



BUSINESS. THE ENVIRONMENT. THE BOTTOM LINE

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Capitalism's New Social Frontier

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This is an excerpt from World Inc., by Bruce Piasecki, reprinted with permission of the author and [SourceBooks](#). For more about the book, visit [WorldIncBook.com](#).

There are many good reasons to pay attention to oil giants, especially since they often determine when and if "going green" will collide with "going global" in this new century. *World Inc.*, my sixth book, started by asking about such collisions in oil firms during the start of what some considered a set of "oil wars," but rapidly grew to consider the 300 largest firms in the world.

After all the complex societal and business mergers in firms and their supply chains since World War II, the "seven sisters" -- the world's largest petroleum exploration, refining and delivery companies -- have become the big five: ExxonMobil, ConocoPhillips, Chevron, BP, and Shell. Each of these world-spanning oil giants is remarkably different, yet many people still think all oil companies are generically bad, placing aggressive corporate tactics of ExxonMobil on the same level as the social change-based ambitions of Suncor Energy, BP and Shell.

I do not believe they are the same. In today's new business culture, where significant debates are raging over climate change and the price of oil, companies are not acting the same. We are not comparing sheep with sheep when some act in a visible way that demonstrates more care for the near future. There are many different corporate animals in the zoo of today's markets, just like there are many different kinds of social leaders. In short, the realities of the 300 largest corporations in the world are nuanced and consequential. I want to acknowledge that from the start.

The question at the heart of the debate on Social Response capitalism, at the center of *World Inc.*, is really quite simple: If competition and the desire to win are such an inherent part of our nature, can we remake ourselves and our firms -- yet again -- to better consider social need?

We All Reside at the S-Frontier

We all understand quite well the value, the temptations, and the seduction, frankly, of

competition on a vast scale. Corporations get to fulfill their self-worth by creating something better than their competing companies, and consumers get a superior product. Yet do the best 21st-century capitalists have it in them to understand, appreciate, and then capitalize on the value of social needs, such as the need for clean water, reliable food, and sufficient sources of cheap, clean, convenient energy?

Projections for the success of a company are, by their very nature and the constant shifting of the marketplace, uncertain. What *is* certain is that we will eventually run out of oil and gas as a fuel supply to heat our homes, drive our cars, and sustain our industrial output as we know it. This is a fact. The end of this age of oil is an increasing topic of debate and concern in the boardrooms of the largest oil, automotive, consumer product, and agricultural companies.

The 300 largest corporations on Earth are now exploring this new world order, a new social frontier, if you will. In order for them to survive and prosper further, they need to develop and further refine the business art of innovation for social needs -- they need to find a new and socially responsible way to fill the hole our depleting oil supply is leaving. We call this elaborate social art in business the "S Frontier." The [AHC Group's website](#) has examples of this in action.

The landscape I examine in *World Inc.* is varied and multi-faced, like the firms we encounter each day we pump gas, shop at Wal-Mart, or buy products from GE. Yet we compress the *World Inc.* framework into three current realities shaping this new century:

1. the Swiftness of new global market information
2. the Severity of some of the leading social problems before us (such as climate change and the rising price of oil)
3. the need for Social Response capitalists.



This S frontier is already here. Welcome to this element of *World Inc.* We call it a "frontier" as it represents the progressing fringe of business thinking, much like the idea of the Western frontier shaped and furthered so much American thinking in the eighteenth and nineteenth centuries. Every S has its extremes. In a similar way, every social movement has its ups and downs. Will you and your firm be on the upswing or downward spiral of the S?

World, Inc. explores how "going green" and "going global" will collide at this S Frontier every day this century. These are now colliding in a fashion that can reshape oil giants into energy companies that sell the social need for greater efficiency, while pushing those down into business failure if they ignore these market and social signals too long. I also extended the argument past oil giants to how the S Frontier is changing the way we drive cars and our computers, along with how we occupy our homes.

In short, only the well-positioned firms of today will have wind behind their sails. After writing this book, I believe that all firms this century must learn how best to compete on price, technical quality and social needs. By 2050, it's easy to predict that the top 300 multinationals will undergo tremendous change, and only a minority will remain at all in their current forms.

Social response product development is one way to bridge the gap between societal needs and the severe competition within global markets, a strategic way to encourage restraint while working toward a better near future.

Altruism, Capitalism, or a Hybrid of Both?

