

Editorial: *From the challenge of ensuring the interface with the structure of capitalist economy to doing meaningful stuff that matters the most, to people, society, and the future.*

In May 1989, I raised the issue (in an article entitled „Requirements of intensive growth of exports”, *Tribuna economică*, nr. 17/1989) of *the need to ensure the interface with the structure of capitalist economy*. After twenty years, in 2009, I wrote¹ that the confidence crisis invites increasing emphasis on social responsibility as a corporate marketing strategy, adopted by management which cannot choose ethical indifference. We need better rules and people, the virtue that follows science heading us down the right path towards overcoming the paralyzing insecurity of economic blood flow and shaping the complexity of current affairs drastically but correctly, in order to develop social virtues and responsibilities. We need to find appropriate answers in relation to what is authentic in addressing the crisis of confidence, who sells what and who is buying it, with the adequate mental model to break the cobweb of this distrust and regain trust. Within this framework, I quoted the father (Octavian Paler) of one of my former fellow students: *“My most unpleasant thought is not knowing what’s left to hope for.”*

*And if in April 2009, I pledged – on the special occasion of “SANABUNA” Conference (in the context of the pressure of the awareness concerning the connections between health, food and the different aspects of businesses and the imperative of identifying the right answers in the confrontation with the welfare reform, reconfiguring consistent ways with fundamental values, education being in the center of the adaptation, and solidarity could not be neglected) - for proper speech and action on the issue „food-health-welfare” opening up our mind and heightening the spirits to cross the “ocean of mistrust” whose huge waves crash against the shores of economic-social constructions (considering that: the „therapist” lies in each of those who commit to entering the partnership for „health-food-welfare”, a partnership which can restore trust in life and in the market; people health lies in the centre of sustainable development and adapting the business accordingly), a month later, in May 2009, I written that: restoring the trust relationship between those who govern and those who are governed, seeking to identify ways to ensure the integrity of public policy, it is of real interest in a dramatically transformed world in which neither the markets nor the representative systems work alone; the lack of consensus regarding going out of the crisis represents a real drama of the current public policy, being necessary to acquire wisdom of the policy of public choice; competition is the key leader of performance and innovation which feeds economic growth, thanks to fair and open competition the best product winning and the market forces prevailing; the signals regarding the changing of the nature of competition intensify, that increasingly takes place inside corporate-controlled networks, emphasizing the necessity to apply in the global industrial network of some fresh engineering principles carefully building political calibrated institutions and following the approach through the whole system of human businesses, both private and public; it is necessary that the approach based on the market helps in implementing the ambitions of the social reform; the situation is even more pressing in a global context in which it is considered that *calculated dishonesty and the application of the double standard, characteristic to the agreement between the political power and the financial power, raise strong barriers to the responsible intelligent decisions.**

¹ Thedor Purcarea - Confidence crisis and exiting naive realism through integrative thinking, Romanian Economic and Business Review, Vol. 4, No. 2, 2009

Coming to this year, it is worth considering „2011 Edelman Trust Barometer Findings”², and to start from „The Edelman Trust Barometer in retrospect”: 2001, Rising Influence of NGOs; 2002, Fall of the celebrity CEO; 2003, Earned media more credible than advertising; 2004, U.S. companies in Europe suffer trust discount; 2005, Trust shifts from “authorities” to peers; 2006, “A person like me” emerges as credible spokesperson; 2007, Business more trusted than government and media; 2008, Young influencers have more trust in business; 2009, *Business must partner with government to regain trust*; 2010, *Trust is now an essential line of business...* And then just taking a look at some Edelman trustbarometer findings concerning 2011:

a) What matters for corporate reputation (Responses 8-9 on 1-9 scale; 9=highest; Informed publics ages 25 to 64): 1. Quality (69%); 2. Transparency (65%); 3. Trust (65%); Employee welfare (63%) ... 8. Innovator (46%)...

