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International Collaborative Leadership Institute

WHITE PAPER

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#7 Collaborative Capitalism



A Strategic Initiative for Capitalism's Next Generation

Collaborative Capitalism – the Next Generation

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Part One: The Three Faces of Capitalism

With the demise of Communism in 1989, Capitalism has reigned supreme. But, in its wake, many inequities and instabilities remain.

It's now time to challenge the future of capitalism by scrutinizing its effectiveness in creating competitive advantage, jobs, and workplace engagement.

Capitalism at a Cross-Roads

As reported in the Washington Post regarding a recent Harvard survey:

In an apparent rejection of the basic principles of the U.S. economy, a new poll shows that most young people do not support capitalism. A majority of respondents in Harvard University's survey of young adults said they do not support capitalism suggests that today's youngest voters are more focused on the flaws of free markets.

"The word 'capitalism' doesn't mean what it used to," said Zach Lustbader, a senior at Harvard involved in conducting the poll. For those who grew up during the Cold War, capitalism meant freedom from the Soviet Union and other totalitarian regimes.

For those who grew up more recently, capitalism has meant a financial crisis from which the global economy still hasn't completely recovered.

A subsequent survey that included people of all ages found ... only among respondents at least 50 years old was the majority in support of capitalism.

Although the results are startling, Harvard's questions accord with other recent research on how Americans think about capitalism and socialism. In 2011, for example, the Pew Research Center found that people ages 18 to 29 were frustrated with the free-market system.

In that survey, 46 percent had positive views of capitalism, and 47 percent had negative views — a broader question than what Harvard's pollsters asked, which was whether the respondent supported the system.

With regard to socialism, by contrast, 49 percent of the young people in Pew's poll had positive views, and just 43 percent had negative views.

John Della Volpe, the polling director at Harvard, went on to personally interview a small group of young people about their attitudes toward capitalism to try to learn more. They told him that capitalism was unfair and left people out despite their hard work.

"They're not rejecting the concept," Della Volpe said. "The way in which capitalism is practiced today, in the minds of young people — that's what they're rejecting."¹

In a parallel study conducted in 2016, it was found:

American Dream collapsing for young adults, study says, as odds plunge that children will earn more than their parents

Rising income inequality has eroded the ability for American children to grow up to earn more than their parents, according to a new study from a team of researchers

¹ Washington Post, reported by By [Max Ehrenfreund](#) April 26, 2016

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The research from a group led by Stanford's Raj Chetty, and also including economists and sociologists from Harvard and the University of California at Berkeley, estimates that only half the children born in the 1980s grew up to earn more than their parents did, after adjusting for inflation. That's a drop from 92 percent of children born in 1940.

The fall-off is particularly steep among children born in the middle class, and for those born in several states in the industrial Midwest.

If policymakers care about giving more Americans a chance to out-earn their parents, Chetty said in an interview, "these results show, you have to care about inequality."

The researchers say rising concentration of income among the richest Americans explains 70 percent of what has been a steady decline in absolute mobility from the baby boom generation to millennials, while a slowdown in economic growth explains just 30 percent.

That sort of mobility "is something that was a feature of the American economy for kids born around 1940, that baby boomer generation," said Nathaniel Hendren, a Harvard economist who is one of the authors of the study. "As we look forward, there's just been a dramatic decline in that measure" - which, he said, runs parallel to a decades-long stagnation in earnings for typical American workers, even as earnings for the very rich have soared.

"If you don't have that kind of widespread economic growth across the income distribution, it's tough to grow up and earn more than your parents," Hendren said. "This is a distinct reason to focus on inequality."²

In sum, capitalism is not on the rocks, but this economic form of business has serious doubters from within. The future will not be smooth sailing unless some dramatic new thinking is introduced into the socio-political discourse.

Capitalism's Characteristics

Key Points

1. Competitive Advantage:

Capitalism's underlying strength comes from its ability, when operating in free and honorable markets, to base the future performance of any company on its ability to create competitive advantage from the perspective of its customers. Competition is the grindstone that hones the razor sharp edge of advantage. Without strong competition, the weak and unworthy survive, which provides no value to customers.

However, there is one critical issue that continually undermines capitalism and leaves many inequities in its wake:

2. Lack of Moral and Social Imperative:

The *Future of Capitalism* will not be determined by government intervention nor by moral judgments about what is "right" for society. In fact, if the last two decades are any indication, a relaxation of laws regulating business seems to be a stronger trend, despite any criticism of deregulation during the last three decades. While every idealist wishes the *moral* path of ethics, fair play and righteous action to prevail, a long history of human endeavor favors the *competitiveness*.

Many today, including a large component of the Millennial generation castigate capitalism because of its lack of moral imperative and its untrustworthy behavior. However, a closer look at capitalism gives us

² Washington Post, article by [By Jim Tankersley](#) December 8, 2016

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new set of possibilities. When we triage capitalism into distinctly different genres, we find there are actually three fundamentally different forms of capitalism all swished together in what appears, on the surface, to be monochromatic.