I first began thinking about Social Response capitalism on a boat ride up from Manhattan to Albany, sponsored by Governor Mario Cuomo in the late 1980s. He had hired my firm, the AHC Group, for two years to work with the New York State Energy Research and Development Authority. As part of this gig, the governor organized a 50-person boat ride themed "New York 2000." It was a trip where I first thought about the appeal and limits of altruism.

During this trip the 50 of us debated what is the legitimate role of governments in securing a "better" New York. I was there because my first two books in the 1980s had helped reshape federal laws around hazardous waste management. Most of the other folks on the boat were lawyers, executives, or bankers. At a key moment, as we were halfway up the Hudson, the governor asked us for our working definitions of altruism.

After several stirring inquiries and attempts at definition of why people or leaders go beyond the call of duty, David Sive, a Park Avenue attorney and co-founder of the Natural Resources Defense Council, told a story I will never forget.

Sive was a celebrated soldier who had been stationed in the Italian Alps during WWII. It was a snowy summit assignment. He said that he had killed before, but that this assignment was different. He was to shoot anyone who came across the valley that didn't

know the Allied Forces code word, which changed nightly. It was early morning, and a person was approaching.

As this "foreign" soldier in the blinding white-out approached, Sive recited to himself his mission. "Shoot, you fool," he repeated to himself. But he didn't shoot. He didn't listen to the orders of his superiors. It later turns out to be an Allied soldier who had been lost, and therefore didn't know the password. "And you suppose I didn't shoot for some altruistic reason?" He asked those of us hovering around him on the boat. You could immediately separate the optimists from the pessimists. Most felt he was a hero. He did not.

"My gun remained loaded that morning not due to any higher selfless good. Yes, I saved that nameless Allied soldier from death, not because I knew he was on our side, nor because I somehow sensed he had been lost in the storm for three days." The pause was palpable. "I did it out of basic fear. I was afraid I would make a mistake."

World Inc. Is About These New Forms of Social Response Capitalism

In my experience with leaders I have learned to trust, they often operate out of basic instincts like fear, and longing, and love for competition for its own sake. You can give them all the numbers, explore all the legal nuance, even cascade the dance of consequences before them. Nothing matters as much as what is inside of them. As in the case with Sive, these leaders allow their true instincts to burst out at pivotal points.

It is the same with capitalism, the big C. Capitalism is at a crossroads because it is ready to burst out from the constrained way it has been taught and interpreted in the past. It is getting farther from our basic instincts. I call this "repressed" part of capitalism the Social Response. It is not without complexity and consequence. Social Response Capitalism tells us that it is all right for our leaders to operate out of panic and resolve, and it is OK for firms to compete on social needs.

Social Response capitalism happens when:

1. Companies restructure their operations to actively shape consumer demand by creating new products that bridge the gap between traditional expectations of performance and price and social impacts on the larger world.
2. Often this gap has been ignored in the past because it wasn't considered good business to worry about such "externalities."
3. However, today, these externalities are impinging upon the long-term viability of entire product lines that have served as the basis for our industrial economy.
4. While past efforts at becoming a good corporate citizen often focused on production techniques and efficiency, the latest twist is making better products themselves, products that *respond* to legitimate emerging social pressures or needs, not manufactured social needs that just spawn irresponsible mass consumerism.

5. Examples of these new social pressures include a drive to eliminate toxic chemicals in products of everyday use, a new corporate emphasis on the reuse and endurance of its products, and some early examples of pure product innovation to issues such as climate change.

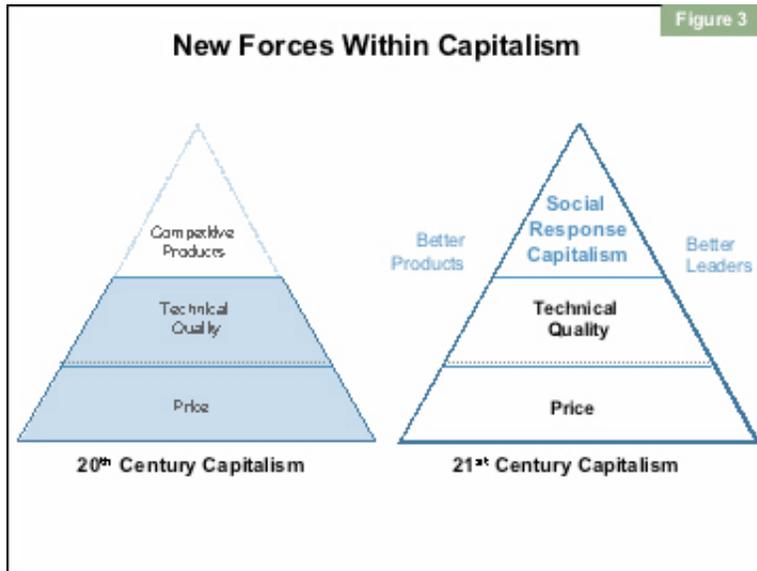
Altruism requires evidence of selfless good. Social Response simply requires not shooting those on your side. It is about building to the new higher peak where we all compete on price, technical quality and social response.

