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A CONVERSATION WITH STUART HART
AUTHOR OF CAPITALISM AT THE CROSSROADS

1. Why is capitalism facing challenges right now? Is this time period very different from previous history?

In my lifetime alone, the human population has ballooned from about 2 billion to more than 6.5 billion. If I live to a ripe old age, the world population could easily reach 8 billion. Thus, in a single lifetime, the human population will have grown from 2 to 8 billion. Never before in human history has a single generation witnessed such explosive change. Combine this population growth with humans' insatiable use of resources and you have global impact of truly epic proportions. Every major living system on the planet is now either overused or in decline—fisheries, forests, soils, watersheds, and atmosphere, just to name a few. Yet, with only 800 million of the wealthiest people accounting for well over three-quarters of the current resource use, the impacts could multiply further if the 4-5 billion poor emulate the development path of the rich. Make no mistake: global capitalism truly does stand at a crossroads. Without significant change, the future of globalization and multinational corporations appears increasingly bleak.

2. It is common sense for the terms “sustainable business” and environmentalism to be thought of together automatically, yet that isn't always the case in large companies. Can you explain why not? Why do these ideas need to exist simultaneously?

For better or worse, the societal challenges facing global capitalism have produced a profusion of buzzwords. Others include: sustainability, environmental management, social responsibility, corporate governance, industrial ecology, poverty alleviation, clean technology, and social entrepreneurship, and sustainable development. In the end, all of this boils down to the realization that business must embrace a more inclusive form of capitalism—one that includes and uplifts the entire human community of 6.5 billion, and other living species, too. In this sense, social, environmental, and economic issues are joined at the hip.

3. What is meant by the “global race to the bottom” and how can responsible companies counter this trend?

The global race to the bottom refers to the corporate practice of outsourcing activities—particularly resource extraction, commodity production, and heavy manufacturing—to parts of the world with the cheapest labor and least stringent regulatory regimes. The result is that many poor countries sink deeper into debt as commodity prices trend downward, unregulated production facilities pollute freely, and millions of poor people are exploited in sweatshops and forced labor camps. Few expect that third world governments or multilateral agencies will succeed in fixing these problems any time soon. However, enlightened companies can have a major impact.

4. You want to see a form of commerce that uplifts the entire human race and respects both the environment and the world’s cultures. So how should globalization develop over the next 25 year? What role does government play in this evolution?

I take the contrarian view that business—more than either government or civil society—is uniquely equipped at this point in history to lead us toward a sustainable world in the years ahead. I argue that corporations are the only entities today with the technology, resources, capacity, and global reach required. Properly focused, the profit motive can accelerate (not inhibit) the transformation toward global sustainability, with non-profits, governments, and multilateral agencies all playing crucial roles as collaborators. I see three steps we need to take.

Greening is the first important step because it eliminates the myth that a trade-off exists between a firm's financial and societal performance. Indeed, over the past decade, pollution prevention and product stewardship have succeeded in reducing waste, emissions, and impact, while simultaneously reducing cost, risk, and stakeholder resistance. The incremental gains associated with greening, however, have been clearly inadequate: They only slow the rate of destruction rather than fundamentally changing course.

Moving *beyond greening*, therefore, is a critical second step. Leapfrogging to inherently clean technologies through disruptive business models at the base of the pyramid enables companies to confront directly the two biggest problems facing humanity: poverty and global-scale environmental degradation.

The third step is, therefore, to become *indigenous*. Through bottom-up innovation on a human scale, multinational corporations (MNCs) effectively become part of the local landscape. In so doing, the corporate sector becomes a primary driving force for global sustainability.

5. What do you mean when you say emerging markets can be encouraged to develop “leapfrog” technologies? Can you give us at least two examples and report on their profitability?

The feasibility of the pyramid models has been demonstrated in numerous experiments at the very bottom, where more than four billion people earn less than \$1,500 in purchasing power parity annually. Consider the innovative technology and business model created by the nonprofit Light Up the World (LUTW). Dedicated to bringing a safe source of light at night to the billions of people without electric power around the world, LUTW recently teamed with Stanford University to develop an affordable rural (off-grid) lighting system that combines solar photovoltaics with light-emitting diode (LED) technology.

