



Money Matters: Financial Risk, Stock Valuation Models, and the Emergence of Rating Organizations

C O R P O R A T E S T R A T E G Y T O D A Y



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EDITOR'S CORNER

MOVING FROM SENILE TO SOCIAL CAPITALISM

By Bruce Piasecki, AHC Group

Multinational corporations today shoulder an increasing share of social functions once reserved for governments or religion. Yet capitalism cannot be considered an advanced vehicle for social change until the products being scattered throughout the global marketplace speak up on behalf of the social purpose of the firm, whether that purpose be providing fundamental services such as electricity or more whimsical entertainment products such as the iPod. A key shift now occurring within corporations is a more socially responsible way of defining our social needs, rather than stimulating perceived social needs for products—fast food, for example—that actually exploit short-term impulses at the expense of long-term sustainability.

Cynics point to Enron, Tyco, WorldCom and others as reasons why corporations cannot be trusted with guarding our future. We consider these companies examples of “senile capitalism.” Why senile? Because the word captures the natural and marked deterioration that accompanies any mature system: confusion, memory loss and, if one looks to geology, the penultimate phase of an erosion cycle.

Social capitalists, on the other hand, embed new products with social values. They compete on price, technical quality and social needs. These social needs may include issues such as designing products that can be easily recycled or are manufactured in clean, safe facilities by workers receiving decent wages. These sorts of social issues are now being addressed by any multinational corporation thinking about long-term survival.

A few facts explain why corporations are superseding governments and religions when it comes to providing tools and services necessary in the 21st century:

- Fifty-two of the 100 biggest economies in the world are now corporations; thus only forty-eight are nation-states;
- The 100 largest multinational corporations, such as GE, DuPont, HP, Home Depot, and Wal-Mart, now control about twenty percent of global foreign assets;
- 300 multinational corporations now account for twenty-five percent of the world's total assets;
- The annual sales revenue of each of the six largest multinational corporations now exceeds the GDPs of all but 21 nation-states in the world.

The recent terrorist bombings in London provide some surprising evidence of this new trend. Private railroad companies like Bombardier are working hand-

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in-hand with Tony Blair’s administration to clean-up the tube and then plan increased security throughout London’s mass transit system. The same pattern of public-private partnerships is evident in Asia, Europe, Latin America, and the United States. The meaning of this larger social pattern deserves further inquiry, especially as government budgets retreat.

Take the case of Toyota’s Prius, a product that is transforming the auto industry. By tilting the playing field toward cleaner cars that can be on the road today, instead of betting the future on risky hydrogen roadmaps for tomorrow, Toyota is not waiting for the necessary infrastructure or public policy support to emerge. They are shaping tomorrow, as their well-advertised mantra promises. The ultimate test of this new social capitalism may well be Hewlett Packard’s e-inclusion campaign, perhaps the most eloquent example of social capitalism. The goal of this corporate endeavor is to design products and delivery systems that bring the benefits of HP’s expertise in communication, printing, and other services to the 90 percent of the world that cannot currently buy them. How exactly HP hopes to cash in on this corporate strategy is, so far, a secret. Interestingly enough, the company appears to have defined the social mission before it has mastered its bottom line analysis.

The battle between senile and social capitalists is playing out all over the globe. What remains to be seen is how governments and religion will respond to social capitalists — and whether they will judge this transmogrification as good or evil. Historians will no doubt write that the most lasting contributions of these capitalists is that they were busy finding ways to compete beyond price and technical quality by factoring in ways to address poverty, water scarcity and global climate change into the products they peddle all over an ever smaller planet.

B. Piasecki



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Piasecki’s forthcoming book, *Better Products, Better World*. Please see www.ahcgroup.com for more details.





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