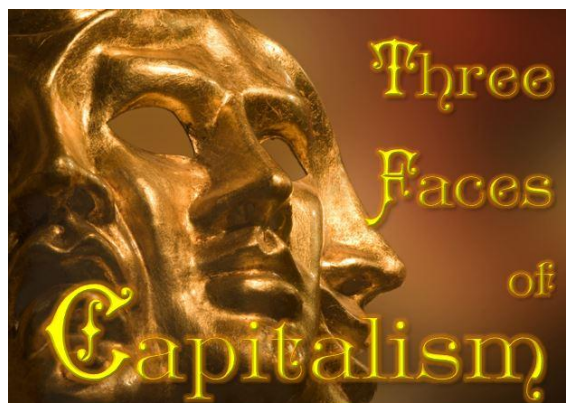
3. **Three Faces of Capitalism:**

Capitalism is not a monolithic form of economics. There are actually three different competing capitalistic business models, each quite different, each founded on different beliefs and strategies:

Adversarial Capitalism, Transactional Capitalism, and Collaborative Capitalism

Each produces very different results. These three forms are ill-defined and not clearly differentiated in the minds of most business leaders, resulting in a fourth version: *Muddled Capitalism*.

Untangling these three interwoven and often muddled forms of capitalism gives us keen insight on how each form operates and performs; each is as different as the primary colours. We refer to these three forms as the “Three Faces of Capitalism,” the theme of this strategic initiative (and a future book).



4. **Creative Destruction:**

Capitalism derives its fundamental power from the impact of “Creative Destruction” – the relentless replacement of the old with the new, the upgrading of efficiency, and the search for more competitive ways to produce and service. Creative Destruction demands constant upgrading of thinking, new innovation, performance improvements, outstanding leadership, precise management, and better business models. Yet Creative Destruction is inherently also capitalism’s *blessing and curse* – the blessing is that it engages in a continual cycle of revitalization; which is also its curse, causing a never-ending series of disruptions, unpredictable change, and complexity.

The only sustainable capitalism of the future must continually produces better results than its preceding generations. And, just as importantly, it must be reasonably facile and agile to adapt dynamically to changing conditions.

5. **Competitiveness in Complex Business Environment Requires Collaboration:**

While historically adaptation could happen over years or decades, in today’s fast-moving, rapidly changing world, adaptation is a continual process. What’s equally important: our analysis shows definitively that *collaborative* systems singularly adapt faster and perform better when subjected to change, ambiguity, and uncertainty than its *transactional* or *adversarial* counterparts. It is for this reason that ***Collaborative Capitalism*** is the ***only model that consistently produces superior competitive advantage*** when dynamic realignment is required.

While, fortunately, collaborative capitalism is also far more beneficial to the whole of society, it will only be adopted, not because of its macro-benefits, but because it's the most competitive (most effective, efficient, sustainable, adaptable, profitable).

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Part Two: The Advantages of Collaborative Capitalism

Capitalism, as an economic system, does not exist in isolation – it is surrounded by social, political, and environmental forces that are also changing and have demands on the other systems.

Adversarial Capitalism's Dark Side

Historically, *adversarial* capitalism has been a thorn in the side of democratic countries, principally because it has pitted labour against capital – workers against owners. In its worst forms, labour strife, class warfare, and monopolistic practices have plagued *adversarial* capitalism. Invariably the *adversarial* capitalist will be in power struggles, and often engages in manipulative and deceptive practices. Ethics always takes a back seat to gaining advantage. One of the best descriptions of *adversarial* capitalism is described by Tom Stallkamp, former President of Chrysler:

“Adversarial commerce is based on using short-term leverage from the value of the business to produce equally quick results.....

“Under adversarial commerce, the dominant party applies economic leverage in a dictatorial, arbitrary manner. The company forces the subordinate party to concede to demands without considering the financial hardship or long-term affects those demands might create. This might seem to be a natural byproduct of size, responsibility, or power, but the negative aspect it creates colors the entire relationship.

“It forces even the adversarial firm concentrate on short-term results instead of building a sustainable and growing relationship. This battle for total control produces a situation not unlike that between a drug dealer and a user. Both he need each other, but only one is in control of the situation a drug dealer uses his access to the product to control the user, and the original equipment manufacturer uses his purchase contracts to control the supplier in much the same manner.

"The greatest problem that adversarial commerce brings an escalation in the amount of control exercised throughout the company both internally and externally. Control is a natural state that all people strive to achieve, and it is the same for corporations. We all like to be in a stable environment in which we principally decide our own actions. Managers and corporations want the same, and they often use control tactics to try to stabilize and direct the business. Most people are disturbed by uncertainty; to remove that condition, managers often gravitate to using more aggressive command and control styles.

