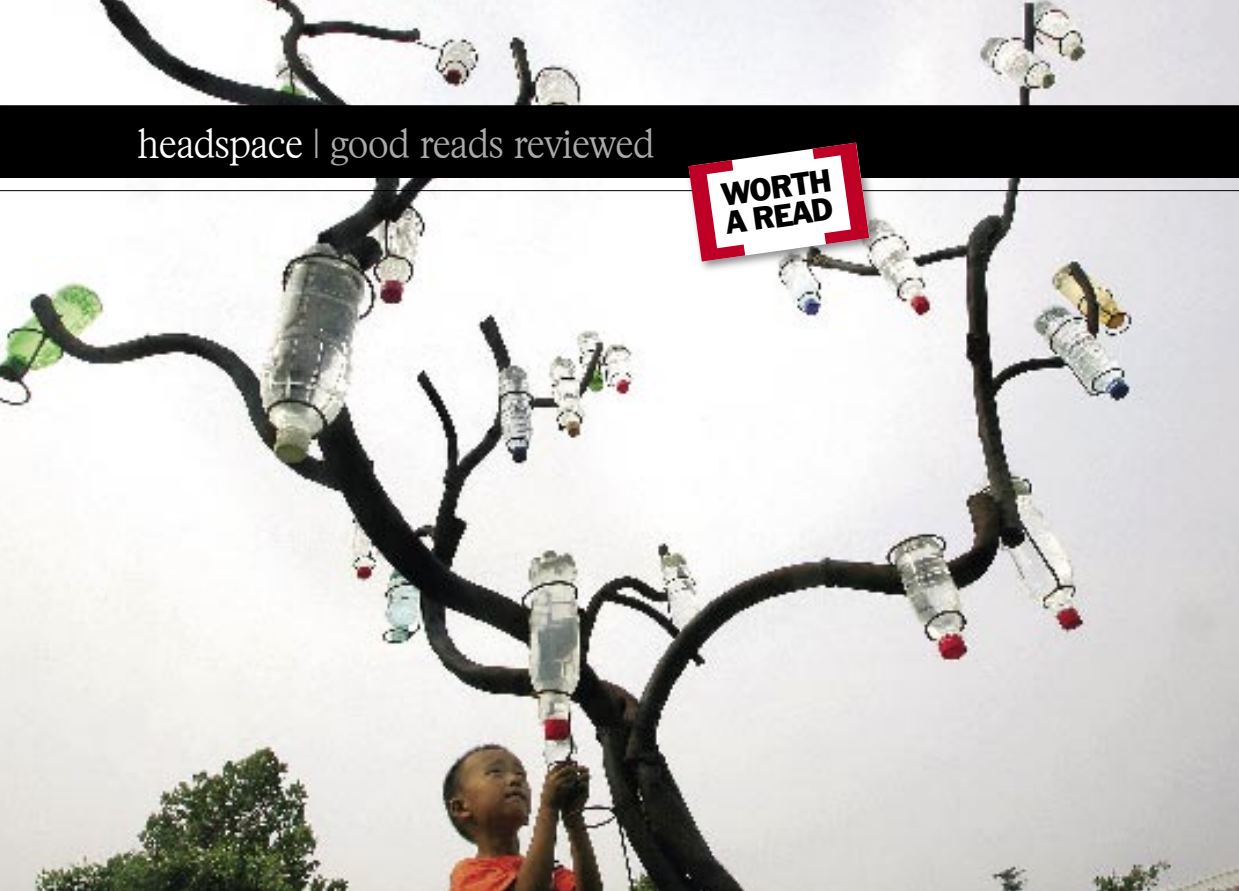


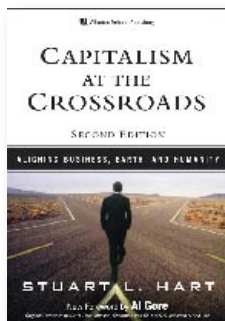
**WORTH
A READ**



Capitalism at the crossroads

Aligning Business, Earth, and Humanity

REVIEWED BY: JONATHON HANKS



► **Capitalism at the crossroads**
Stuart Hart

JONATHON HANKS IS THE FOUNDING PARTNER OF INCITE SUSTAINABILITY, SENIOR ASSOCIATE OF THE UNIVERSITY OF CAMBRIDGE PROGRAMME FOR INDUSTRY, AND A VISITING SENIOR LECTURER OF THE UNIVERSITY OF CAPE TOWN'S GRADUATE SCHOOL OF BUSINESS. HE IS AN ASSOCIATE EDITOR OF MIND SHIFT.

