foreword by Gary Hamel

The New CAPITALIST MANIFESTO

building a disruptively better business

Umair Haque

HARVARD BUSINESS REVIEW PRESS

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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

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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 overleveraged 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?

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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."

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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

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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

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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

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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

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that reason, they *are* the engines of twenty-first-century advantage.

This, then, is a handbook for idealists and pragmatists, for revolutionaries and hard-boiled realists. If you're happy with the status quo, satisfied with the state of play, delighted by the incremental—put this book back on the shelf. If, on the other hand, you're dissatisfied with the status quo, if you wonder about the ballgame of business as usual, if you've begun to see a gap between what capitalism has been—and what it *can and should* be—then this book is for you, not just to read, but to use.

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The book you're holding is really the result of contributions by many people—all of whom I'm deeply grateful to. I'm indebted to Gary Hamel, who helped me to better understand the art and science of management, for his invaluable counsel, his irreplaceable wisdom, and for inspiring me to embark on this journey. I owe a substantial debt to John Hagel III for his sage advice, steadfast encouragement, and for galvanizing me to see deeper and think bigger. It has been an exceptional privilege—and a great boon—for this green shoot to grow in the company of such mighty oaks. If there are any tiny morsels of merit in this book, they stand, in every way, on the far broader shoulders of these guides.

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If this book has any worth, the merit lies with these people. The many imperfections and limitations it surely has—for which I might ask you to forgive me in advance—can be readily assigned to me.

Umair Haque
July 2010

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Chapter One

The Blueprint of a Better Kind of Business

WHAT DO YOU see when you look at the future of capitalism? When you look one, two, or three decades forward, what's different about prosperity? Which *kinds* of capital will be new, unorthodox, unexplored—and disruptively valuable? What will be the state of the art in defining, measuring, monitoring, and managing human achievement and the wealth it creates? To outperform in terms of newer, better, broader conceptions of affluence, what will tomorrow's marketplace virtuosos maximize and minimize? To make it happen, how will they utilize, allocate, and renew capital differently? And what mind-set, ethos, and character will

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distinguish successful companies, countries, and economies from struggling ones?

To glean more foresight, here are some curious facts that might strike you if you looked closely at preeminent capitalists today. You might notice the world's biggest company striving only to sell products that benefit the environment—and then not just asking, but actively *empowering* activists and visionaries to ensure that it does so. You might glimpse the world's best-known maker of cutting-edge athletic gear designing recyclable shoes and then, instead of marketing them by spending big bucks on "celeb-vertising," simply helping everyone who buys them learn to get the most out of them. You might spy the world's most powerful media company displaying *no* ads on the world's most valuable media property. You might see one of the world's most historic consumer goods companies beginning to turn itself inside out: to help transform the people formerly known as *consumers* into *producers*. And you might behold yesterday's herd of tired, lumbering giants—even as their herd is being mercilessly culled—*continuing* to pretend that business as usual is good enough, despite their razor-thin margins getting thinner every year.

If you look closely and patiently enough, you might not discern full-blown revolution (as in "the successful overthrow of authority")—*yet.* But I'd wager that you'd at least detect, in vivid detail, its prelude—rebellion, or open resistance to, and fierce defiance of, the precepts and doctrines of yesterday's dogma. Examining it carefully, you might see what I see: the first tiny shoots of what scholar Thomas

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Kuhn called a *paradigm shift*—not a small step, but a giant leap from one system of thought to its successor, which recasts an art or science in a radical new light.

Today, a new generation of renegades—companies as seemingly different as Walmart, Nike, Google, and Unilever, for example—are thriving not in spite of but *by* rebelling against the tired, toxic orthodoxies of industrial age capitalism. Their secret? Haltingly, imperfectly, often messily, never easily, they're learning to become twenty-first-century capitalists. Maybe, just maybe, call it economic enlightenment: today's radical innovators are vanguards, voyaging past the edge of the drab, lackluster world of business as usual—and exploring a terra incognita rich with possibility, where higher peaks of prosperity, built on stronger, thicker bedrock, can be glimpsed.

The story I want to share with you isn't just about companies. At the root, it's about *cornerstones:* how, as the anchors of companies, countries, and economies, they are the foundations of plenitude—or of penury. Just as the Enlightenment culminated in new cornerstones for work, life, and play—like free markets, rational thinking, and the scientific method, to name just a few—so today's economic enlightenment is culminating in new cornerstones for production, consumption, and exchange, like *value cycles, value conversations,* and *betters.*

The story, though, is only half of my agenda. The *destination* I want to guide you to is a new blueprint. The new cornerstones at its heart are what promise to revolutionize a rusting, fading industrial era: they reimagine profitability,

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reconceive value creation, and refresh advantage, toppling the centuries-old status quo of business *has* been, *can* be, and *should* be. Because they hold the possibility to heal, repair, and right—never completely, sometimes sparingly, but always *conceivably*—the age-old shortcomings, deficiencies, and flaws of capitalism, *while* strengthening its already formidable power to intensify the pace, magnitude, and potential of human accomplishment, their bedrock is deep-rooted, thick-set, and steadfastly unshakable. On their shoulders, the future foundations of prosperity rest.

