Harvard Business Review

The HBR List

Breakthrough Ideas for 2009

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Note

You hold in your hands a snapshot of the emerging shape of business in 2009 and beyond.

Each year, the editors of *Harvard Business Review* consult their extensive network of expert authors to identify the best ideas that will likely influence the future of business. For the 2009 List, the editors also took part in a day-long brainstorming session with the World Economic Forum, which surfaced many of the new ideas that led to this year's selections.

The 2009 List aims to encompass those ideas that seem most vital for the immediate future. Because many of these concepts originated months ago, the editors did their best to anticipate the context in which you now read them. In keeping with the current business climate, this year's ideas tend to be more useful than fanciful, more immediately practicable than speculative. However, while some of the articles you'll find here comment directly on the economic crisis that escalated late in 2008, most address matters that business leaders must contend with every day. Among these, you'll find articles covering the best new thinking on: strategic decision making, tapping new markets, finding and keeping top talent, harnessing network effects, and dealing with disruptive technologies and business models.

We hope this year's List leaves you not only with a better sense of what issues and opportunities await business on the horizon, but also new tools and concepts that can help you get ahead of the curve today.

Contents

Consumer Safety for Consumer Credit

Laws and regulations guarantee the basic safety of every product sold in the United States—except consumer credit instruments. The lack of such protections for the holders of credit cards, auto loans, and mortgages contributed to the financial crisis. The authors argue that credit cards can and should be made as consumer friendly as toasters.

By Elizabeth Warren and Amelia Tyagi

In all the finger-pointing during the financial meltdown, one major culprit was largely overlooked: the legal structure governing the sale of mortgages, credit cards, and other consumer financial products.

Unlike most consumer purchases, consumer credit in the United States is still grounded firmly in eighteenth-century contract law. In 2009 the basic premise is what it was in rural England in 1709—two merchants might dicker over the terms of an agreement, and the courts would enforce whatever they decided. The principle of caveat emptor ruled—anyone who bought goods was stuck with them, no matter their defects and no matter the injury they might cause. This approach made a certain amount of sense for two small-business owners bargaining over the sale of a plow. Government's responsibility wasn't to protect consumers from dangerous products but to enforce contracts and keep the wheels of commerce moving smoothly.

Today, however, caveat emptor has disappeared. The Consumer Product Safety Commission (CPSC) ensures the basic safety of every type of product sold in the United States save one: In the case of financial products, the two parties no longer vigorously negotiate; consumers typically have little say on the terms of credit agreements—it's take it or leave it. The notion that the ordinary consumer is somehow on an equal footing with a $1 trillion megabank is absurd. The terms for credit cards, mortgages, and car loans are bloated, eye-straining treatises that even experienced lawyers have difficulty parsing. The past two decades have brought us universal default, double-cycle billing, teaser-rate mortgages, and negative amortization—concepts whose main function is to confuse and suck money from unsuspecting consumers.

Treating financial contracts like other products would change all that. The current jumble of federal and state regulations should be reconceived and enforced by a comprehensive new regulatory body, analogous to the CPSC. A Consumer Credit Safety Commission would make financial products more transparent, get rid of tricks and traps, and give consumers the tools to make prudent financial decisions.

Ultimately, safety regulations could help make the market for financial products as efficient as the market for physical products. Shorter contracts and clearer terms could replace lenders' current race to the bottom with a race to the top, based on consumer friendliness and fairness. Obviously, this would benefit consumers, by reducing loan defaults and foreclosure rates. Equally important, predictable payments and low default rates would benefit the economy and help avoid the kind of boom-and-bust financial cycle that has proved so devastating.

The moment is right to rethink our consumer credit laws. Growing U.S. consumption has supported the global economy, but the American family simply cannot carry that load any longer. Declining median incomes, combined with the rising costs of housing, health care, child care, transportation, and food, have left families in a deeper economic hole than ever before. They have turned to credit to finance basic necessities, but that is a short-term strategy, and time is running out. Today one in six mortgages is upside down, and 50 million families can't pay off their credit card bills. Last year one out of seven households was called by a debt collector. More than a million people declared bankruptcy. Foreclosure has reached levels unmatched since the Great Depression. This crisis highlights the urgent plight of the middle class, but the trend started decades ago.

America's advantages in innovation and productiveness are rooted in a vibrant middle class that still believes in the possibility of success. Its members can no longer afford tricky financial products, and the market can't afford them either—they destabilize families and the economy alike. Applying basic safety standards to this segment would provide badly needed security for consumers, investors, and the global economy.

ELIZABETH WARREN, the Leo Gottlieb Professor of Law at Harvard Law School in Cambridge, Massachusetts, has written eight books and more than 100 scholarly articles dealing with credit and economic stress. She is a member of the Congressional Oversight Panel for the $700 billion U.S. bailout.

AMELIA TYAGI, a former McKinsey consultant, is a cofounder and the COO of the Business Talent Group in Los Angeles. They are the coauthors of *The Two-Income Trap* (Basic Books, 2003) and *All Your Worth* (Free Press, 2005).

Now's the Time to Invest in Africa

Past exhortations for businesses to invest in Africa have provoked skepticism or led to disappointing results. But new research shows that a number of sub-Saharan countries have achieved stability, adopted favorable policies and incentives, and now offer an inviting climate for investment and rates of return higher than those found in other developing countries.

By Paul Collier and Jean-Louis Warnholz

Over the years many misguided pronouncements have touted the improved economic prospects of Africa, home to a large proportion of the world's billion poorest people. The late 1990s even saw a slight economic resurgence, dubbed an "African renaissance," but it fizzled, and a gloomy view of the continent as too unstable for investment other than in mining and oil seemed to settle over corporate boardrooms.

But reliable data show that a number of sub-Saharan nations have emerged from conflict in stable condition and that new macroeconomic forces are poised to have a profound effect—despite the global economic downturn. For example, the International Monetary Fund's World Economic Outlook, released in October 2008, projected economic growth of 6.3% for sub-Saharan Africa in 2009, with Uganda, Tanzania, and Nigeria exceeding 8% growth. Our research on African companies indicates that the continent offers competitive manufacturing sites, IT outsourcing, and construction services. There is real opportunity on the ground in Africa.

Multinationals and investors should bear these developments in mind:

Stability The periods of catastrophic government action that slowed growth in past decades have become much less frequent. The failures in Ghana, Uganda, Tanzania, and Nigeria in the 1970s and 1980s were profound learning experiences for those countries, which have joined the list of today's success stories. Nigeria, for instance, has paid off its external debts, enacted prudent fiscal rules, and cleaned up its banking system.

Policy The more favorable policies of developed nations have laid the groundwork for growth: Many of Ghana's exports, for example, qualify for duty-free access to EU and U.S. markets. Policies within African countries have boosted local economies: Rwanda, for instance, has made information and communications technologies the cornerstone of a new growth strategy, setting up the ICT Park in Kigali, its capital.

Profits Our study of 2002–2007 financial data from all the Africa-based publicly traded companies for which data were available (a total of 954, mostly in manufacturing and services) shows that many of these firms are highly profitable. (For foreign-owned companies we looked only at the performance of the African entities.) In part because of low labor costs and gains in operational efficiency, the average annual return on capital of the companies studied was 65% to 70% higher than that of comparable firms in China, India, Indonesia, and Vietnam. The median profit margin was