

foreword by Gary Hamel

The
New
CAPITALIST

MANIFESTO

building a disruptively better business

Umair Haque

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This book is dedicated with gratitude to
Dr. Nadeem ul Haque, Farida Haque, and Ikram ul Haque
for having the courage to take an improbable journey,
the conviction to create the future,
and the wisdom to teach me why.

Foreword

Capitalism is dead. Long live capitalism.

I'm a capitalist by conviction and by profession. I believe the best economic system is one that rewards entrepreneurship and risk taking, maximizes customer choice, uses markets to allocate scarce resources, and minimizes the regulatory burden on business. If there's a better recipe for creating prosperity, I haven't seen it—and neither have you.

So why does capitalism have a major image problem? Why do the majority of consumers in the developed world doubt that large corporations are good for society? Why are executives regarded as ethically inferior to journalists and even lawyers? Why are CEOs more likely to be portrayed as villains than heroes in the popular media? Why do people seem to *expect* big companies to behave badly—to ravish the environment, exploit employees, and mislead customers?

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Some blame Wall Street for this state of affairs. In March 2009, the *Financial Times* claimed that the “credit crisis had destroyed faith in the free market ideology that has dominated Western thinking for a decade.”¹ As central bankers struggled to contain the subprime contagion, some wondered whether capitalism would survive the crisis. At a minimum, argued a chorus of jaundiced journalists and grandstanding politicians, a new form of capitalism was needed—one in which executives would bow to the state and magisterial policy makers would rein in the excesses of the market.

While one should never underestimate the ability of risk-besotted financiers to wreak havoc, the real threat to capitalism isn’t unfettered financial cunning. It is, instead, the inability (or unwillingness) of executives to confront the changing expectations of their stakeholders about the role of business in society. In recent years, consumers and citizens have become increasingly disgruntled with the implicit contract that governs the rights and obligations of society’s most powerful economic actors—large industrial companies. To many, this contract seems one-sided—it has worked well for CEOs and shareholders, but not so well for everyone else.

You don’t have to read *Adbusters* or be a paid-up member of Greenpeace to wonder whose interests are really being served by big business. When it comes to “free markets,” there’s plenty to be cynical about: the food industry’s long and illicit love affair with trans fats, Merck’s dissembling about the risks of Vioxx, Facebook’s apparently cavalier attitude toward consumer privacy, BP’s shocking disregard for

the environment, and the everyday reality of grossly exaggerated product claims and buck-passing customer “service” agents.

If individuals around the world have lost faith in business, it’s because business has, in many ways, betrayed that trust. In this sense, the threat to capitalism (and capitalists) is both more prosaic and more profound than that posed by over-leveraged bankers—more prosaic in that the danger comes not from the wild schemes of rocket scientists but from the slowly accreting frustrations and anxieties of ordinary folks; and more profound in the sense that the problem is truly existential—it reflects a fundamental divergence of world views and therefore can neither be solved nor thwarted by political lobbying or feel-good advertising.

Make no mistake, though: capitalism has no challengers. Like democracy, it’s the worst sort of system except for all the others—and that’s exactly why we all have a stake in making it better. If we fail to do so, the growing discontent with business’s myopic view of its accountabilities will embolden all those who believe CEOs should answer to those who are eager to replace the invisible hand of the market with the iron hand of the state.

This is not an outcome, I think, that most of us would welcome. While cinching the regulatory straitjacket even tighter might protect us from capitalism’s worst excesses, it would also rob us of its bounties. So we must hope that executives will face up to the fact that an irreversible revolution in expectations is under way.

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I believe that millions of consumers and citizens are already convinced of a fact that many executives are still reluctant to admit: the legacy model of economic production that has driven the “modern” economy forward over the last hundred years is on its last legs. Like a piece of clapped-out equipment, it’s held together with bailing wire and duct tape, is grossly inefficient, and spews out clouds of noxious fumes.

While we’re all grateful that someone invented this clattering, savage machine a century and more ago, we’ll also be happy when it finally gets carted off to the scrap yard and is replaced with something a bit less menacing.

We know the future cannot be an extrapolation of the past. As the great-grandchildren of the industrial revolution, we have learned at last that the heedless pursuit of more is unsustainable and, ultimately, unfulfilling. Our planet, our security, our sense of equanimity, and our very souls demand something better, something different.

So we long for a kinder, gentler sort of capitalism—one that views us as more than mere “consumers,” one that understands the difference between maximizing consumption and maximizing quality of life, one that doesn’t sacrifice the future for the present, one that regards our planet as sacred, and one that narrows rather than exploits the inequalities in the world.

So what stands in the way of creating a conscientious, accountable, and sustainable sort of capitalism—a system that in the long-term is actually habitable?

It is, I think, a matrix of deeply held beliefs about what business is actually *for*, about who it serves and how it creates value. Many of these beliefs are near-canonical—at least among those who’ve been to business school or have spent a few decades inside a Global 1000 company. Nevertheless, we have reached a point in the history of business where even fundamental tenets must be reexamined.