. . .

Enlightenment is a word that shouldn't be used lightly. Here's my considered case for choosing it. The unvarnished truth is that capitalism is past its prime. It's an aging paradigm that has hit the point of maturity. It was built in an industrial age, and the rust and damage on its weathered iron and battered rivets are beginning to show.

You might not know that, examined carefully, growth in developed countries reached an inflection point decades ago, a negative one. It has been steadily slowing for the last half-*century.* This is no mere passing episode, but a lasting, historic shift more significant than a crisis, correction, or crash. Boardrooms are used to responding to microeconomic threats—new competitors, shocks in supply and demand, more complex markets. But today's biggest threat is of a different order. It's glaring down from the macroeconomic heights: prosperity itself has reached sharply diminishing returns.

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Yesterday's industrial era model of growth is on its last tired legs today. There isn't much room to give until we approach the boundary where growth diminishes to the level of consumption just necessary to maintain today's standard of living, instead of enhancing it. If you look carefully, you might see the spark lighting the economic enlightenment's fuse: the global economy is reaching a decisive, defining moment. What powered prosperity in the twentieth century won't—and can't—power prosperity in the twenty-first.

You might say, wait, growth in GDP is just an increase in "product," and that's a flawed measure of prosperity. And you'd be right. The economist who created the very concept of GNP (now superceded by GDP), Nobel Laureate Simon Kuznets, warned, "The welfare of a nation can . . . scarcely be inferred from a measure of national income."[1] As I'll discuss, more meaningful, accurate measures of welfare—how well people, communities, and society fare—have stagnated, while GDP has grown. Conversely, you might ask, what about developing countries? You'd be right again. Though they can aim for industrial era growth—despite all that's now apparent about its shortcomings—it has a hungry maw, and there isn't enough oil, copper, credit, employment, or export demand in the world for every nation to continue achieving prosperity that way. Doing so quickly deteriorates into a zero-sum game of beggar-thy-neighbor, where growth in some countries is counterbalanced by stagnation in others.

Yet, *even* in terms of its own flawed, central measure of success—growth—capitalism needs a reboot. This isn't to

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disparage the great achievements of industrial age capitalism—but to praise them. The greatest powerhouse of abundance the world has ever seen led to an explosive rise in income and living standards for vast swaths of the world's population. But that was yesterday. Today, perhaps it is yesterday's very triumphs that lay capitalism's decline bare. Here's what I gently suggest is the quandary: industrial age prosperity can advance only under a narrow set of conditions, all increasingly detached from today's economic reality.

The Great Imbalance

Here's an allegory in miniature. Imagine two worlds: The first is a *big* world of abundant resources and raw materials, an *empty* world where demand is infrequent and easily satiated, and a *stable* world where disasters are infrequent and weak. The second is a *tiny* world, emptying of raw resources, a *crowded* world where demand is always hungry, and a *fragile* world, where contagion of every kind can flow across the globe in a matter of minutes, days, or weeks. A big, empty, stable world is like a vast, placid, untouched game reserve. But a tiny, crowded, and fragile world is like an *ark*. Industrial era capitalism was built for a big, empty, stable world. But at the dawn of the twenty-first century, the world is more like an ark—tiny, fragile, and crowded.

Consuming, borrowing, and utilizing are the engines of prosperity in a big, empty, stable world, but the engines of

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crisis in a tiny, fragile, and crowded one. The three defining characteristics of what I call the industrial era's "dumb" growth, the last several decades have been their culmination. They've been an era of growth driven by the global *poor subsidizing the rich* to fuel the *overconsumption* of an array of more and more ephemeral goods and services dependent on steeply *diminishing returns economics,* where the natural world, communities, and society are marginalized. The developed world's largest creditors aren't other developed countries, but developing countries like China and oil-exporting nations like Nigeria.[2] What the developed world has plowed money into isn't innovation or investment, but raw, transient, consumption. The result? Tremendous and tremendously unsustainable global macroeconomic imbalances.

Dumb growth is locally, globally, and economically unsustainable. And because it is visibly failing to create a shared prosperity, corporations, investors, and entrepreneurs can no longer prosper merely by achieving it. In terms of *what* prosperity means, *how long* prosperity endures, to *whom* prosperity accrues, and *how* prosperity happens, the dumb growth of the twentieth century has had its day.

That's what the global economy discovered—the hard way. A long list of eminent thinkers has referred to the historic crisis of the noughties as "great" in many ways. Economic historian Niall Ferguson has called it a "Great Repression"; Harvard economist Kenneth Rogoff, a "Great Contraction"; Berkeley's Robert Reich, a "Great Crash."[3] When you think about it, what was great about it ultimately wasn't just its

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magnitude. It was that the very foundations of economics were shaken by it.

