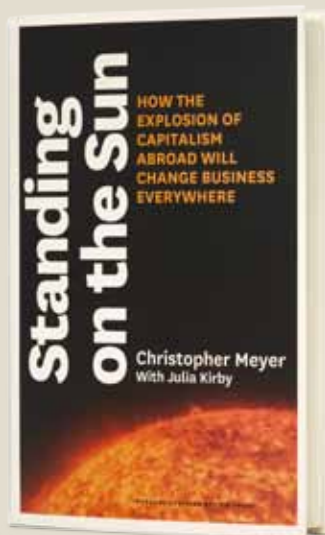


In Review

The World is Changing More Than You Think Capitalism 2.0

The firestorm encircling capitalism for the past half decade may well be unprecedented. Global economic chaos marked by a relentless recessionary cycle and cataclysmic geopolitical events has spawned more than the usual slings and arrows aimed at the iconic system upon which these agitated markets have been built. Simultaneously, in flourishing emerging economies, capitalistic principles are being refashioned and embraced by a surging middle class and burgeoning luxury class, offering stark contrasts to geographies that are marred by conflict, a dispiritingly one-sided concentration of wealth and a growing recognition that the tenets of capitalism are ripe for reconsideration.

Not since Adam Smith has the future of capitalism faced such daunting challenges and uncertain prospects moving forward. Western capitalism, in both the United States and Europe, is under siege, from the onset of the Great Recession to the Occupy Wall Street movement, and though few believe that the system itself is in danger of collapse, there is very real debate about what is next for capitalism. For business leaders, that conversation is fast becoming less academic and more influential in setting strategic direction for their organizations.



Into this maelstrom comes the timely and astute new book “Standing On the Sun: How the Explosion of Capitalism Abroad Will Change Business Everywhere” by Christopher Meyer (with Julia Kirby). Meyer, the founder of Monitor Talent, a unit of the Monitor Group and author of “Blur: The Speed of Change in the Connected Economy,” has long been an incisive observer of business strategy. Here, he offers a rational, insightful and comprehensive prognosis for the future of capitalism. Drawing on the lessons of evolutionary biology, Meyer points that capitalism is a system and systems evolve and adapt. Indeed, capitalism has changed before — remember the tectonic shift from agriculture to industrialization — and it will again.

His premise is straightforward and though not particularly original, Meyer compiles an eloquent and well-balanced treatise on what is happening and why. “It isn’t simply that capitalism will increasingly happen elsewhere,” he writes. “It’s that, taking root in different soil, capitalism itself will grow into something new.” And in order to find a vantage

point at which to accurately consider this metamorphosis, Meyer, quoting M.I.T. physicist Richard Morley, suggests that the best view is “standing on the sun.”

Unlike many pundits, Meyer bases his blueprint for change on years of travel in search of thriving real-world examples to support and illustrate his case. For the busy executive, “Standing on the Sun” is a must-read simply because it is both thorough and perceptive.

Capitalism adapts, Meyer says, like any complex system. “What changes?” he asks. “Two big ones: the world’s growth will no longer come from today’s high-income economies (they now consume 77 percent of the world G.D.P. — but only 32 percent by 2050). Second, just as industrial technology gave form to the fast-growing economies of the twentieth century, information technology will shape the emerging economies of the twenty-first. As some businesses thrive and others struggle in this new low-income, high-growth, globally connected, digital native environment, the rules will evolve for everyone.”

As Meyer states, a dramatic change in the environment — in terms of geography, demography and ethnography — means that all the old bets are off. “Businesses follow the money and we’re in the midst of a dramatic shift of the economic center of gravity to different regions of the globe,” he writes. “It’s not only that the growth of demand is coming from new markets; it’s also that societies hosting this economic efflorescence are markedly different from those that capitalists focused on in the second half of the twentieth century.”

His prognosis: expect two full



decades when the shape of capitalism will be in the most rapid flux in history.

Sprinkling the book with colorful corporate examples from around the globe, Meyer is a sure-handed storyteller who can bring a marketplace in Phnom Penh to life and make an Indian entrepreneur sparkle with insight. Most readers are well aware of the emerging BRIC nations and the numbers that continue to startle. Goldman Sachs, for example, estimates that 2.4 billion income earners globally will attain middle-class status in the decade 2010-20. The ratio of those middle class consumers in the BRIC countries to those in the G7 will be 2 to 1.

It is the implications of these dramatic demographic shifts that Meyer lays out so vividly. He paints a sharp picture of the impact of technology on these emerging markets, pointing out how old barriers are falling and the definitions of the terms “capital” and “ownership” are changing.

Meyer is unequivocal. “In the coming decades, brilliant ideas for business, economic, and social innovations will come from everywhere, but it will be in the green fields of the rapidly growing emerging economies that the next generation of capitalism will take hold,” he writes.

Given the shifting landscape, Meyer expects variant forms of capitalism to evolve and co-exist. One aging system will not simply give way to something overbearing. Western capitalists will need to rethink the one proxy for value they’ve been taught since business school to embrace — financial returns for shareholders — and focus on value itself, in all its myriad forms, from profit to sustainability to corporate responsibility.

In other words, the traditional black and white view of how to do business will evolve into a brilliant full-color panoply of opportunities.

“Our suggestion is that no one who has the capability to look at something in all its rich dimensions should be satisfied seeing it in only one,” Meyer says. More important, a system that is not evolving and growing is dying, and this biological reality creates pressure to embrace new ways of thinking.

