to the education of young accountants?
-Why is integrated reporting particularly important in terms of accounting principles?