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The Surprising Solution

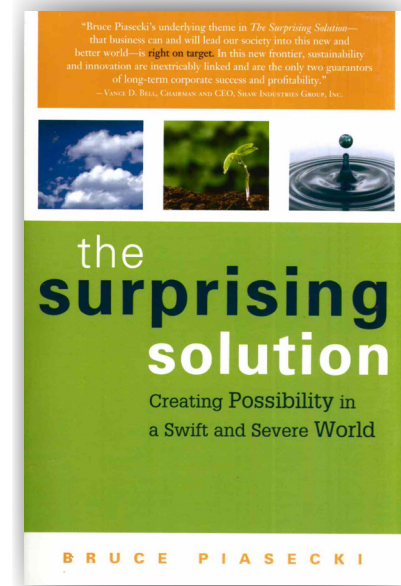
*Creating Possibility in a Swift
and Severe World*

Bruce Piasecki

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INTRODUCTION

The world is changing at lightning speed, and only companies that understand the new realities of the global marketplace and pursue both innovation and sustainability will be equipped to prosper. In **The Surprising Solution**, author Bruce Piasecki addresses “how to best align going green and solving social problems with going global.” It is a “declaration of interdependence, showing all capitalists and policy-makers that the global economy is based on shared physical constraints in our world.”

According to Piasecki, globalization is a driving force in modern industrial society, and it encompasses social change, product change, and leadership challenges. At the core of a successful, contemporary business strategy is the concept of *Social Response Capitalism*, a business model that puts social concerns on par with price and performance as corporate goals. Based on his

in-depth analysis of the global economy and his work with hundreds of multinational corporations, Piasecki’s principles will help companies “surf” this new wave of change, navigating to success and profitability while simultaneously “making a better world.”

THE NEW WAVE OF UNDERSTANDING Competition and Social Needs

More than half of the 100 largest economies in the world are now corporations, not nations. Furthermore, 300 multinational corporations (MNCs) now account for 25 percent of the world’s total assets. According to Piasecki, this astonishing increase in the size and scope of a few key companies affects every nation and ultimately defines our world. This new global world, he believes, can improve our lives and also address social problems in a way that is good for both society and business.

The rise of globalism in the 20th century was made possible by myriad factors, such as the availability of oil post-World War II, the development of multinational institutions like the United Nations, and the collapse of the Soviet Union. The triumph of the West in the Cold War established capitalism as the victorious philosophy, and the victory of capitalism and democracy appeared to legitimize global corporate sprawl.

Now in the early years of the 21st century, there is a growing realization that these multinational corporations are obligated to respond to social needs. The key to improving the global landscape lies in the intelligent union of both government and corporate leadership. According to Piasecki, society's best hope lies in Social Response Capitalism: "an approach wherein socially conscious companies create superior products to meet the needs of society while also reaping the rewards of success and profitability.

The Panic and Resolve of Leaders

Although innovative industrial products have improved our lives in many ways, there is a dark side to business success. Intense competition has led to massive scandals, and the undesirable side-effects of developing new products include pollution, resource depletion, global climate change problems, and regional wars over resources like water, clean air, and timber. Other mounting social pressures include the 4 billion-plus poor of the world, diseases like AIDS and influenza, global terrorism, and oil wars and oil depletion.

Piasecki contends that the unfettered growth of industrial society is at a crossroads: it is now imperative to make sure that corporations form solutions that are both profitable and socially responsible. Consumers are beginning to expect companies to meet social obligations; companies that act responsibly are likely to succeed in business, while those that do not are likely to be pushed out of the market.

Many multinationals are still far too concerned with profit to examine their own role in creating a better world. Incentives therefore must exist to push them in the direction of a "global equity culture" in which globalization (the development of international economic, technological, and sociocultural interrelationships) promotes the rising of all peoples and nations. The global equity culture is a social force that

KEY CONCEPTS

The world is undergoing profound changes, and only companies that understand the new global marketplace and the need for innovation and sustainability will prosper.

1. "The S Frontier" illustrates three business realities: the *swiftness* of new global market information, the *severity* of social problems, and the need for *Social Response Capitalists*.
2. Multinational corporations, which now wield more political and economic power than many nations, are the key to creating a better world.
3. Companies that survive in the new world order must practice *Social Response Capitalism*, offering superior products and services at competitive prices, while also being conscientious about social responsibility.
4. Social responsibility includes paying attention to poverty, pollution, climate change, resource depletion, and labor conditions.
5. Collectively, consumers possess great power, which can be used to pressure companies to attend to social issues.