Capitalists must rethink ways to measure outcomes and reconsider which measurements offer real value. For example, Meyer illustrates the restrictive view that G.D.P. provides and suggests the support of a concept first offered by the King of Bhutan, Jigme Singye Wangchuck. Rather than measuring total economic output, the king mandated a new measure, Gross National Happiness, or G.N.H., as a truer barometer of value. A happy society, he posited, is preferable to one focused only on economic prosperity. Such heresy back in 1972 when the king made his pronouncement has filtered rapidly into emerging economic philosophy in many geographies. In 2009, for example, France’s President Nicolas Sarkozy pointed out the inadequacy

of G.D.P. in measuring national wealth and called on world leaders to “stop emphasizing G.D.P. and replace it with a measure that quantifies well-being as well as economic strength,” Meyer reports.

For savvy executives, philosophical conversations about the future of capitalism are well and good. But Meyer brings his discussion to the business strategy level. “Firms will have to learn to succeed on new terms,” he writes. He offers a reformulation of some basic rules:

Rule One: Learn to See Results in Color. That means learning to measure the real value sought by stakeholders, not simply financial returns for shareholders.

Rule Two: Internalize Externalities. Learning to measure the impact an enterprise is having on the world, both good and bad, and taking steps to make up for the negative ones and take advantage of the positive ones.

Rule Three: Enjoy the Evolution. Rather than gaining the market power to extract monopoly rents in a zero-sum game, companies must create new value through meaningful innovation.

Rule Four: Give It Away Until You Charge For It. Managers must seek to create more value for more stake-

CHEATERS NEVER PROSPER...OR DO THEY?

A series of experiments has revealed that people of high socioeconomic status are more likely to cheat to win a prize, cut off drivers and pedestrians, take candy from children, and pocket extra change handed to them in error rather than give it back.

SOURCE: LOS ANGELES TIMES




holders from collaborative rather than combative behavior.

Rule Five: Operate for Benefit. The old formula has been for organizations to compartmentalize any support of social goals apart from the for-profit work of the enterprise. In the new capitalist model, leaders must accept that every enterprise produces a mix of financial and other value types. The business model

should be designed to optimize that.

Meyer writes that he is worried that capitalism in the U.S. may be at the forefront of risk because of the innovator's dilemma — “the inability to let go of its past successes.” To avoid catastrophe, a new view is required.

“Perhaps it is too much to claim that today's captains of industry believe our current version of capital-

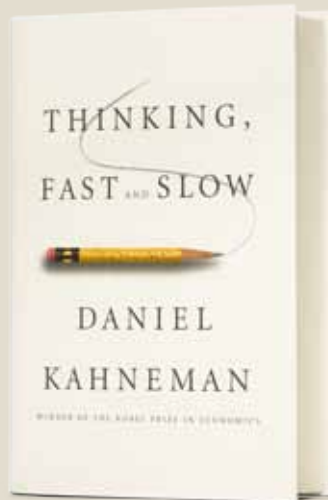
ism is working exceptionally well, but it is probably fair to say that most have accepted it as the only system workable at all,” Meyer says. “But now they are beginning to understand that they have been seeing their world and their work in drab black and white terms. The Technicolor moment is upon us.” The victors will emerge from those who seize that colorful moment. 

Our Brains Made Us Do It

Decisions In Spite of Ourselves

About midway through his remarkable new book, “Thinking, Fast and Slow,” author Daniel Kahneman writes that “the amount of evidence and its quality do not count for much, because poor evidence can make a very good story. For some of our most important beliefs we have no evidence at all, except that people we love and trust hold these beliefs. Considering how little we know, the confidence we have in our beliefs is preposterous — and it is also essential.”

If there is a single sentence that can sum up this important tome (and one is hardly enough), it would be this one. Because what Kahneman, the Nobel Prize-winning psychologist and professor emeritus at Princeton, has constructed is nothing short of a milestone, multi-dimensional inquiry into the way we think about the world in which we live.



This sometimes dense but consistently surprising and enlightening work is not for the faint of heart or for those looking for a Gladwell-esque popular culture kind of read. Kahneman makes the reader work hard, do some serious contemplation, work out brain-teasing experiments and reconsider pretty much everything we've all been led to believe about the way we perceive and analyze our way through life.

An Israeli-American whose pioneering work with Amos Tversky on decision-making led to the 2002 Nobel Prize in economics, Kahneman is among the leading thinkers in the

field of behavioral economics.

As Kahneman points out, traditional economic theory, as practiced by the so-called Chicago school of economics, believes that “faith in human rationality is closely linked to an ideology in which it is unnecessary and even immoral to protect people against their choices. Rational people should be free, and they should be responsible for taking care of themselves.” Behavioral economists, however, reject this “rational agent model”. Life is more complex for behavioral economists than for true believers in human rationality. For behavioral economists, freedom has a cost, which is borne by individuals who make bad choices, and by a society that feels obligated to help them.” Does the sub-prime mortgage crisis leap to anyone's mind here?

At the book's outset, Kahneman introduces two fictitious characters, the automatic System 1 and the effortful System 2, and explains what he calls “the uneasy interaction” between the two. Though these two systems do not actually exist, they provide an elegant basis for understanding how the mind processes the ceaseless signals and experiences of a human life. System 1 is our intu-