Stuart Hart is one of the few US business academics, with a track record of publications in the Harvard Business Review, who has tackled head-on the nature of the business contribution to sustainable development.

In this recent revision to his 2005 book, Hart – the S.C. Johnson Chair and Professor of Management at Cornell's Graduate School of Management – provides updated information on recent global trends, as well as a series of new case studies to support his thesis that “the profit motive, if properly focused, can accelerate (not inhibit) the transformation towards global sustainability”.

As the title of his book suggests, Hart believes global capitalism stands at a crossroads and “without a significant change of course, the future for globalisation and multinational corporations appears increasingly bleak”. Yet he is optimistic that business is up to this challenge, suggesting that corporations are the only entities with the

technology, resources, capacity and global reach to ensure sustainability is achieved.

An underlying message in Hart's book is that for business to fulfil this role, there needs to be a significant shift from its current largely reactive approach to sustainability – where the focus is largely on value protection, typically informed by the belief that meeting societal obligations comes at the expense of improved financial performance – to understanding that sustainable development presents significant opportunities for value creation, and is quite possibly “the biggest opportunity in the history of commerce”.

For these opportunities to be realised, he argues that businesses need to rethink current models and go “beyond greening”. Firstly by adopting strategies aimed at developing radically new technologies, innovative products and environmentally regenerative services, and secondly by developing a more inclusive form of business seeking to bring the benefits of capitalism to the four billion people at the

bottom of the economic pyramid.

Identifying strategies that go beyond greening, he recalls Joseph Schumpeter's concept of ‘creative destruction’, and maintains that achieving the 20-fold increase in resource efficiency many suggest is necessary for sustainability, business needs to actively pursue ‘disruptive innovation’ (typified for example by the biotech revolution), rather than the less challenging incremental improvement associated with pollution prevention and product stewardship (exemplified, he suggests, by the chemical industry's Responsible Care initiative).

He shares some interesting case studies in which companies sideline some of the very technologies and systems upon which they currently depend. Using the automobile industry's experiments with fuel-cell and related initiatives, he underlines the importance of whole systems thinking if the potential for leapfrogging innovation is to be realised.

Recognising that product innovation is not enough to build a sustainable global enterprise, Hart advocates rethinking current strategies producing one-size-fits-all products for the global market. He calls for companies to move beyond radical transparency and become radically transactive, engaging and learning from people who hold fundamentally different worldviews. By engaging with stakeholders previously considered extreme or fringe, companies are able to facilitate disruptive change and stimulate greater imagination and innovation around future products and services, as well as opening up new business markets.

A key element is the ability of global companies to become more embedded – or ‘indigenous’ – within the local context. He shares some fascinating examples of companies who have engaged the voice of the marginalised, and in so doing confronted two of the largest problems facing humanity – poverty and environmental resource use – while securing growing corporate returns. In addition to the rather tired

(though no less instructive) story of Grameen Bank and Grameen Telecom, he cites the (again, often quoted) experience of companies such as Unilever in India, Cemex in Mexico and Galanz in China.

Examples of those who have failed in their efforts to tap into low-income markets – such as Nike’s unsuccessful World Shoe initiative – are no less instructive. While the successes provide a glimpse of the significant potential for developing new markets and for using these markets to incubate and

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grow the necessary disruptive technologies, the failures demonstrate the nature of the challenge, highlighting the need for a shift in mindsets on business models as much as on technological innovation.