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will reward a firm when its products “address mounting social needs for reliable pensions, better wages, clean air, and water, but one that will also punish if these responsibilities are ignored.”

The author uses an image he calls “The S Frontier” to illustrate three pressing current realities:

1. the **Swift**ness of new global market information.
2. the **Severe**ity of some of the leading social problems.
3. the need for **Social Response Capitalists**.

Due to its development of products that are profitable and also good for society and the environment, Social Response Capitalism is key to bridging the gap between social needs and unrestrained capitalism. Companies that are able to strike this balance are on the upswing of the S model and will come out on top.

The hallmarks of modern society are “faster, cheaper, better,” and “better” is often the one that most matters to our lives. The search for superior products based on social needs can be traced back to 1972, with the beginning of such innovations as personal computers and cellular communication, along with the birth of the environmental movement. Now that corporations are such major political players, it is crucial that the ones that survive are the ones that produce the most environmentally and socially beneficial products. Informed consumers can exercise what *Megatrends*

author Patricia Aburdene calls “conscious capitalism”: the power to influence social progress by demanding better—not just cheaper and faster—products.

Competition in the 20th century capitalistic society was based on price and technical quality. Now in the 21st century, social response represents another crucial component of better products. Piasecki argues that Social Response Capitalism will prove the perfect force to make the corporate engine work toward a better world while still being profitable.

There is a new trinity of corporate strategy—price, technical quality, and Social Response—and it will lie at the heart of this new century.

Social Response Capitalism

The definition of Social Response Capitalism is complex, but it can be understood in terms of some basic tenets:

1. In the past, price and quality sold products. Today, companies must create new products that consider performance, price, *and* social impact.
2. Past efforts at good corporate citizenship often focused on streamlining production techniques and efficiency, but now the push is to make products that respond to legitimate social pressures and needs.
3. Examples of social pressures include eliminating toxic chemicals, increasing the reusability and endurance of products, developing innovations in response to clean air and climate change issues, and improving labor conditions in factories.

The day of the cheap, shoddy product is coming to an end. More and more people are refusing to buy goods that fail to meet a certain standard, even if they are cheaper. Corporations are paying more attention to their social mission and to promoting “sustained value creation”: developing products that can stand up to social scrutiny. Social Response Product Development (SRPD) goes beyond conforming to government regulations; it is a response to consumer expectations and emerging global trade rules. This attention to the higher good will increasingly result in the betterment of society and of peoples’ everyday lives.

ABOUT THE AUTHOR

Dr. Bruce Piasecki is the president and founder of the American Hazard Control Group, a management consulting firm. He has authored several books on business strategy, valuation, and corporate change, including the Nature Society’s book of the year, *In Search of Environmental Excellence*. His articles have appeared in the *Los Angeles Times*, *Baltimore Sun*, *Technology Review*, and *Christian Science Monitor*.

The best social capitalists see the opportunity underlying challenges like overpopulation, poverty, limited resources, terrorism, uncertainty over climate change, and political unrest. SRPD offers recurrent benefits:

1. **Margin improvement**—cost savings through greater efficiency.
2. **Rapid cycle time**—reducing the time it takes to get a product to market by considering environmental issues early on.
3. **Global market access**—meeting international eco-labeling standards.
4. **Product differentiation**—distinctive environmental benefits.
5. **Built-in social value**—communicating to customers and investors that the company cares about social concerns.
6. **Risk reduction**—preventing loss caused by failure to anticipate such problems as environmental impact.

Examples of meeting social needs while maintaining profitability include GE's Ecomagination initiative, Hewlett-Packard's (HP) global citizenship strategy, and Toyota's development of hybrid cars. One significant trend is cooperation among multinationals for the advance of "sustainable value creation," such as HP and IBM's joint pursuit of more efficient products.

Giant corporations now prosper on the perception of their company as a socially responsible brand.

REDEFINING CORPORATE LEADERSHIP

Toyota and the Search for the Superior Car

The automobile industry is the world's largest manufacturing enterprise. Automobiles are indispensable in modern society, yet they cause enormous problems, including pollution, health and safety issues, resource depletion, traffic congestion, and lost time. Making headway against these monumental concerns will require the cooperation of the auto industry.

