

Capitalism

REVISITED

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Change of Change

“When the rate of change inside an institution is less than the rate of change outside – the end is in sight”
- Jack Welch

“We have reached the end of incrementalism”
- Gary Hamel

“The future will be a decade in a hurry. A nanosecond culture. There will be only two kinds of managers. The quick and the dead”
- Philip Kotler

“We are shaping the world faster than we can shape ourselves and we are applying to the present the habits of the past”
- Winston Churchill

It is evident that we are living through an era of quite dramatic change. New technologies have leveled the playing field and are redrawing the economic, geo-political and psychological landscape. Furthermore, our increasingly global economy is putting pressure on both our planet and our people. There is blurring of institutional responsibilities, pricing ignorance of free (but scarce) resources, and increasing complexity and conflict of how (and who) to share the costs of the obvious benefits the global economy has brought to so many areas of our lives. This fuels conflicts between cultures resulting in both moderate as well as extreme forms of dissatisfaction with the current state of the world (from protests to terrorism).

Through enormous advances in technology we are all witnessing manifestations of these changes daily. The media world has not only penetrated all our technologies they have also recruited millions of new journalists who through cameras on cell phones, self posting blogs, YouTube or FaceBooks can report daily on the world they are experiencing. Clearly it is exhausting!

Philip Kotler said many years ago that “the nineties will be a decade in a hurry. A nanosecond culture. There will be only two kinds of managers. The quick and the dead”. He was right. The facts are compelling. Those who don’t change will lose and then die. Preferably in that order. But what we really need is to recognize that what has truly changed is change itself. Quantum physics recognizes that what you see is not what you get, that there is interconnectedness of parts that are mysterious, complex and works in ways that our previously determined laws couldn’t comprehend. But in our organizational lives, all our measures of success are still characterized by a more linear Newtonian tradition. They measure how we incrementally can get one inch taller, one billion larger, or one more employee hired. While that is one dimension of growth and success it fails to recognize other, today even more important, measures of success. There is a need for a new scorecard.

The End of The Hunting Season

This transition is not trivial by any measure. We are changing relationships with the world that are deeply etched into our habits. For thousands of years we have lived in a world where the sources of strength, wealth and power were material. They were dependent on land, dependent on borders. They were hunted for. Our armies were designed and purposed to conquer new territory as well as protect the land we had. But today, the sources of strength, wealth and power are immaterial. They are not dependent on land. They cannot be conquered by armies. They depend on our intellect, our creativity, our energy and our lust. Just as one example, take a look at auditing and our annual reporting. The quality of a company’s talent and the nature of their relationships with their customers are far better barometers for the health of any business than the depreciation of hard assets. Yet if you study our accounting rules you see remarkably little evidence that this is the case. This is not an attack on the audit profession. They are a very important part of a well functioning capitalist system. But as with most of us, they too, need a new playbook. This example is merely a manifestation of the phenomenon that Churchill

so accurately captured when he stated years ago that “we are changing the world faster than we can change ourselves and are applying to the present the habits of the past”.

3 Key Strategic Implications

As a corporate philosopher and strategist, there are of course many implications of this new world. I have chosen to focus on the 3 that I am most passionate about. I will expand on them below and end by discussing the interrelationships between them.

Purpose Bigger than Product

Since 3 of our most important production resources (raw materials, know-how, capital) now can be downloaded, copied, stolen, borrowed, leased or purchased at more or less commoditized unit prices (accessible and available to most people on the earth) it is evident that in order to compete on today’s market you win or lose by having better people than others. Clearly, education plays an important role here. In the West we have reason to critically assess if our curriculums and schools are producing the kind of talent we need. I think we all know that we need to do better. But I am focused on the softer side of the equation. I don’t believe IQ is enough. I don’t even think EQ gets you there. In order to build world class companies winning in the global marketplace you need a purpose bigger than your product. A purpose that can unleash passion, sharpen your focus and ultimately deepening your connection with your key stakeholders. I recognize that my career in retail has helped shape this view where clearly the front line is our life line. The brand comes to live only in the eyes, hearts and energy of your people. When you enter a retail store you enter a brand. And the people working there are unquestionably the most important ingredient in how that brand will manifest itself. However, I do believe the same logic holds true in other industries as well but I recognize that the feedback mechanisms may be longer and may be more indirect.