Paul Samuelson, one of the grandfathers of macroeconomics, the first American to win the Nobel Prize in Economics, observed that "today we see how utterly mistaken was the Milton Friedman notion that a market system can regulate itself."[4] Alan Greenspan—a disciple of Friedman—admitted that he was "deeply dismayed" that "all of the sophisticated mathematics and computer wizardry" wasn't enough to make up for a systemic failure of "enlightened self-interest," and then noted that "the whole intellectual edifice" of financial economics "collapsed in the summer of [2008]." Barack Obama's top economic adviser and former president of Harvard, Larry Summers, said, "Large swaths of economics are going to have to be rethought on the basis of what's happened."[5]

In the 2009 Lionel Robbins Lectures at the London School of Economics (LSE), Nobel Laureate Paul Krugman argued that modern macroeconomics was "spectacularly useless at best, and positively harmful at worst." Willem Buiter, the eminent LSE economist, suggested that the last thirty years of economic training have been a "costly waste of time and other resources," driven by "aesthetic puzzles . . . rather than by a powerful desire to understand how the economy works." Another Nobel Laureate—Columbia University's renowned Joseph Stiglitz, who predicted the 2008 crash in 2006—concluded that "the debate over 'market fundamentalism,' the notion that unfettered markets, all by themselves, can ensure economic prosperity and growth," was "over." And

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Treasury Secretary Tim Geithner has noted that tomorrow "capitalism will be different."[6]

Yet, there's little revolutionary about any of that. It would be hubris to presume we've reached the end of capitalism and found the perfect prescription for eternal, unbounded prosperity. Just as in any other socially built, culturally bound, human-run system, there's always room for improvement. That lesson is, I humbly suggest, the legacy of the great crisis of the noughties.

So how *could* we improve capitalism, if we were to try? What Greenspan, Samuelson, Krugman, and Stiglitz are referencing is the *institutions* of industrial era capitalism. Once thought to be the bedrock of prosperity, they turned out to be its quicksand: they are what went haywire, misallocating trillions in wealth. Nobel Laureate Douglass North, who won the prize for his pioneering work on institutions, defined them as "the humanly devised constraints that shape interaction." Daron Acemoglu, the eminent MIT economist, picks out an even more precise phrase from North about institutions: "In consequence, they structure incentives in human exchange, whether political, social, or economic."[7] Institutions are, in other words, the deep, underlying *cornerstones* of every social, political, or economic system. Economic institutions—those we are concerned with—order and organize production, consumption, and exchange. Industrial era capitalism can be thought of as just *one* possible set of institutional cornerstones.

Since 2005, I'd been discussing the likelihood of a great crisis—predicting no mere ephemeral crash, but a jagged,

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historic tear in the global economy. Spurred on by the great crisis, inspired by North, Acemoglu, and scholars like Oliver E. Williamson and Elinor Ostrom, who jointly won the 2009 economics Nobel for pioneering the field of institutional economics, my team and I began a two-year long research program, asking two questions. *Were there renegades who, not contented with the cornerstones of industrial age capitalism, were rebelling against them? If so, how did they fare against their more traditionally minded rivals?*

Of course, there's no single, simple definition of capitalism. Rather, different perspectives—from the great Alfred Chandler's notion of managerial capitalism to Hyman Minsky's concept of financial capitalism to Joseph Schumpeter's idea of entrepreneurial capitalism—have emphasized different facets of a larger stone.[8] So first, we went back in time, combing through hundreds of articles, papers, and entries about capitalism in numerous reference works, journal articles, and books, seeking elegance: the *smallest* number of cornerstones or key institutions that would capture capitalism's essential features and characteristics. That handful of cornerstones is what our definition of industrial age capitalism is, at root.

The five cornerstones we ultimately distilled are so familiar to CEOs and clerks alike that they are invisible fixtures of everyday economic life: *value chains* as the means of production, *value propositions* as the means of positioning, *strategy* as the means of competition, *protecting marketplaces* as the means of advantage, and inert, fixed *goods* as the means of consumption. That's our institutional definition of twentieth-century capitalism: five foundational corner-

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stones that order, organize, and manage production and consumption. Now they aren't the only ones or an exhaustive list. Rather, they are those that we felt best synthesized the numerous, often conflicting definitions of capitalism.

Here's the flaw at their heart. Twentieth-century capitalism's cornerstones *shift costs to* and *borrow benefits from* people, communities, society, the natural world, or future generations. Both cost shifting and benefit borrowing are forms of economic harm that are unfair, nonconsensual, and often irreversible. Call it a great imbalance: not a transient *event,* like the "Great [insert ominous synonym here]," but an ongoing *relationship,* a titanic glitch in the global economy's vast scales. You can think of the great imbalance this way: industrial era capitalism's cornerstones undercount costs (ignoring many flavors of loss and damage) and overcount benefits (overstating how much products and services make people durably, tangibly, and meaningfully better off).