Among the beliefs that most deserve to be challenged:

- The paramount objective of a business is to make money (rather than to enhance human well-being in economically efficient ways).
- Corporate leaders can reasonably be held accountable only for the immediate effects of their actions (and not for the second- and third-order consequences of their single-minded pursuit of growth and profitability).
- Executives should be evaluated and compensated on the basis of short-term earnings performance (rather than long-term value creation).
- A “brand” is something that is built with marketing dollars (rather than something that is socially constructed by all of the firm’s constituents).
- The firm’s “customers” are the people who buy its products (rather than all those who are influenced by its actions).

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- It's legitimate for a company to profit by exploiting customer ignorance or constraining customer choice.
- Customers care only about how a product performs and how much it costs (and not about the values that were honored or defiled in the making and selling of that product).
- Customers are end users (rather than full partners in the work of value-creation and value-sharing).
- Customers who've been ignored, manipulated, locked in, duped, or lied to will nurse their anger in private (rather than join forces with fellow sufferers to publicly shame their persecutors).
- A company can successfully use its market power and political leverage to obstruct a disruptive technology or stymie a new and unconventional competitor.
- Employees are human resources first and human beings second.
- Business is about advantage, focus, differentiation, superiority, and excellence (and not about love, joy, honor, beauty, and justice).

These beliefs are the *real* threat to capitalism. They are narcissistic and self-indulgent—and have grown even less attractive and defensible in the fifty-seven years since General Motors' then-chairman, Charles Wilson, proclaimed that “what was good for GM was good for America.”

I may be an ardent supporter of capitalism—but I also understand that while individuals have inalienable, God-given rights, corporations do not. Society can demand of corporations what it wills. Of course, as consumers and citizens, we must be wise enough to realize that companies cannot remedy every social ill or deliver every social benefit, and we must also acknowledge the fact that a regulatory regime that would insulate us from all of capitalism's vices would also deny us its virtues.

Nevertheless, executives need to understand that today they face the same hard choice that confronts every teenager—drive responsibly or lose your license.

This is the starting premise of the book you now hold in your hands. But in *The New Capitalist Manifesto*, Umair Haque goes farther—much farther. He outlines the new beliefs that must replace the shortsighted and self-limiting assumptions of the industrial age. He draws a host of invaluable lessons from companies that have already embraced the challenge of reinventing capitalism. With fervor and wit he makes an unimpeachable case that it is possible for a business to thrive socially *and* financially in the new age of accountability. This book is more than a manifesto, it's a blueprint for building the sort of twenty-first-century company that will be loved by its customers, envied by its peers, and admired by all those who care about the future of our planet.

Gary Hamel

Preface

In 1776, one man found himself at the center of a maelstrom. Hurricanes of change lashed the globe: growing markets, expanding international trade, a rising middle class, disruptive technologies, novel commercial entities. Yet, where his contemporaries saw chaos, Adam Smith saw hitherto unimagined possibilities.

In *The Wealth of Nations*, Smith envisioned with startling prescience a very different prosperity: one in which *capitalists*, not the mercantilists, aristocrats, and agrarians who had preceded them, held sway. Stop for a moment to consider the keenness of that insight. In 1776, horses provided power for carts and carriages. Steam-powered locomotives would not arrive until the next century. The economy's central axis was households, not even medium-sized corporations. Ownership of land, mills, tools, and rights was sharply concentrated in the hands of the nobility, and passed down

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through the patrician generations. “Joint-stock companies,” still new forms, required government charter or royal decree for incorporation and, until around 1850, had liability unlimited enough to land an unfortunate shareholder in debtors’ prison. The overwhelming balance of organizational power was still held by sprawling, storied guilds, like the City of London’s Worshipful Company of Ironmongers (or carpenters or cooks or mercers, to name just four). And the ruling dogma of protectionism saw laissez-faire thinking as alarmingly, dangerously *avant-garde*.

It was, in short, *not* a world in which the capitalist enterprise as we know it today might have been foreseen to flourish. Yet, by seeing through the maelstrom, Smith synthesized, in detail and with ruthless logic, his new vision of prosperity. Though many similar tomes followed, Smith’s masterpiece remains the original capitalist manifesto, the founding document of industrial era prosperity.

I’d like to pose a question: what if the future of capitalism will be *as different* from its present as Adam Smith’s vision was from *its* present? What if twenty-first-century prosperity differs from industrial era prosperity as radically as *it* did from its now seemingly prehistoric predecessor? Consider, for a moment, the striking parallels between Smith’s maelstrom and ours. Globally, the Internet has given rise to hyperconnection. The nations formerly known as the third world have become a rising, roaring middle. Nascent technologies like cleantech and nanotech hint at hitherto unimagined possibilities. The “corporation” is mitotically dividing into many different kinds of commercial entities, whether social

businesses, hedge funds, or “for benefit” corporations. Today, as then, the world is shedding yesterday’s skin.