I see 3 distinct elements of a purpose bigger than your product. I call this **Purpose P³**.

First a purpose needs to be **Powerful**. It needs to be simple. Well understood. Almost like an AHA. It needs to break some new ground. It therefore must be different from today. It is in the distance between where you are and where you want to be where the source of our human energy can be found. If man had been able to walk anywhere, the bicycle, the car or the plane would never have been discovered. Aspiration fuels inspiration. Or as I often like to say: Altitude creates Attitude.

People are spiritual beings. We need meaning to survive. And cultures that don’t provide that meaning will never engage with the full extent of their employees, customers or other important stakeholders. Furthermore, globalization and economic prosperity have amplified our emptiness. F. Scott Fitzgerald said that the problem with the American Dream is that it doesn’t have a second act. Money can never replace true meaning when it comes to inspiring people. People are ultimately led by ideas. Not by people and not by money.

He who has a “why” to live for can bear with almost any “how”
- Friedrich Nietzsche

A good intention clothes itself with sudden power
- Ralph Waldo Emerson

“We own more stuff than our parents or grandparents did and, as measured by the gross national product or median income, we live better. But we do not seem to feel better. This is because, at least for the moment, American capitalism is fundamentally about money, not meaning. Very few of us can get excited about going to the office to generate shareholder value.”

- Marc Gunther, Fortune

To be truly radical is to make hope, not despair, convincing.
- Raymond Williams

Second, a purpose needs to be **Positive**. You can never build anything with a negative outlook. And here is where companies with a strong purpose really have a competitive advantage.

Our public conversations are so dominated by negativity, cynicism and critique, but people need hope. They need something to wish for, to believe in, and to follow. Companies need to attract not only the brains of their people. They also need to attract the hearts and souls of their workforce. Some people say that there is a conflict between these softer and loftier aspirations and making money. I think they are wrong. Completely wrong. Capitalism has always been about human progress. Not making money for the sake of making money. Remember that the grandfather of capitalism, Adam Smith, was not an economist. He was a moral philosopher.

When thinking about Positive, think placebo. On average it is estimated that the placebo effect in medical research is somewhere around 30-40%. If people believe more than they really can, they will notice that they can do more than they believe. We have yet to fully understand the mystery and wonder of our human abilities but I think it is safe to say that corporations at large don't leverage the belief quotient as much as they could.

"When you pray, move your feet"

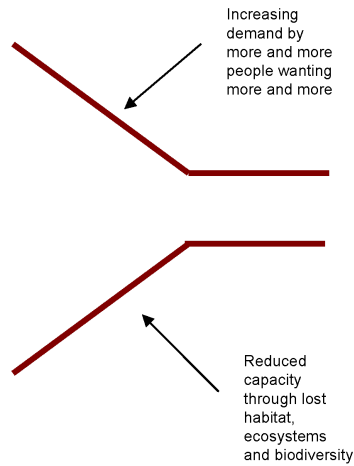
- African Proverb

"Parents can tell but never teach unless they practice what they preach"

Finally, a purpose must be **Practical**. It cannot be too lofty, unrealistic or over the top. People are too cynical today. Dreams need to be converted to business plans with accountabilities and deadlines. Practical acts as a counterbalance to Powerful. You need both ingredients. As John Naisbitt has said, you can't be so far ahead of the parade that no one knows you're in it. Furthermore, you need to start quickly. Too much analysis creates paralysis. There is power to a start. And people are also more likely to act themselves into a new way of thinking than they are to think themselves into a new way of acting.

In today's world we see many examples of the power of purpose. Many of the most successful companies in the past decades have very strong cultures with an often inspiring as well as aspiring purpose. Apple, Google, Microsoft, Whole Foods are a few that come to mind. But we are also seeing more and more evidence of companies caring about things traditionally out of scope. We are seeing the field of CSR finally emerging as a critical part of Corporate planning. Society is being integrated into strategy as both McKinsey and Michael Porter recently have written about. We are also seeing more corporate practices finding itself into the world of philanthropy. The lines between philanthropy and business are therefore blurring. The first ever Nobel Peace Prize was in 2006 awarded to an economist for creating businesses with a social mission.