To illustrate, consider two industries usually found at opposite ends of town: banking and burger making. During the great housing bubble of the noughties, investment banks, hedge funds, and mortgage brokers sought to borrow benefits from each other by hiding assets in what New York University professor Nouriel Roubini has called a "shadow banking system," obtaining greater leverage by hiding assets from the next guy.[9] And, of course, they sought to shift costs to each other. Yves Smith, author of *ECONned* and the Naked Capitalism blog, has documented how toxic loans, like the aptly named NINJA ("No income, no job, no assets"), became business as usual in the financial industry, passed like

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a hot potato from one party to next. The result? When the music stopped, a catastrophic breakdown of trust in counterparties paralyzed borrowers and lenders and caused the near collapse of global finance. Ultimately, costs were shifted to people, communities, society, and future generations, in a historic, unprecedented bailout. In 2010, reversing decades of allegiance to laissez-faire dogma, the International Monetary Fund proposed an international banking tax, equivalent to the expected value of the hidden costs and borrowed benefits of *tomorrow's* bailouts.

Collateralized debt obligations (CDOs) are the financial equivalent of fast-food burgers: both are mixtures of toxic mystery meat. How much does a burger *really* cost? You pay perhaps $3, but according to my back-of-the-envelope analysis, the authentic economic cost may be closer to $30. Environmental and health-care costs of as much as $10 are shifted to society and future generations. And benefits are borrowed from people, communities, and society: the beef, water, land, and even jobs that go into burgers are subsidized by as much as $20. If, for example, water were no longer subsidized in the Great Plains states, a pound of ground beef would cost $35, estimates James E. McWilliams, a fellow in Agrarian Studies at Yale University.[10] I don't mean to deny the mouth-watering temptation of a fresh, juicy burger. Rather, my point's about the stubborn reality of creating value: the $27 gap between the $3 or less the average American pays and the $30 or so a burger actually costs is economic harm that is done by industrial era food producers to people, communities, society, the natural world, and future genera-

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tions. Using industrial era capitalism's cornerstones, costs can be shifted and benefits borrowed not merely by pennies, but by ten times—unseen harm of an order of magnitude.

Now I don't pretend those numbers are perfectly correct, down to the penny. The principle is what I'd like you to consider and delve into with me. It's possible to do similar calculations for oil, for instance, where the International Center for Technology Assessment has estimated that netting out hidden costs would add $4 per gallon to its price.[11] That imbalance—present in every industry under the sun—is the new economic calculus companies and countries must contend with, and master.

What I call *deep debt* is the harm institutionalized by the cornerstones of industrial era capitalism. It can be conceived of as debt owed to people, communities, society, the natural world, or future generations. Debt is simply shifted costs and borrowed benefits, from an economic point of view. If I have done economic harm to you by borrowing a benefit of $10 *from* you—or shifting a cost of $10 *to* you—I am in your debt. Though industrial era capitalism's debt is often invisible and uncounted, it must be settled and repaid for prosperity to expand. If I don't repay you $10, no prosperity has been gained; we have simply moved the $10 bill from one side of the table to the other. Scale that up, accelerate it, and you get the precarious house of cards that is the modern global economy.

That's why, while capitalism is unquestionably responsible for prosperity, industrial age capitalism is *also* inextricably linked to crisis: it is the rule, not the exception. As Michael Bordo, director of the Center for Monetary and

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Financial History at Rutgers University, puts it, today's macroeconomy "seems much more crisis-prone."[12] At the turn of the twentieth century, the probability of financial crash was 5 percent; at the turn of the twenty-first, it had more than doubled, reaching 13 percent. According to Lehman Brothers, the eighteenth century saw eleven crashes; the nineteenth century, eighteen; and the twentieth, thirty-three. Irony of ironies, the twenty-first century opened with a crash explosive enough to topple Lehman itself. Cost shifting and benefit borrowing are becoming a more and more frenzied game of economic musical chairs—yet, when the music stops, there's a bill to pay. The cornerstones of industrial era capitalism institutionalize economic harm, whose growing debt fuels recurrent, accelerating crisis.

Think of it as the crisis *behind* today's many crises. When you pause to reflect on it, whether the crisis in question is financial, like that of the noughties; environmental, like Deepwater Horizon's oil spill; or simply personal, like an obesity epidemic—all are underpinned *first* by a great imbalance that undercounts costs and overcounts benefits. Celebrated MIT thinker Peter Senge, coauthor of the groundbreaking *The Necessary Revolution,* puts it this way, "More and more people are beginning to sense that the mounting sustainability crises are interconnected—symptoms of a larger global system that is out of balance."[13]

The great imbalance isn't just a passing crisis of superficial financial debt, but a longer, slower, broader crisis of authentic economic debt: deep debt. The real debt crisis isn't what America owes to China, or what Europe owes to

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Germany. It's the deep, ever-mounting, unpaid debt of harm that business as usual owes people, communities, society, the natural world, and future generations, whether denominated in oil spills, banking meltdowns, or carbon emissions. Today, countries, companies, and people are struggling to repay the deep debt incurred by yesterday's harm. The result is the slow, steady diminishment of prosperity.