Toyota anticipated the rising demand for environmentally responsible cars and has been successful at linking energy efficiency with other desirable characteristics, as well as economic growth. Toyota has led the way in designing cars that combine fuel efficiency,

emissions control, lean manufacturing, high quality, endurance, performance, and aesthetic appeal. For example, by putting its hybrid power train on other models in addition to the Prius, Toyota is maximizing the value of that innovative technology.

In setting high standards for itself, Toyota is going beyond the minimum requirements of government regulations and raising the bar for all other car manufacturers. Piasecki believes that Toyota's commitment to Social Response Capitalism will not only benefit the environment and lead to greater development of alternative fuels, but also pay off for stockholders.

Inside the Corporate Mansion

In order to understand how to apply the principles of Social Response Capitalism, it is necessary to examine the inner workings of the companies leading the charge—to go inside their "corporate mansions." Piasecki identifies four factors that determine the market value of a firm:

1. knowledge depth
2. knowledge floors
3. knowledge endurance
4. knowledge dependence

Knowledge depth consists of both tangible knowledge (including patents, technologies, and assets) and intangible knowledge (including visionary leadership, technical competence, innovation, and performance).

The image of *knowledge floors* refers to the soundness of product platforms: collections of research and assets that are shared by sets of products. By creating families of new products, a company can maximize the value of its intellectual, technical, and legal assets.

Some companies try to cash in on the cheap and quick, such as Enron, but they never last. Good ideas are profitable only as much as they are sustainable; they need *knowledge endurance*: constant expansion of ideas and innovation to keep up with the marketplace and continue to produce and refine superior products. The final factor is *knowledge dependence*; only when the market grows in its dependence on a product will the knowledge and its application have been truly suc-

cessful. For example, the computer industry has come to rely heavily on Intel technology, with “Intel Inside” seen on many computers.

Inside the corporate mansion, Social Response Capitalism must be in operation continually. As a company creates superior products in a socially responsible manner, it experiences the success of **The Surprising Solution**.

Developing Leaders We Can Trust

The best leaders look beyond the here and now in order to ensure the well-being of both consumer and company tomorrow and beyond.

They do not succumb to the pressure to make short-term profits at the expense of long-term value. Superior managers lead not by stepping on others in an attempt to make a profit, but by answering pressing social needs. Those companies that make major social contributions are the ones society comes to trust.

No matter how lofty their desires, experienced leaders know that there are limitations to what can be achieved. However, they also understand that they can control their organization’s response to social needs and they can mobilize a team to follow a growth path that offers product and social development. Piasecki believes the best hope for solving the challenges facing 21st century society is large multinational corporations with the right kind of leaders.

Within the vast variety of leadership styles, the author identifies nine key characteristics:

1. Determination to learn continuously, balancing the three imperatives of *lowering price, improving quality, and responding to social needs*.
2. Recognition that running a business is all about relationships, and that mutual cooperation—not mutual coercion—is the best strategy.
3. Applied common sense: being open to input from a vast array of sources but knowing when to trust one’s instinct.
4. The ability to communicate and to inspire consumer trust, backed up by competence, clarity, and credibility.

5. The capacity to thrive on differences and ambiguity and to find solutions in the midst of social complexity.
6. The willingness to seek out solutions from leaders in other industries.
7. The ability to practice restraint in a world of excess.
8. Zeal for spreading the word about social goals and new business models.
9. Forward-thinking: looking beyond short-term gains to long-term value.

The ultimate definition of a trusted Social Response leader is someone who can embed social values into products in a strategic and consistent way.

UNDERSTANDING VALUE IN THE 21ST CENTURY

HP and the Vast Universe of Consumer Delight

Piasecki asserts that it may indeed be possible for all of society to benefit from first-world product improvement, social efficiency, and technical innovation. In the words of Carly Fiorina, former chairman and CEO of Hewlett-Packard (HP), “The winning companies of this century will be those who not only increase profits by maintaining the highest standards, but those who increase social value at the same time.” This statement demonstrates the commitment of HP (the world’s largest provider of printers and computing services) to fueling social change. Piasecki considers HP a bellwether company across industry lines, and studying its inner workings reveals some keys to success in a swift and severe world.