What the Quality Revolution Neglected and the New Social Networks Understand

Management scholars like [Deming](#) and [Juran](#) spent several decades after World War II making sure that quality processes entered the plans of corporate strategy, along with the classical concerns of price, technical reliability, and distribution matters. This quality revolution established the dual corporate emphasis on price and the technical quality of products and organizations. Firms like GE, Honeywell, Lockheed Martin and ConocoPhillips are now famous for employing this dual emphasis on price and technical quality.

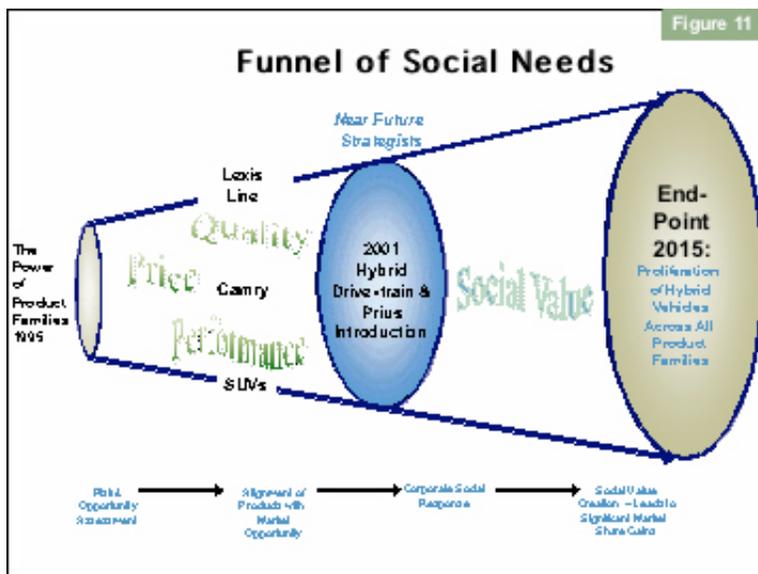
But we now live in a time of a new corporate trinity, a set of beliefs that puts social concerns on par with price and performance. This new approach produces families of products that can stand up to social scrutiny over time. In addition to the ever-present pursuit of lowering price while improving technical quality, Social Response product development introduces a new decision model. As a result, companies are taking on unfamiliar new roles that can build long-term value and fundamentally change our everyday lives.

If price and technical quality are the "father" and the "son" of this corporate creed, then Social Response is the "holy ghost." To date, this third part of the trinity has been largely invisible, as seen in the first triangle in the graph below. However, the truth is that the social mission or public persona of a firm is now being more firmly embedded in everything they do (as seen in the second triangle in the graph below).



Graphs taken from World, Inc by Bruce W. Piasecki. Available April 2007. See WorldIncBook.com for more

Yet a few pioneering corporations are trailblazing ahead, changing faster than the ideas being espoused in traditional circles of scholarship and theory-building on good business management practices. Their efforts are embodied by product stewardship and the management of their "product families." For example, in less than three years, Toyota transferred its innovative hybrid engine, first found in the Prius, to ten models of their products: the Highlander SUV, the Camry, the Lexus, and to some emerging new high efficiency trucks (see graph below)



HP acts the same as it patterns their innovations across product families-the liquid crystal display is one well-known case in point. The post-Maytag Whirlpool will have to align here, to compete with Electrolux. GE and Wal-Mart are embracing this strategy as well. Once again, it is the social needs of the S Frontier, more than simple environmental

regulation, that I see pressuring this rapid and needed adjustments in corporate strategy.