Here's a slightly more technical way to think about it. Capitalism is founded on the equation of creative destruction. The cornerstones of capitalism as we know it systematically and chronically undercount the costs of destruction and overcount the benefits of creation. Undercounting destruction and overcounting creation lead to overdestruction and undercreation. When the costs of destruction are undercounted—as they were by risk measures and models at banks—the result is an *oversupply* of "bads": destructive products, like toxic loans. Conversely, when the benefits of creation are overcounted—as they were by food industry standards, like "aftertaste" and "mouthfeel," that marginalized authentic nutritional value—the result is an *undersupply* of "goods": products that result in authentic benefits, like healthful foods. In the great imbalance, industrial era capitalism's cornerstones institutionalize what economists call negative externalities—or negative impacts excluded from market prices—making them systematic, and on the flipside, deinstitutionalize or limit positive externalities—benefits not included in market prices. Its institutions produce *too much economic destruction for too little creation.* That's what the great imbalance means.

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As distinguished scholars Danny Quah, Mary Kaldor, and David Held—all codirectors of LSE's Global Governance research center—have argued in the *Global Policy Journal,* twenty-first-century institutions must "invest directly in the provision of global public goods and the mitigation of global public bads."[14] Columbia University economist Jeffrey Sachs argues that next-generation institutions demand "not just cooperation that keeps global public bads at bay (until they reach crisis proportions) but cooperation that centers on creating global public goods."[15] The globe-spanning great imbalance—an oversupply of "bads" or overdestruction, and an undersupply of "goods" or undercreation—suggests that cost shifting and benefit borrowing are literally *institutionalized,* built into the cornerstones of industrial era capitalism. The sum of overdestruction and undercreation is the deep debt a society incurs. When its scale and depth are revealed, the result is inevitably, as Sachs suggests, crisis.

Step back into my allegory for a moment. Prosperity on an ark differs radically from prosperity in a game reserve. In our metaphor of yesterday's capitalism as a game reserve, economic institutions were built to organize daily hunting most efficiently. They matched the swiftest, most powerful hunters to the biggest game to generate prosperity. But if the rules of hunting are used to manage an ark, the result will be repeated crisis and eventual collapse. In big, empty, stable worlds, hunters can borrow benefits and shift costs with abandon, accumulating deep debt. Throw your bones away here. It doesn't matter. If you kill off this kind of fish, well, there's another in the next pond. Need cash? Capture

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some loot from the next tribe. It's not like you trade with them anyway. But in a tiny, crowded, fragile ark, everything counts. There's no one left to borrow benefits from or shift costs to: the destinies of all are inextricably interdependent. Prosperity—or its nemesis, crisis—accrues to everyone.

To gain an intuitive feel for twenty-first-century economics, put yourself at the helm of such an ark. You're the captain, and on board, every resource you've got isn't just valuable, but *in*valuable. Whether people, trees, animals, ideas, trust, creativity, or governance itself, you must safeguard all against damage, depletion, and exhaustion. Conversely, every resource you *do* decide to utilize must result in more tangible, meaningful, enduring benefits than merely ephemeral "product" to be overconsumed. Prosperity on an ark depends *first* on minimizing economic harm, because every cost you shift and benefit you borrow result in permanent, perhaps irreplaceable loss, with unpredictable chains of consequences. If you get the balance of authentically good "goods" and "bads" wrong, the result won't be prosperity, but deepening crisis and, perhaps, eventual collapse.

Here, then, is the predicament the global economy is in today. We're using rules built for hunting to manage an ark, but that approach to prosperity is past its sell-by date. The real crisis is bigger than banks, bonuses, or bailouts: it's that twentieth-century institutions aren't fit for twenty-first-century economics. They are a poor match for a tiny, crowded, and fragile world. The world has changed radically, but capitalism hasn't.

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The Capitalists' Dilemma

Capital*ists* haven't changed either. The truth is that most companies see themselves more as hunters ("you eat what you kill," "business is war") than as . . . See? So unequipped are we for twenty-first-century prosperity, we don't yet have a word for the role analogous to "ark manager." Most of us are still firmly ensconced in the industrial age. We pay lip service to "sustainability"; some of us "empower" our employees; a few strive to be better "citizens," but for most of us, the daily rituals of capitalism remain much the same. What really matter, at the end of the day, are profit, growth, and shareholder value. And therein lies the first hint of a dilemma worthy of the great tragedian Euripides: built atop a great imbalance, *more* of the above fuel *less,* and *less meaningful,* prosperity.

After distilling the five cornerstones of industrial era capitalism, step two in our research was to build a statistical population of over two hundred fifty companies to sample. We included a multitude of different kinds of companies, for completeness: the largest publicly listed firms by market capitalization in both developed and emerging markets, the portfolio companies of top-tier venture capital and private equity funds, and noteworthy public and private companies that surfaced repeatedly in discussions with CEOs and analysts. Each was categorized and analyzed in terms of cornerstones. What was common to 90 percent of the companies was yesterday's set of cornerstones.