Planet Part of Planning



The second major strategic implication is that we are heading into a resource funnel¹. The walls of the funnel are pointing inwards and sooner or later our society as we know it will hit one or both of these walls. The collision will be very painful for many people, both from a financial and human standpoint. Learning how to steer away from this collisions course can be done and it can be done economically. That is why this is both a necessity as well as an opportunity.

First, let us get some facts straight. While population growth rates are coming down we are most likely going to see a 50% increase in global population in the next 50 years. We also know that many of the largest countries are starting to grow really fast. These undeniable facts are the reason behind the inward sloping north wall of the funnel. The second is also equally undeniable. We are systematically reducing our habitat, our biodiversity and the ecosystem itself and thereby reducing the capacity to produce necessary conditions for a sustained life (food, clean air, water, etc).

Unfortunately we have been engaged for far too long in a debate over the scientific facts surrounding all of this. Don't get me wrong. I am all for science. It is important that we get the facts right. But I think it is fair to say that we know enough to take directional action. Our need for absolute certainty on some of these issues is a bit puzzling. Most businesses buy insurance. They buy insurance despite a 100% likelihood of incidence. I am convinced that we have enough facts supporting an increased investment into reducing our planetary footprint. Getting green is smart since you will reduce future insurance payments and you will today start preparing for tomorrow's market.

Your own impact and footprint on the planet will vary across industries. Energy and water probably ranks high on the list of any company. I think there are three questions any business needs to ask if you are to prioritize effectively when attacking your opportunities. I call this filter process **Planet i**³. First is **Interest**. You can't start with a priority where your stakeholders are not interested. You won't survive. There need to be compelling logic and registered interest. It could sometimes be from small interest groups that are putting pressure on you. Or shareholder activists. Most often you'll find it among your people (see positive part of purpose above). Some critics argue that when companies do things that are good for them it is suspicious and therefore not credible. Like we all would be better off if everyone failed. That type of reasoning reminds me of the pessimist who only wins when someone loses. It is not sustainable either. We need companies that take serious action to be rewarded by their stakeholders. If they are not, those management teams will be replaced and we are back to where we started.

Activity Examples	Interest	Impact	Implementation
Reduce Waste	1	2	3
Save Energy	2	2	1
Set supply chain targets	1	3	3
Partner with NGO	1	2	3

Second there is **Impact**. Unless your business can have a real impact you should pick another topic to focus on. Focus on areas where you can make decisions and where you can really affect your business directly through the choices you make. But you don't have to be alone. You can create

¹ The concept of the resource funnel was developed by Dr. Karl Henrik Robert, Founder of the Natural Step in Sweden. Since 1992 I have been a friend, supporter and practitioner of the methodologies developed by this great organization.

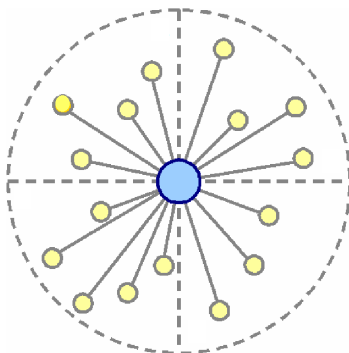
uncommon partnerships and collaborations that may leverage what you do and thereby have an even greater impact.

Third, there is **Implementation**. You need to consider sequencing of efforts as well as cost and difficulty of implementation. For new entrants to this space I firmly recommend starting with low hanging fruit that are easy to implement. You need to get some wins to get momentum going and with momentum you can later attack more difficult problems. Again, some organizations fall in the trap of attacking too difficult and costly problems and their well intended environmental efforts get thrown out with the bathwater when new management comes in.

The Power of Networks

Most leaders know that if you keep on doing what you have always done you will keep on getting what you always have gotten. Therefore the third implication of this new world is around organization.