b) Expectations high for business to invest in society: Corporations should create shareholder value in a way that aligns with society’s interests, even if that means sacrificing shareholder value; Government should regulate corporations’ activities to ensure business behaves responsibly;

c) Repetition enhances believability, and trust protects reputation;

d) *Conclusions of Edelman trustbarometer*: Business must align profit and purpose for social benefit; current media landscape plus increased skepticism requires multiple voices and channels; demand for authority and accountability set new expectations for corporate leadership; *trust is a protective agent and leads to tangible benefits; lack of trust is barrier to change.*

Looking at this findings of Edelman trustbarometer, the first thing that came to my mind was a challenging article posted by Gary Hamel (Visiting Professor at the London Business School and Director of the Management Lab) in September 2010³: „*Capitalism is Dead. Long Live Capitalism*”. I have noted that Gary Hamel (who believes that „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”), *starting from the growing consensus that rampant consumerism debases human values* (a pell-mell growth imperiling the planet; an unchecked corporate power subverting democracy, the myopic, profit-besotted CEOs being as likely to destroy value as create it), *argued that the real threat to capitalism is the unwillingness of executives to confront the changing expectations of their stakeholders*, considering that in the way of creating a conscientious, accountable and sustainable sort of capitalism is standing a matrix of deeply held beliefs about what business is for, whose interests it serves and how it creates value.

And as innovation, according to Peter Drucker, means exploiting change as an opportunity, two month later, in „Who’s Really Innovative?”, the same Gary Hamel⁴ argued that

² <http://www.edelman.com/trust/2011/uploads/Edelman%20Trust%20Barometer%20Global%20Deck.pdf>

³ Gary Hamel - Capitalism is Dead. Long Live Capitalism, September 21, 2010, <http://blogs.wsj.com/management/2010/09/21/capitalism-is-dead-long-live-capitalism/>

⁴ Gary Hamel - Who’s Really Innovative?, November 22, 2010, <http://blogs.wsj.com/management/2010/11/22/whos-really-innovative/>

inventing an innovative business model is often mostly a matter of serendipity (when someone finds something that they weren't expecting to find), and recommended the implementation of some of IDEO's time-tested design principles (IDEO is a design and innovation consulting firm) into the business workflows: encourage wild ideas; build on the ideas of others; stay focused on the topic; one conversation at a time; be visual; go for quantity; defer judgment.

Very recently, on October 17, 2011, Carolyn T. Geer, a WSJ⁵ writer in Connecticut, highlighted that according to David Kelley (the founder of IDEO; Kelley is the author of the book "The Art of Innovation", Crown Business, 1 edition, January 16, 2001) *the best way to unleash creativity is to give students an "experience,"* or in "Hasso Plattner Institute of Design at Stanford" speak, *a design challenge*. Under his teaching model, however, students aren't just handed a problem to solve—they must define the problem themselves through research and direct observation. And, in the opinion of George Kembel, executive director and co-founder of this School at Stanford *it is behavioral change that enables students to gain innovation confidence, this being a way of thinking that you can use in every part of your life*.

It is also worth to underline *the recommendations made by Gary Hamel* (in „Who's Really Innovative?") *for turning an innovation bumbler into a benchmark: a fundamental retooling of a company's management processes* (the way it plans, budgets, allocates resources, measures performance, hires and compensates), *by re-engineering them so they facilitate rather than frustrate bold thinking and radical doing* (training employees as business innovators; ensuring the access of their employees to the sort of customer and industry insights that can help spur innovation; adequately constructing the metrics for tracking innovation (inputs, throughputs and outputs); finding a proper way of comparing innovation performance across teams and divisions and so on).

And coming back to „Capitalism is Dead. Long Live Capitalism", September 21, 2010, let's consider the final „really important recommendation" of Gary Hamel: „If you're eager to dig deeper into these issues, pre-order Umair Haque's new book, << *The New Capitalist Manifesto: Building a Disruptively Better Business*, >> to which I wrote a short foreword"...