Social responsibility has long been part of HP’s corporate culture. In 1957, HP articulated a set of corporate objectives on global citizenship: “We live up to our responsibility to society by being an economic, intellectual, and social asset to each country and community in which we do business.” Its leaders believe that private-sector involvement is a crucial ingredient to poverty alleviation. Unlike oil companies, which often look to the developing world as a source of cheap labor and natural resources, HP gives social value back to the communities in which it operates.

Given that a large percentage of the world's population cannot afford to buy HP products, the company faces a significant challenge. But HP knows that it also has a great opportunity: to devise ways of making affordable, useful products for this huge population. HP initiated its "e-clusion strategy" around 2000 as a vision for the new millennium. The idea is that billions of users of HP products could come from the disadvantaged side of the digital divide. The critical ingredients are the 3 A's: affordability, access, and availability. By persuading countries and companies that the best use of their limited resources is to purchase its products, HP can bring about rapid growth and a more equitable global market. For example, HP's Microenterprise Acceleration Program (MAP) and Digital Community Centers (DCCs) bring technology to microbusinesses and poor communities.

In the end, what matters in making a profit is how much knowledge dependence a company develops and integrates into the market.

With so many other providers competing on price and convenience, such as Dell and Gateway, HP focuses its effort where the results can add social value to products and services. The company practices *dematerialization* — using less material in manufacturing and packaging — and promotes recycling of electronic goods. In addition, HP focuses on intangible values, such as in its "Anything Is Possible" ad campaign, which promoted the idea that people have the power to achieve great things. The company also develops products to meet the needs of other corporations — for example, most of the other 300 global multinationals are customers of HP's "digital banks," which offer secure data storage. HP leadership understands that with targeted investments by government and focused innovation by industry, it is possible for everybody to advance together.

There are, however, serious perils to the promise of building wealth among the world's poor. The export of democratic political institutions and free-market capitalism can result in inequitable distribution of created wealth, thereby increasing social instability and fueling ethnic hatred, terrorism, and corruption. New factories and products can give rise to poor labor con-

ditions and increased pollution. There is also danger that newly prosperous consumers may become as wasteful and destructive as their counterparts in developed countries. HP executives are aware that promoting social responsibility includes addressing these realities. They also seek to pass on HP's culture of corporate responsibility to the companies in its vast supply chain.

Money Will Not Manage Itself

With more individuals than ever investing personal funds in the markets, there is tremendous opportunity to exert pressure for a better world. Investors have access to a great deal of information about companies—not only measures such as costs and profits that show past performance, but also indicators of near future value, such as a firm's carbon footprint and its policies toward labor in developing countries. It is becoming more and more feasible to evaluate how well companies are serving the interests of society at large and whether they can remain profitable over the long run.

One company that has been exemplary in discovering ways to be socially responsible and build sustainable value comes from an unlikely industry: oil and natural gas. Suncor Energy Inc. of Calgary is developing Canada's Athabasca oil sands and also launching initiatives in renewable energy. The company works with indigenous people to make sure that they benefit from the energy industry and that they are fairly represented in the workplace. Company standards of business conduct include a 24-hour "Integrity Hotline" that gives employees a confidential venue for airing concerns about workplace problems. Suncor Energy is also a leader in corporate transparency, which, along with rating agencies, allows investors to evaluate a firm's intangible assets and make informed choices about where their money goes.

In the 21st century, the global equity culture is vastly increasing consumer power over corporations. The author concludes that "the more you know about how a company actually performs in social terms, the more you'll be able to reliably assess its risks and benefits as an investment, and its position and promise in society."

Money Matters: The Force and Grace of Social Products

Piasecki compares the hidden value in the marketplace to the vast array of aquatic riches surrounding “sea-mounts”: dormant volcanoes beneath the surface of the Pacific Ocean. There is tremendous potential for growth, but new tools are needed to uncover such hidden value. The author believes that examining, quantifying, and offering advice on corporate risk will yield a better world. Rating agencies are powerful because they can help reveal the potency and sustainability of companies so individuals know where to invest. When they do invest, companies have more money to put back into innovation.