I'd like to suggest that industrial age cornerstones limit organizations to creating "thin" value. Thin value is the in-

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visible *fist* of the great imbalance, the real-world expression of overproducing bads and underproducing goods. It has three defining characteristics and three iconic products of the past few decades—McMansions, Hummers, and Big Macs express it precisely.

- Thin value is *artificial*, often gained through harm to or at the expense of people, communities, or society. A McMansion for everyone was the rallying cry of the American economy in the nineties. Yet McMansions turned out to be a visceral example of artificial value, so worthless just a few short years later that many were abandoned and, in some cases, knocked down for lack of demand. Rather than financing broader home ownership, the complex, thinly documented loans that banks in the noughties originated, packaged, and traded yielded profits at everyone else's expense; first, at the expense of borrowers; then customers, like other banks; and ultimately, at the expense of society, through massive bailouts. Most businesses are like banks, just writ smaller. Rather than creating authentic economic value, they are simply transferring it from one party to another. One gains, and the other loses.

- Thin value is *unsustainable*, often "created" today simply at the expense of forgone benefits tomorrow. What is it, exactly, that drives so many people nuts about Hummers? That they are deeply unsustainable on almost *every* level, because they pollute many

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kinds of shared resources inordinately. They clog up not just the atmosphere, but also roads, neighborhoods, and, because they are heavily financed, financial markets. Most businesses are still the economic equivalent of Hummers: giant internal combustion engines that merely sacrifice tomorrow to enjoy today. Yet, just as the Hummer's profits were unsustainable—boosting GM's margins for less than half-a-decade—so thin value of every kind isn't built to last.

- Thin value is *meaningless,* because it often fails to make people, communities, and society durably better off in the ways that matter to them most. Do you benefit when you eat a Big Mac? It might taste great, but it has a tangible, negative impact on your health when consumed regularly. Who benefits when we all eat Big Macs? No one. Today, an obesity epidemic is gripping America and spreading across the developed world. Most businesses are still serving up the economic equivalent of fast food: negative-impact goods and services that fail to make people, communities, and society tangibly better off.

Thin value is, in these three crucial ways, not *authentic economic value* at all. Here's a hypothetical example of thin-value creation. Let's imagine you sell a widget that costs $8 to a customer for $10, realizing a profit of $2. How thin is the $2 of value you have created? Is it counterbalanced by losses to others, like society and communities? If those losses are more than $2, you have failed to create any *authentic* value.

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Is it a gain realized by depleting more than $2 of the future value of a nonrenewable pool of resources? If it was, you failed to create *sustainable* value. Do customers actually realize the value they have paid for, in terms of durable outcomes? Your customer valued your good at $10. If he realized less than $10 net in terms of tangible, positive outcomes, you failed to create *meaningful* value. If any or all of the three conditions are met, congratulations, you failed to create authentic economic value. Just threadbare, thin value.

Today's great challenge is not merely in creating book value, business value, or shareholder value, but in creating authentic economic value. Let's go back to our burger. A burger yields roughly a dollar of profit, and under the rules of industrial era capitalism, a dollar of value, at minimum, is said to have been created. But the full cost of a burger is perhaps closer to $30, not $3. The dollar of value that has been created is an economic fiction: it's thin, inauthentic value. All that has happened is that burger makers have borne $2 of the burger's full costs and earned another dollar of artificial "profit." But up to $27 of economic harm is still done to people, society, and future generations. No authentic value has been created; the profit booked an illusion of imbalanced accounting. In fact, to create a dollar of *real* value, a burger would have to yield a dollar of profit not from a cost basis of $3, but from a cost basis of up to $30. That's a difference of *ten times*. Thin value's challenge is mega-scale, measured not just in a few measly percentage points, but in orders of magnitude.

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Here's another way to think about thin value. A firm can be said to have created value when its returns exceed its cost of capital. Thin value is a set of returns that exceed only the financial cost of capital—the returns to debt and equity holders. The financial cost of capital falls economically short of the *full-spectrum cost of capital.* The full-spectrum cost of capital exceeds the cost of financial capital because it factors in the many different kinds of capital utilized in production—natural capital, social capital, and human capital, to name just a few. It factors in returns to holders of equity, financial debt, and deep debt.

The full-spectrum cost of capital is a higher standard. No company has yet mastered the art of measuring, applying, and monitoring it. But this much is certain: applying the full-spectrum cost of capital would instantly and radically devalue the profits of industrial era businesses, pushing many into de facto losses. How profitable would fast-food makers be if they had to bear the partial costs of obesity, carbon emissions, and malnutrition? That's thin value: profit that is in many ways a financial fiction, because it fails to exceed a fuller, truer economic cost of capital.