There are two major problems facing any large established company seeking to grow today. First, as I have described above, growth is more nonlinear and no longer extrapolations of what we did before. Therefore we need to learn new tricks to our old trade. We need to learn how to innovate. We need to remember our entrepreneurial roots. Study our founders. A few lucky ones still have them around. Others are wise to seek them out, study your history and remind yourself that there was a time when the processes of your place didn't feel quite as limiting and bureaucratic. Secondly, growth for these companies comes in many different forms. We have global institutions that can't apply "one size fits all" formula to innovation and growth.



The center is not in the center

Having spent most of my career at McDonald's I have benefited from perhaps one of the most significant innovations of the McDonald's early pioneers; Ray Kroc and Fred Turner. Their brilliance was in, ahead of others, understanding the importance of entrepreneurship and why economic benefits of synergies often (if not always) are more than offset by bureaucratization and ultimately less than stellar innovation coming from the corporate center. McDonald's is a system. A system made up of the three legged stool. Owner Operators, Suppliers and the company. They work together and they each know their respective roles. At times the system gets out of balance but due to the brilliant operating system created by our founders there seems to be self-regulating mechanisms keeping the system in balance over larger periods of time.

If you look at the Internet, Linux and McDonald's you may ask yourself how these companies and innovations could have happened. We all know they happened with very little control in the center. Of course, a few clever people set some very tight, hard core codes for what was untouchable. The rest was let loose. And almost all innovations that created the system came from the field. Not the center. Almost every single innovation at McDonald's came from either operators or suppliers. Internet, Linux and Apache web servers were built by the spokes. Not the hub.

In order to innovate effectively in a global world, companies need to resist temptations of analyzing the economic benefit of synergies and better understand the economic benefits of decentralization. Look at Mergers and

Think **Big**

Start **Small**

Scale **Fast**™

Acquisitions. Depending on the research you read somewhere around 70-90% of all acquisitions fail to produce value. Often it is because the synergies cannot be realized. Back to people and culture again.

One of the reasons for why large scale innovation fails is that they start too big. I developed with some colleagues in late 1999 a model for innovation we called – Think Big. Start Small. Scale Fast™. Large companies cannot afford to think about small problems. They need big ideas. But they too often start big. And big starts need big budgets and lots of people. It slows down the effort since more people need more input. *Dilute and Delay* is a common consequence. Or as the Iron Lady Thatcher often reminded us: Have you ever seen a statue of a committee?

Innovation is an iterative process. It needs rapid prototyping and daring first steps. But they need to be small and low cost. Being smart before you start is not a bad thing. That way the risks are lower and more people will try. By setting effective hurdles to ensure relevant strategic coverage, smart sequencing across the enterprise, and avoiding too many redundant efforts you can unleash innovation across your value chain that you never thought was possible.

Purpose, Planet and Decentralization - three of a perfect pair

It may be clear by now that these three implications also fit together nicely. If we go back to my Purpose P³ model it is pretty clear that your planet priorities will have a major positive effect on your purpose. Also, only with a strong and compelling purpose will your decentralized innovation work. Unless you are clear where you are going, decentralization will be chaotic. Think about your purpose as what HTML was for building the internet. Finally, and perhaps most importantly, unless your purpose connects with your people and they feel that they are an integral part of your future they won't engage.

Final Thoughts

We are clearly living through exciting times. There are many challenges to tackle. But as with all periods of great change we also see unprecedented opportunities. In order to capitalize on this new world today's leaders need to add new insights and dimensions to their playbook. Primarily they need to become social architects. And like all architects they need to understand the context as well as the purpose with the building they are constructing. Who is going to live there? Why? What are their needs? Why are they there? Why do they want to be there?

The rewards will come primarily from the inside out. You will attract better people that are more loyal and that work harder. Particularly for customer facing businesses this loyalty and passion will be felt in every transaction and ultimately the brand will also stand for something. This will most likely lead to more loyal customers that are in less need of convincing and therefore higher price-elasticity as well as less need for costly marketing exercises with questionable payback.

Perhaps the biggest challenge is to resist the binary temptations of our modern society. Balance is key. Just because some of these needs are

critical it doesn't mean we can abandon all that we are doing. The best leaders are those who can navigate towards this new world using their existing ships. This is the true innovators dilemma. How to change the tires on a car that's running?

Welcome to Capitalism Revisited.