The Value Creation Index (VCI), developed in 2000, tries to quantify intangible assets, like knowledge, R&D, innovation, and leadership. It is estimated that about one-third of a company’s value is in nonfinancial performance factors. The VCI identifies the correlation between these “value drivers” and market performance. One pattern that emerged is that companies with a variety of partnerships have substantially higher value and growth rates than firms that try to go at it alone, indicating that strategic alliances lead to economies of scale in a social way. Rating groups are demonstrating that companies on the upward curve of the S Frontier—those that are profitable while being socially responsible—should prove to be promising investments.

Innovest, a firm that offers ratings based on how well a company is responding to social needs, looks beneath all the short-term turbulence to find the company’s emerging risks and opportunities and assess its real growth potential and social value. Increasingly, 21st century consumers are willing to pay more for products with a reduced environmental footprint and greater social responsibility. Their concerns include global climate change, sustainability, labor conditions in the developing world, and bioengineering and nuclear plant safety. When they feel they are getting additional value by buying from a certain company, customer loyalty increases, which in turn raises the value of the company.

One of the most respected rating groups is Standard and Poor’s (S&P), which has always used traditional measures, such as assets and debt, to help lenders determine the credit worthiness of a firm. S&P is now including social concerns such as global climate change and governance issues in all of its equations to determine the risk profile of a company. While Socially Responsible Investment (SRI) funds currently represent less than five percent of the world’s total equity, S&P recognizes that this emerging sector is extremely important to the future.

Although socially conscious multinational corporations are now taking the lead in pressing toward a better world, the power of government is required to move society collectively forward. Governments must play a stronger role in seeking solutions to the world’s pressing energy and resource needs, as well as supporting and encouraging corporate Social Response Capitalism.

We should be reading about the New Wealth of Corporations more, rather than holding tight to the hopes that the Wealth of Nations is enough.

CONCLUSION

Corporate social responsibility is about “doing well by doing good.” According to Piasecki, being socially responsible makes good business sense. Since multinational corporations wield more economic power than many governments, they have a tremendous opportunity to make a better world by embracing these principles and putting into practice the tools presented. Achieving this social and economic progress is not so much a question of technology as it is a question of leadership; society is in dire need of visionary leaders who understand global forces, are concerned about the future (not just quarterly profits), and have the will to implement Social Response Capitalism solutions.

Afterword: The Global Financial Meltdown Today and Tomorrow

As Bruce Piasecki notes in his afterword, the core chapters from the prior seven editions of *World Inc.* (the original title) have not significantly changed, but this new edition updates the facts. Much has happened since *World Inc.* was first published in

April 2007, including deep distress on Wall Street and protests for corporate and political reform. Piasecki believes that the 2010 financial meltdown represents a “cleansing”—a strong readjustment of corporate behaviors and government roles. The meltdown—a feature of the S Frontier—served to expose and punish inefficient or corrupt companies that have not been sufficiently responsive to the new realities, and it has also allowed socially responsible companies to rise.

Scandals like the Madoff investment fraud and disasters like the subprime mortgage meltdown confirm Piasecki’s principles — for example, that the only true growth is slow, steady growth in revenue and reputation based on a real and sustained response to social needs. As Piasecki states: “There is no such thing as easy money in this swift and severe world. It is earned, as Ben Franklin warned, through honesty, hard work, and integrity with social needs. This is what I mean by Social Response Capitalism.”



FEATURES OF THE BOOK

Estimated Reading Time: 8 hours, 316 pages

The Surprising Solution was originally titled *World, Inc.* when it was first published in 2007. The paperback edition, released in November 2009, contains updated data, a new introduction, new afterwords, and a new appendix. The speed and extent of change over those two years, as evidenced by the new material, is proof of how “swift and severe” our world is.

Along with such works as *Silent Spring*, *The Tipping Point*, and *The World is Flat*, **The Surprising Solution** has been identified as one of the works that have caused sea changes in the perception of current global affairs. It is written for board members, executives, educators, sociologists, and anyone who is concerned about the future. Some knowledge of business language is helpful for understanding the book, but the principles are illustrated with personal experiences and corporate histories. Appendix B provides notes and further amplification for each chapter, plus dozens of websites on related topics. There is a Web site devoted to the book, www.worldincbook.com, with links to other pages on globalization and ways to

influence corporations to make superior products for a more sustainable world. The author invites readers to visit the website and leave comments, questions, and suggestions for making a better world.

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