Bubbles and crashes come and go. Yesterday, dot-coms; today, mortgage derivatives. Yet, a broader economic crisis precedes and envelops transient bubbles and crashes—a crisis of authentic economic value creation. When profit is realized by activities that harm people, communities, society, the natural world, and future generations, the result is value of low quality, counterbalanced by deep, hidden debt. It is that trap that the bulk of companies can't escape.

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The great dilemma of industrial age capitalism is that to create value for some requires borrowing benefits from or shifting costs to all others; that less prosperity is fueled by harsher crisis; that *less* creation demands *more* destruction. All three are faces of the same beast—yesterday's paradigm jarring discordantly against an interdependent world.

Caught fast on its horns, more and more of yesterday's giants—from Detroit automakers to Wall Street, the Gap, Sony, and Microsoft, to name just a few—are stumbling, tumbling, and falling. Why? Thin value is a mirage, what the economist Jack Hirshleifer famously referred to as "socially useless."[16] Ultimately, the failure to create authentic economic value catches up with every company, country, and economy. Thin value can be defended, hidden, force-fed, or fought for. But never for forever and rarely for more than a handful of years. The 90 percent of companies that can create only thin value are uncompetitive in twenty-first-century terms, for two reasons.

First, the hidden interest that must be paid on harm's debt is ever compounding. Because of, for example, lobbying requirements, raw materials prices, energy prices, low employee engagement, regulatory scrutiny, and more active resistance from people and communities, costs are continually intensifying for industrial age businesses. In the real world, for burger makers, interest is mounting on harm's debt. So, for all these reasons, burger making is less and less profitable.

Second, the debt of economic harm can be "called" by creditors at any time. Think of it as what trader and

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New York University mathematician Nassim Nicholas Taleb has called a "black swan" event: an unexpected, unpredictable—yet unavoidable—catastrophe. Sooner or later, customers revolt, regulators act, investors flee, or worst of all, a competitor that *can* create authentic economic value and do less harm surfaces. If the debt of harm was called for burger makers—if burger makers had to bear the full costs of burger making because, for example, subsidies were yanked, and carbon and junk food taxed—what would be the result? Each burger would yield not a profit of $1, but a potential loss of $27. They would be instantly, irrevocably, irreversibly unprofitable, not just by a percentage point or two, but by hundreds or thousands of percent. Insta-collapse.

That's the scale of the challenge, the height of the hurdle, the depth of the dilemma that confronts countries, companies, and investors in the twenty-first century. Most can't even come close to answering it. And just as no fiercer hunter, sharper spear, or better coat of camouflage can help the inhabitants of an ark prosper, so no amount of orthodox strategy, innovation, or competition—all premised on economic harm—can help businesses, countries, economies, or the world reignite prosperity in the twenty-first century.

The Cornerstones of Twenty-First-Century Capitalism

So could the practice of capitalism, the art of *being* a capitalist, transform as radically over the next few decades, as it did during Adam Smith's era? I believe it can change, and

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I believe more vitally that all of us *will* change it. Because the industrial age's great dilemma is like a Gordian knot—a problem that's simply unsolvable, vexingly intractable if we're still confined to thinking in yesterday's terms. The knot cannot be untied, but only *cut*. Escaping the capitalists' dilemma *requires* a paradigm shift.

To return to my allegory, the capitalism that fits an ark must do better than just managing today's hunting. It must match the economy's most productive soil and most threatened trees, animals, and plants with the best farmers and shepherds, so what was once scarce can grow abundantly. Twenty-first-century capitalism must organize the better saving and accumulation of every kind of productive resource for tomorrow. Its precepts and commandments must begin with minimizing economic harm and end with maximizing the creation of authentic economic value.

If we were to craft the crude, bare outlines of an updated economic paradigm—one that might have the power to blaze past yesterday's firewall of prosperity—what would be different about it, first and foremost, would be *optimization*. Here then are rudimentary sketches of the two fundamental *axioms* of such a paradigm.

The first axiom is about minimization: through the act of exchange, *an organization cannot,* by action or inaction, *allow* people, communities, society, the natural world, or future generations to come to *economic harm*. Both cost shifting and benefit borrowing are, remember, economic harm, which leverage up a company, country, or economy with deep, risky, costly, burdensome debt.

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Conversely, the second axiom is about maximization: the fundamental challenge facing countries, companies, and economies in the twenty-first century is creating more value of higher *quality,* not just low-quality value in greater *quantity.* Think of it as *reconceiving value creation:* not merely creating larger amounts of thin, inconsequential value, but learning to create value of greater *worth.*

The great question that twenty-first-century economics asks is: must profit always require economic harm? A handful of revolutionaries today are answering no. Their answer, echoing across the global economy from Mumbai to Mountain View, Bentonville to Bangladesh, is a better kind of capitalism built for a tiny, fragile, and crowded world: constructive capitalism.