The *World Inc.* Framework After 9/11

After 9/11, we now collectively face some of the most serious threats to our normative sense of life, liberty, and freedom than ever before. The interconnections between global economic development, terrorism, resource tension over oil and water, population growth, uncertainty over climate change, and political unrest are all converging. It is these drivers that are shaping what the best social capitalists see as an opportunity to create a better world.

Consider some of the following challenges to our lifestyles in the coming decade.

1. The world's population exceeds 6 billion people, placing large constraints on the carrying capacity of the earth.
2. The majority of the world's population remains hungry, illiterate, and poor.
3. Many companies are extending their into the poorest regions of the world, in hopes of helping them, and one day creating a market for their products where one did not previously exist.
4. The world's oil reserves are dwindling and some experts expect them to be depleted within 50 to 100 years.
5. More and more new technology, policy, and investment are shaping the energy industry. Fuel cells, bio-fuels, wind generation and thin-film photovoltaic power supplies represent our growing awareness of finite oil supplies, uncertainty with climate change, and potential profit in emerging energy choices.
6. The availability of clean and fresh water is limited. The global conflicts of the future will be "resource wars" related to access to fresh water; fertile soil; and other natural resources.
7. Economic growth in China is expected to grow exponentially for the next 10 to 20 years, potentially making them the 2nd largest GDP worldwide by 2020 or 2030.

Most MBAs and junior executives start to have minds that wander after you share with them the first three of these seven competing complexities. Yet there are new grounds for hope in *World Inc.*, as I write at length about how the best firms and the best leaders are creating systems that readjust the past mistakes of too much MBA thinking. For it is the ability to cope and respond to new pressure is what separates a leader from a manager.

A Brand New World

What should the leader's response be to these social realities described above? *World Inc.* explores the nuance and necessities of a leader's response to these social pressures, much

like a Winston Churchill or Abe Lincoln did in composing their replies to political pressure.

In short, Social Response product development -- as demonstrated in *World Inc.* -- is the blend of classical product development tools with the following set of five "social" elements:

1. Margin improvement -- seeking cost savings at every stage of the product life cycle through more efficient use of labor, energy, and material resources. Toyota is world famous for such lean manufacture.
2. Rapid cycle time -- reducing time to market by considering environmental issues as part of the concurrent engineering process during the early stages of design. Intel, HP, GE and Honeywell benchmark these advances frequently.
3. Global market access -- developing global products that are environmentally "preferable" and meet international eco-labeling standards in Europe, Japan, and other regions. After a significant new Goldman Sachs report itemizes market access constraints in oil and gas, this strategic factor grew in importance at all global manufacturers. Toyota was there by 1999.
4. Product differentiation that pays -- introducing distinctive environmental benefits such as energy efficiency or ease of disassembly that may sway a purchase decision. Toyota out competes all the auto giants in this space, year after year.
5. Social bundling of value in products -- positioning a company's product line in a fashion whereby it becomes clear to consumers and investors that this firm thinks of their products as social expressions, as a compromise and a hybrid between addressing a social need and making some money.

By selecting products that have Social Response capitalism built into them, the overall risk profile of the firm is reduced in a fashion sufficient to rise in this new century. All the models of product development used at the AHC Group are based on this now functional premise, and social/corporate agenda.

The Fulcrum of Your Choice

The second half of *World Inc.* makes all of these matters personal, relating these points to personal choice and money matters. For example, for many years, it was forbidden to even associate the word "capital" with the word "social," Before the fall of the Berlin Wall, you were considered the opposite of a capitalist if you even brought up competition based on anything but price and quality.

Over time, researchers of corporate behavior, and the rich array of leadership scholars will bring this new third lens of Social Response into sharper focus, so it will be scientifically benchmarked and publicly scrutinized more thoroughly. In the end, this Social Response logic will become a more lasting means of improving corporate bottom lines through cost

containment and new product opportunity programs.

This history has only begun. We are less than "half way up the Hudson," since we haven't really gotten past all our hang-ups and repressed feelings over "doing good." And I am betting that the next 10 years will do for Social Response capitalism what the three decades after WWII did for quality in the corporation.

Dr. Bruce Piasecki is the President and Founder of the [American Hazard Control Group](#), a management consulting firm specializing in energy, materials, and environmental corporate matters since 1981. He is the author of five books on business strategy, valuation, and corporate change, including the Nature Society's book of the year, In Search of Environmental Excellence: Moving Beyond Blame. His articles have appeared in the Los Angeles Times, Baltimore Sun, Technology Review, and the Christian Science Monitor.
