



CAPITALISM
at **RISK**

RETHINKING
the **ROLE**
OF BUSINESS

JOSEPH L. BOWER
HERMAN B. LEONARD
LYNN S. PAINE

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Joseph L. Bower
Herman B. Leonard
Lynn S. Paine

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Preface and Acknowledgments

This book had its beginnings nearly five years ago, when preparations began for the celebration of the hundredth birthday of Harvard Business School. Dean Jay Light convened various groups of faculty to develop plans appropriate to the occasion. A major gathering of distinguished alumni and business leaders would mark the occasion with presentations and debate. As we took in the discussion, we realized that while the idea of a business school was quite ordinary in 2007, Harvard's decision to set up a business school in 1908 was anything but. The founding of Harvard Business School was a forward-thinking and somewhat radical idea. Was there an equivalent idea today?

Steeped as we are in the case-method approach to the development of new ideas, we thought it might be helpful to talk to business leaders to see what challenges they thought were at the top of an agenda that should concern an institution like ours, blessed with a great faculty and resources. So that is what we did. We identified leaders in various parts of the world, and then cajoled them into meeting with us to build an agenda that HBS should consider. We presented our findings from that research first to our faculty and then to the large group that assembled for the Centennial Business Summit in October 2008.

As we listened to business leaders in various regions, we discovered that they were actually concerned with the future of market capitalism as we knew it. They worried that rising income inequality, migration, and climate change have the potential to seriously undermine global capitalism. This seemed somewhat alarmist at the time. Unfortunately,

by the autumn of 2008, the future of global capitalism had become the broad topic discussed by the Centennial Business Summit, and very timely at that.

After the summit, we stepped back to consider what we had heard. Many voices in the press and in public forums were criticizing business and calling for a stronger role for government, but our findings seemed to lead in a different direction. It was not that government couldn't play a valuable role; it could. Indeed, it had to. But many of the business leaders who participated in our project pointed squarely to the limitations of governments—especially the democratically elected governments that characterized the nations of the economically developed world. Our colleagues at HBS had also urged us to consider how entrepreneurs would think about the difficult challenges taxing the system. And as we worked with business leaders and studied how companies were addressing these problems, we learned that some companies were helping by the very way they did business. They were bringing tens of millions of impoverished people into the market economy. They were working with governments to manage migration. And they were finding ways to conserve energy and reduce their carbon footprint while increasing sales and profits.

This finding intrigued us. If some companies could actually lead in the resolution of major problems that threatened the capitalist market system, more companies could and should. Being academics—and not politicians—that observation led us to write this book.

We could not have done this work without remarkable help from many people. To begin, Dean Jay Light and Senior Associate Dean Srikant Datar wholeheartedly endorsed our proposal to take off around the world to ask business leaders what they thought were important problems that needed to be addressed. We are grateful for the resources that Deans Light and Datar provided, both in the work leading up to the 2008 business summit and thereafter and for support for the writing of this book. We greatly appreciate the support and encouragement we received from our colleague Warren McFarlan, who chaired the summit. We are also grateful to our faculty colleagues who were particularly helpful to us as we formed our ideas. David Moss was part of our team when we ran a series of regional forums for business leaders, and Bill Sahlman cogently called our attention to the way entrepreneurs

viewed the questions we were asking. The business leaders who attended the forums enriched our understanding and provided many of the core ideas that inform this book. We are indebted to Bertrand Collomb, Victor Fung, Jorge Paolo Lemann, and Jamie Dimón, who respectively were the cohosts of the regional forums. They helped in the critical job of convening really thoughtful groups of leaders. The leaders of the HBS regional research centers provided vital support in the logistics of the forums: Vincent Dessain, Michael Shih-ta Chen, and Gustavo Herrero. Sonja Ellingson Hout organized and conducted the video interviews that were so important to the data gathering for this book and produced the video shown at the business summit. We think of her as an invisible coauthor. Stefany Shaheen provided excellent research assistance in the early phases of our work, and Colette Ciregna, Marais Canali Young, and Maura Mack were indefatigable in arranging the endless logistics of the regional forums.

Once the book was in draft, Lara Adamsons worked tirelessly with us in reviewing issues large and small. This would literally have been a different book without her careful help. We drew on extensive help from Chris Allen, Jeff Cronin, and David Lane for assembling exhibits and checking facts. Paul Montie turned our rudimentary graphics into the splendid presentation of our model in chapter 4. Kathy Farren and Lauren Pyle helped prepare and keep track of endless drafts and revisions. Melinda Merino at Harvard Business Review Press provided wonderful help in framing the book and then in guiding us to completion. We are grateful to Rod Hills and two anonymous reviewers who provided invaluable comments on an earlier draft of the manuscript.

As with all such ventures, we have been helped by many. We are grateful to them for all the good aspects of this book. For its flaws, we take full responsibility.

Part One

The Future of Market Capitalism

1 Introduction

AS FACULTY at Harvard Business School, we serve in an organization devoted to improving the leadership of business enterprise. Our school's mission is "to develop leaders who make a positive difference in the world." We do that with research that builds and communicates concepts useful to the managements of firms, by training the MBAs who go on to careers as business leaders, and by providing mid-career development programs for the top executives of companies.

In all this work, the faculty share a common, underlying set of beliefs that motivate our diverse approaches to our mission. Managers make their contribution to our society by guiding the organizations that provide goods and services to customers. For this contribution to be sustainable, the organizations must operate at a profit in the face of competition and a changing environment within the constraints of relevant laws and societal norms. Competitive markets—the invisible hand—insure that when firms behave this way, they are doing the best they can for society. That is the glory of the capitalist market system.

In that context, this book sets forth a radical proposition. We believe that the role of business needs to change. The capitalist market system has generated enormous wealth in recent decades, but if the system continues to operate more or less as it has been operating, then it is vulnerable to breaking down in serious ways. As we will discuss, plausible forecasts point to challenges on multiple fronts. To stanch these potentially disruptive forces and ensure that the system continues to function in an effective manner, we believe business must stop seeing