From our statistical sample of two hundred fifty companies, we found fifteen that were throwing yesterday's cornerstones out of the proverbial window. Our first surprise was who the constructive capitalists were: a motley crew, but not a ragtag one. They were some of the world's biggest companies and some of the smallest; some of the world's oldest companies and some of the newest; those that fit the stereotype of the forever nimble, radical innovator and those with reputations as lumbering giants. They cut across traditional industry, market, and geographic boundaries. We expected many more stereotypically game-changing start-ups to be insurgents, but we found that most were radical in name only. In contrast, many were companies we *least* expected to be discontented with industrial era capitalism's status quo, like Walmart, Nike, and Unilever (see table 1-1).

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TABLE 1-1

Insurgents and incumbents

Insurgents	Incumbents
Apple	Sony
Google	Yahoo!
Tata	General Motors
Nintendo	Sega
Threadless	The Gap
Lego	Mattel
Interface	Dixie, Mohawk
Unilever	Kraft
Nike	Adidas
Whole Foods	Safeway
Walmart	Target
Banco Compartamos	Citigroup
Starbucks	McDonald's
Wikimedia	Britannica
Grameen	Vodafone, HSBC

You might notice that the last two organizations on the insurgents' list in the table aren't orthodox businesses. Grameen is a family of social businesses, and Wikimedia can be loosely classified as a nonprofit. Yet, both have created significant, industry-changing amounts of value, and by doing so, they have unleashed disruption on orthodox capitalists across industries, forcing them to alter their competitive decisions drastically. That's why we included them.

Constructive capitalists aren't just building better products, services, strategies, or business models: they are building better institutions *first.* It isn't a capitalism that J. P. Morgan or John D. Rockefeller would recognize, unless

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they looked at the income statements of constructive capitalists. It is composed of a disruptive new set of cornerstones, geared for the new economics of interdependence.

To delve into them, we compared the fifteen "insurgents" to a carefully chosen set of foils, the "incumbents" on the list in the table. These foils were peers—often fierce, historic rivals—of revolutionaries. The difference? They were *only* employing yesterday's cornerstones. This set of peers was a control group that we hoped would bring the differences between old and new cornerstones into stark relief. Since this was the real world and not a petri dish, we couldn't control for every difference, but we tried to match them as closely as possible in terms of size, scale, scope, and intent.

After exhaustively studying both sets of companies through case studies, financial modeling, and interviews, we synthesized our data. Not only were the insurgents utilizing new cornerstones, a *common* set seemed to be emerging. Of the roughly fifteen companies that were revolutionaries, each was using one, two, three, or more of a shared set of new cornerstones. These cornerstones contrasted starkly with their twentieth-century equivalents. The insurgents weren't just disrupting the status quo; they were building something new in its place—new foundations for twenty-first-century capitalism. We came to call them constructive capitalists—and what they were building, constructive capitalism. Its cornerstones are shown in table 1-2.

What made the constructive capitalists different? I'll spend the next several chapters taking you on a guided tour of each new institutional cornerstone—and then discuss

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TABLE 1-2

Industrial era capitalism's cornerstones vs. constructive capitalism's cornerstones

	Industrial era capitalism's cornerstones	Constructive capitalism's cornerstones
How production, consumption, and exchange happen	Value chains	Value cycles
Which products and services are produced, consumed, and exchanged	Value propositions	Value conversations
Why production, consumption, and exchange happen	Strategies	Philosophies
Where and when production, consumption, and exchange happen	Protection	Completion
What is produced, consumed, and exchanged	Goods	Betters

how you can begin building each. For now, here's a quick explanation:

- To utilize resources by renewing them instead of by exploiting them, the constructive capitalists were shifting from *value chains* to *value cycles.*
- To allocate resources democratically and respond better to demand and supply shocks, they were shifting from *value propositions* to *value conversations.*
- To become more competitive over the long term instead of just blocking competition temporarily, they were shifting from *strategies* to *philosophies.*

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- To create new arenas of competition, instead of just dominating existing ones, they were shifting from *protection* to *completion* of their marketplaces.
- To seek meaningful payoffs that mattered in human terms, not just financial ones, they were shifting production and consumption from *goods* to *betters.*

No insurgent is carving every new cornerstone—yet. In fact, every single insurgent on our list is still utilizing at least one *old* cornerstone, and most are still utilizing several. What makes them insurgents, in contrast, is that they are carving, with intensity and commitment, at least one *new* cornerstone. That is how they differ from their industrial era rivals, whom are still utilizing *all* the old cornerstones.

Today's revolutionaries are *institutional innovators:* they're reconceiving not just products, services, or business models, but the foundations that products, services, and business models are grounded upon in the first place. The new cornerstones that constructive capitalists are carving operate at a more fundamental level: they order and organize production, consumption, and exchange. Listen to how John Hagel III, guru of corporate strategy and cochairman of the Deloitte Center for Edge Innovation, one of institutional innovation's cutting-edge pioneers defines it: "[It] redefines roles and relationships across independent entities to accelerate and amplify learning and reduce risks." That's why, in the twenty-first century, "institutional innovation will trump either product or process innovation in terms of potential for value creation."[17] You can think of it as the cousin

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