LED is an emerging lighting technology that is extremely energy efficient (80-90 percent more efficient than incandescent light bulbs), long lived (lasts 8-10 years), and durable (virtually unbreakable). LUTW and Stanford have been able to design a system that includes the LED lighting arrays, the solar panel, the battery, wiring, and controls in a "rural lighting system" package that can be sold for as little as \$40 retail. For a poor family making less than \$500 per year, this would be equivalent to the purchase of a car by a top of the pyramid family. Since the

family is already spending as much as \$5-10 each month on candles, kerosene, lanterns, and batteries, all that is required is a microfinancing package, along with a reliable local microentrepreneur to sell and service the equipment. This is precisely the approach that LUTW and Stanford have taken in launching a commercial venture to serve this market.

Another example, the Solar Electric Light Company (SELCO), a for-profit enterprise that serves the middle-of-the-pyramid market with full-scale solar home electric lighting systems that sell for as much as \$500 each, has a thriving business in India and Southeast Asia. Ultimately, such systems could become so attractive and affordable that even the wealthy at the top of the pyramid would find them difficult to resist. Given the enormous growth potential of this business model, it comes as no surprise that electronics giant Philips launched such a commercial venture in rural India during 2004.

6. You also talk about the economist Joseph Schumpeter's idea of *disequilibrium* as the driving force of capitalism? Can you explain that further? How do your ideas compare/contrast with Clay Christensen's writing on creative destruction?

More than fifty years ago, while most twentieth century economists focused on competition under conditions of static equilibrium, Joseph Schumpeter insisted that *disequilibrium* was the driving force of capitalism. There is now little doubt that the economy is driven by firms that are able to capitalize on the "new combinations" described by Schumpeter: Coal Age technologies gave way to Oil Age technologies that are now giving way to Information Age technologies. With each change, the technological and economic infrastructure of society experiences dramatic transformation, with new institutions, enterprises, and geographic patterns of development. I argue that the emerging challenges associated with global sustainability are, in reality, catalysts for a new round of creative destruction that offers unprecedented business opportunities.

As Clay Christensen so eloquently explains in his path-breaking book, *The Innovator's Dilemma*, disruptive innovations are products and services that initially aren't as good as those that historically have been used by customers in mainstream markets, and that therefore can take root only in new or less-demanding applications, among non-traditional customers. Disruptive innovations typically enable a larger population of less-skilled or less-wealthy people to begin doing for themselves things that historically could only be done through skilled intermediaries or by the wealthy. Disruptions have thus been a fundamental mechanism for creating new growth businesses and improving our standard of living.

7. How can business strategy that you describe here provide an alternative to extremist ideology and terrorism?

The leaders of terrorist organizations are, more often than not, driven by extremist ideologies. Militant Islam, for example, weaves together fundamentalist religious beliefs, moral values, and a radical political agenda to create a particularly virulent form of such extremism. As the leaders of such groups know, however, special circumstances are required to attract the large numbers of people needed to effectively advance the cause. Most people are not born to be suicide bombers or militia members. It takes a lifetime of neglect, despair, dashed hopes, thwarted opportunities, or worse--intimidation, exploitation and humiliation--to drive most people to such extremes.

Only by reversing the conditions that breed such behavior--poverty, inequity, hopelessness, loss of dignity--will we deal with the root cause of the problem.

The major challenge--and opportunity--of our time is to create a form of commerce that uplifts the entire human community of 6.5 billion and does so in a way that respects both natural and cultural diversity. Indeed, that is the only realistic and viable pathway to a sustainable world. And business can--and must--lead the way.

8. What would you like to see your book accomplish?

I would like to see my book accelerate the already considerable momentum behind the idea of business as a force of sustainable development and poverty alleviation in the world. Unless global capitalism can extend its bounty to the entire human community in a way that respects cultural diversity and husbands the natural capital upon which it depends, we may well witness the marginalization of capitalism in our lifetime.

Today capitalism truly does stand at a crossroads: My hope is that this book has shed some light on the appropriate path for business to take.