So, let's act accordingly, and „dig deeper" into „The New Capitalist Manifesto: Building a Disruptively Better Business", Harvard Business Press, Jan 4 2011, written by Umair Haque. Following this pathway it was easy to see, for example, that according to „The Bankwatch"⁶ (which stated that banks have generally suffered a great loss of trust and respect following the credit and banking crisis) the theme of the book „The New Capitalist Manifesto" can be summarised as follows: companies have been focussed on a very narrow definition of profit and value creation; this narrow focus understates real costs, and maximises short term profits - he defines this as „*thin value*"; the costs that are understated include costs associated with current society, future generations, and environmental impact; he proposes a framework for aligning corporations with activities and thinking that builds a broader definition of value into everything they do - he calls this „*thick value*". In the final chapter, entitled „Constructive Capitalism", it is showed that constructive capitalists (who aren't merely seeking to be better

⁵ Carolyn T. Geer - Anybody can be creative, says David Kelley. You just have to learn how, Innovation 101, October 17, 2011, http://online.wsj.com/article_email/SB

⁶ Tracking the evolution of financial institutions, The Bankwatch, <http://thebankwatch.com/2011/01/29/book-review-the-new-capitalist-manifesto-umair-haque/>

than rivals in yesterday's terms) are fundamentally redefining what success means to encompass the well being of people, communities, society, and future generations (to return the so-called profit "plus", profit plus social, environmental, human, and as yet unknown – unexplored kinds of – returns). And „The Bankwatch” concluded: „It is a thought provoking and worthwhile read. Every bank needs to be thinking how they can redefine the industry.”

In another book review, Mark P. McDonald⁷ says that this complex and unique book („The New Capitalist Manifesto”) gives us a progressive and comprehensive look at a future capitalist system, the author, Umair Haque, pointing out that the open-ended consumption model we have today is not sustainable, advocating for “constructive capitalism” that is based on creating close looped value cycles rather than unsustainable open-ended value chains, while the central argument revolves around the observation that current capitalistic practices lead to what is called „thin value” (thin from the perspective that the value created relies on exploitation in the environmental sense), encouraging, in contrast, the companies to create „thick value” (described as generating profits by activities that create value for sustainability, authentically to people). What gives the „The New Capitalist Manifesto” greater credibility, beyond some identified gaps, is the fact that the author discusses what he sees as the logical next steps for capitalism, *replacing value chains with value cycles*. And McDonald concluded: „Recommended reading for people who like to disrupt their own thinking and learn more by being challenged than having their beliefs confirmed.”

Let's continue to „dig deeper” and see what the author did say just a month before the publication of the book. According to the author⁸, the real challenge consists in shifting to a model of smarter growth (an authentic, meaningful prosperity, that's shared more broadly, fairly, and enduringly, economic and social mobility being a key aspect of smart growth), driven by investment, not consumption, investing in the foundations of a 21st century economy being the single most powerful key to reigniting prosperity. And the fundamental challenge of 21st century economics is creating more value of higher quality, not just low quality value in greater quantity, next-level advantage being constructive (Constructive Capitalists redrawing the boundaries of disruptive outperformance, taking a quantum leap beyond industrial age efficiency, productivity, and effectiveness), not just competitive, while profit is an effect, a reward, and not a cause, not the accomplishment – which are the stuff of purpose. The result of this so-called (made together) “purpose gap” is that 90% of companies can't craft a statement of „first principles that defines in sharp, clear terms how they will create value (instead of merely extracting it), because they don't (or won't) put a bigger, more enduring purpose first.” And so we come to „ponziconomies, creating little or no authentic economic value.” Umair Haque pointed out that there are five sources of constructive advantage: loss advantage, responsiveness, resilience, creativity, and difference. And to create the „thick value” (considered as being the foundation of 21st century economics) we've got to do meaningful stuff that matters the most, to people, society, and the future. One of the five new sources of next-level advantage, in the opinion of Umair Haque is the loss advantage (seen as minimizing a deadweight loss, the sum total of potential gains that are foregone in a given transaction, allocative inefficiency).

⁷ Mark P. McDonald - The New Capitalist Manifesto, March 7, 2011, http://blogs.gartner.com/mark_mcdonald/2011/03/07/the-new-capitalist-manifesto-a-book-review/

⁸ <http://thenewcapitalistmanifesto.tumblr.com/>

But are we really ready to create the „thick value” and to use this source of next-level advantage which is „loss advantage”?

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