I’m no Adam Smith, but I’d like to invite you to take a voyage with me. It’s a journey of imagination, where we’ll envisage production, consumption, and exchange through new eyes. It’s an expedition on which we’ll explore the zephyrs and siroccos that are reshaping profitability, performance, and advantage. And it’s a quest for insight into how commerce, finance, and trade might—just might—be transformed, and, more vitally, become *transformative*. Let’s stride boldly, as Adam Smith did, past the horizon of commerce, finance, and trade as we know them, venture off the map of industrial era capitalism—and explore the uncharted *terra nova* of tomorrow’s prosperity.

Why should you join me? Consider the following story. In 1494, a Franciscan friar published an unlikely blockbuster. Despite its awkward mouthful of a title, *Everything About Arithmetic, Geometry and Proportion* flew hot and fast off the Gutenberg presses. Describing the way Venetian merchants kept their books in order, Luca Pacioli formalized what we know today as double-entry bookkeeping—where every transaction is booked simultaneously in two different accounts so that debits match credits. Fast forward: in 1994, sustainability trailblazer John Elkington coined the term “triple bottom line” for an accounting system that booked transactions in financial terms as well as social and environmental ones. Half a millennium, *five hundred* long years, passed between the birth of accounting—and the first glimmering seeds of its rebirth.

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Consider the steady breakthrough after breakthrough in every sphere of life. Jonas Salk's polio vaccine, the Green Revolution of the 1960s, the transistor, and, of course, the Internet, to name just a few. But most of the *cornerstones* of capitalism have changed at a snail's pace, if at all. In fact, they predate Adam Smith, whose genius wasn't to *invent* them but, for the first time, to weave together the strands of their bigger story. The assembly line—today, called a value chain—was pioneered by Britain's first industrialists in the eighteenth century. Shareholder value, sanctified in the 1980s by academics, is a clever spin on the eighteenth century's rising joint-stock corporations. The corporation itself was born during the seventeenth century's great age of exploration. Like the five-hundred-year gap between double entries and triple bottom lines, new cornerstones are rarely laid. Is it any wonder then that so many companies (and economies) are struggling to keep pace with the twenty-first-century's challenges?

Just as Giza's pyramids have crumbled over the centuries, so cornerstones aren't eternal and everlasting. It's not too hard to see, for example, why an institution invented in the fifteenth century to keep the books of a handful of silk and spice merchants in order might not be the most accurate way to keep the global economy's books in the twenty-first. Vicious volatility, deepening scarcity, activist shareholders, power shifting to the people formerly known as *consumers*: they're just a few of the new challenges testing yesterday's titans—whether companies, countries, or people—and finding them wanting, revealing the drawbacks of cornerstones

built in and for very different eras. Today, the tectonic plates are shifting, and yesterday's weathered, worn cornerstones are beginning to crack.

You wouldn't run your trading floor on terminals from 1980. You wouldn't ask your distribution fleet to use engines from 1950. And you probably wouldn't use carrier pigeons to convey vital knowledge to your headquarters. Why then are companies, countries, and the global economy still anchored atop musty, tottering cornerstones? Because building *new* ones is an art in its infancy. This book isn't just the chronicle of a new crop of world-builders. More deeply, it's a *guide* to crafting the new cornerstones they're learning to chisel.

My goal is to help you become a bellwether of twenty-first-century capitalism, a master stonemason of new cornerstones, which, when sunk in today's economic soil, yield strong, thick, long-lasting foundations. I'll argue that *institutional innovation*, the art of carving them, is the key to building a higher level of advantage. I'll sketch a blueprint you can use to conceive of—and then, if you wish, to *construct*—structures set on new cornerstones, that can yield not just more, but more powerful value.

That's what this book is—and here's what this book *isn't*. Michelangelo, when asked his secret, answered: "Every block of stone has a statue inside it, and it is the task of the sculptor to discover it." I can be a guide, mentor, and counselor, but I can't discover what's inside *your* stone. Though the pages that follow are filled with examples, this isn't a call to go forth and imitate. I don't want you to follow an ex-

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ample, but to *be* the example. My ambition is that you understand *why* innovators are carving new stones, *what* they gain from them, *how* each works—and then find the statue in *your* stone. My insight matters less than your vision, ambition, and passion. So think of this book not as a laundry list, but a toolkit. I can give you the chisel, hammer, wedge, and brush, but only *you* can be the sculptor.

Here then is the lens through which I'll ask you to discover the statue inside *your* stone. A capitalism where companies, countries, and economies reach a higher apex of advantage—one where bigger purpose rouses untapped human potential of every employee, customer, and future customer, instead of deadening it. One where fiercer passion makes innovation as natural as drawing breath, spontaneously combusting the spark of creativity instead of dousing its flame with lowest common denominators. One where deeper meaning replaces the drab grind of repetition with challenging and compelling work that elevates the soul. Where more authentic power flows from shared principles instead of (yawn) sweeter carrots and heftier sticks. Where greater resourcefulness means being not the natural world's conqueror, but its champion. Where higher-quality value is created by doing stuff of greater *worth*. And, ultimately, where companies compete not just to change the rules, but to change the world. These aren't, of course, the idle dreams of stargazers. They're the motive power of prosperity—the only resolutions to the relentless, lethal challenges bearing swiftly down on countries, companies, and economies. For