Although Hart is clear in articulating ‘what’ companies might do to pursue this new path, he concedes he does not have all the answers to ‘how’ they may do this, particularly within large multinational corporations which are frequently the greatest obstacle to the fundamental change needed. His final chapter, in which he shares some thoughts on how companies might adopt these strategies in “the real world of budgets, quarterly earnings reports, discounted cash flow analysis, and the discipline of the investor community”, is perhaps his least compelling.

Business may have the resources, capacity and global reach necessary for sustainability to be achieved, but it is questionable whether they currently have sufficient motivation to pursue the disruptive innovation that

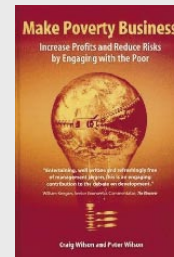
is required. Regrettably, there are few in business who have picked up the new business opportunities of sustainable development (although there are indications this is beginning to change). Until institutional investors start systematically integrating sustainability issues into their stock selection and portfolio construction processes, and until financial institutions and business media begin to understand the nature of the new business leadership required, it is unlikely the vision of a few business leaders will be sufficient to catalyse change at the scale and rate needed to meet the challenges of sustainable development.

This second edition of Hart’s book – due for release in August – contains a number of new and updated case studies and trends, including the recent experiences of leading companies and additional insights from the Bottom of the Pyramid Protocol initiative in which multinationals are developing new businesses in low income communities. For business leaders and MBA students who have not read the original edition, this book hopefully will stimulate current and future corporate leaders to show greater boldness in identifying opportunities for innovation, and in so doing take us past the impasse capitalism may be facing.

The road to Hart’s sustainable world is not likely to be smooth. “It will be a bumpy ride strewn with the remains of companies that variously dragged their feet, made promises they could not keep, bet on the wrong technology, collaborated with the wrong partners, and separated their social and business agendas,” suggests Hart. To make the right choice at the crossroads facing capitalism, we will need companies with the right combination of “vision, strategy, structure, capability, and audacity”. It remains to be seen whether such companies exist at sufficient critical mass, or whether it will take greater government intervention and/or a more immediate and visible environmental or social crisis before we see greater willingness to shift current mindsets. ■

WATCH OUT FOR

MindShift’s take on some thought-provoking recent publications



Make Poverty Business: Increase Profits and Reduce Risks by Engaging with the Poor

Craig Wilson and Peter Wilson

Wilson and Wilson bring their collective experience as government officials, development economists, business consultants and entrepreneurs to produce an entertaining book that aims to help business managers increase their profits by engaging with the poor. As they make clear in the opening title, they are “(Not) talkin’ ‘bout a revolution”. They do not seek to present a new paradigm for doing business, nor do they advocate a redefinition of the corporation; indeed they are profoundly sceptical of the concept of corporate social responsibility and the manner in which it is developing as a separate discipline from business management.

Providing numerous business-based recommendations and several practical case studies – including a review of the successes and failures of companies such as BP, Wal-Mart and Unilever – the authors seek to provide “a rigorous profit-making argument” as to how multinational corporations can profit by doing business with the poor. And they believe that in doing so, the poor will benefit.

The authors have an engaging and rather irreverent style that provides a welcome contrast to some of the other inevitably dry books on this subject. Recognising that it might seem they have been beaten to this thesis by C.K. Prahalad’s book *The Fortune at*

the Bottom of the Pyramid, they suggest wryly that “if we weren’t so publicly committed to ethical business, we’d probably have him shot”. They do concede, however, that readers would be well advised to read his book before theirs: “He does the motivation, the ambition and the shining city on the hill; we’re more interested in replacing a few light bulbs down here in the valley.” While acknowledging the contribution of ‘bottom of the pyramid’ thinking, they endeavour to move beyond what they see as its limited marketing focus in which the poor are seen merely as additional potential consumers. They argue instead that companies can profitably engage

“He does the motivation, the ambition and the shining city on the hill; we’re more interested in replacing a few light bulbs down here in the valley.”

poorer communities as suppliers, employees and customers, and in so doing promote sustainable job creation and increased access to savings, credit and insurance.

The book contains some valuable recommendations as to how many of those in South Africa’s so-called ‘second economy’ could be more effectively engaged by the business community, in a manner that increases profitability while reducing poverty. ■