“To a large extent, we have been conditioned and educated to accept some amount of control from the proper authority. Problems arise when the manner and tone of control gets too one sided, too arbitrary, and often too illogical for the other party to accept. In these cases, using control steps beyond trying to bring order to the relationship and moves into trying to dominate it. In my current company I found a long history of this type of action in our negotiations." Managers' overwhelming concern for control caused them to be overly imaginative in protecting their "interests."³

³ Stallkamp, Thomas; Score! A Better Way to Do Business, Wharton, 2003, p20, p50-51

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In the final analysis, *adversarial* capitalism is a win-lose, zero-sum game. It's great for those on the winning side, but stinks for those who often don't have the power or money to sustain a siege war.

Transactional Capitalism – the World of Exchange

Transactional capitalism is perhaps the oldest form of commerce – it has been the underpinning of commercial trade for thousands of years. Phoenician traders, Greek entrepreneurs, Roman businesses, and Middle Eastern bazaars created its rules of engagement along the trade routes of the Mediterranean Sea. This form of capitalism has great value in simple exchanges of value where complexity is minimal. The hallmarks of the *transactional* capitalist are: *buy low, sell high* and *make a deal*. Smart transactional deal makers engage in win-win negotiations, while short term traders may forsake long-term relationships for personal gain.

While *transactional* capitalism will be with us in perpetuity, and it certainly has value in many situations, it does not fulfill the promise to youth in modern democracies.

Democracy's Social Contract

The emergence of modern democracies in the past 200 years has created a social contract with it citizens who abide by their particular nation-state's Constitution and culture:

- 1) *explicitly guarantees Constitutional freedoms*, and
- 2) *implicitly promises economic security* to anyone who desires to be educated and work hard.⁴

This *freedom guarantee* and *economic promise* is the foundational premise which has enabled a prospering, educated middle class -- the underlying support structure of any modern democracy.

Together this *guarantee* of freedom and *promise* of economic security are closely inter-connected.

In today's global world, the sense of economic security is tenuous. Jobs flee when *transactional* capitalists spot lower labour costs overseas. Because the global economy is neither perceived as safe nor openly understood/controlled,⁵ the citizenry increasingly is becoming disgruntled and losing hope for the future.

In particular, the *economic promise* of democracy is losing its grasp on hearts, minds, and wallets. This is compounded by the massive distrust for public institutions⁶, which has been eroding precipitously during the last fifty years. It is for these reasons the Millennial generation has begun to reject

⁴ Work, it has been found, is not a chore as much as a way of giving meaning and purpose to life, in exchange for monetary rewards, which become "income" to the receiver.

⁵ Much of the decision-making processes in international Trade Agreements represent compromises where neither party walks away a winner, and behind the scenes in Board Rooms of corporations are closed door sessions where workers are considered liabilities, not stakeholders in decisions such as plant closings and relocations.

⁶ See www.iclinstitute.com/Alert1_Trust_in_America.pdf Also see World Economic Forum: www.weforum.org/agenda/2016/12/charts-that-show-young-people-losing-faith-in-democracy/

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capitalism.⁷ This rejection is already becoming a socio-political issue, which will grow and fester for decades, unless there is a change in perceptions about capitalism itself.

Collaborative Capitalism's Promise for the Future

Highlighting the impact of *collaborative* capitalism is the focus of our initiative. Basically the world does not know of the distinction between the *three faces* of capitalism, nor does it know of the value of *collaborative* capitalism.

The *collaborative* nature of this form of capitalism does not imply the loss of competitive spirit. On the contrary, by *aligning the interests* of all stakeholders for a common goal, collaborative capitalism creates greater flow and creation of value, as does a winning sports team working together to compete in a contest.

The better all the parts work together, the higher the chances of creating, adapting, learning, and, ultimately winning.

Collaborative Capitalism embraces using people's minds to produce new innovations, including better processes for production and removal of non-value added work.

Typically Collaborative Capitalism has an *internal* and *external* dimension.

Internally, most forms of collaborative capitalism aim at creating competitive advantage by relying heavily on people to solve problems, moving goods and services faster, innovating better, and removing chunks of "non-value added work" from their work flow. Often the organization will use methods such as "high performance teamwork" and "open book management" to facilitate their success. Typically the workforce is measured on the basis of teamwork rather than strictly individual behavior. Workers are most likely rewarded financially with either a percentage of the profits or a portion of the equity ownership.

Externally, the fundamental strategy for creating competitive advantage often focuses on the entire value chain from suppliers through to end customers. By creating a *trust-based set of inter-organizational alliances*, the entire chain gains five basic advantages:

1. Alignment: The entire chain becomes aligned on common strategy, culture, operational results, and adaptation to change.
2. Flow: The entire flow of goods and services is speeded up while non-value added is removed.
3. Information: Communications is more accurate, informative, and two-way.
4. Innovation: New ideas are transformed into real value applied to a wide variety of possibilities, ranging from new products, new processes, new business models, new relationships, and new solutions.
5. Integration: Cross-functional coordination becomes a real asset in creating teamwork, synchronicity, joint planning, leveraging of assets, research, development, and rapid adjustment.

Again, in the words of Tom Stallkamp:

⁷ In a recent Harvard survey, which polled young adults between ages 18 and 29, 51 percent of respondents do not support capitalism and just 42 percent said they support it.

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“Collaboration permits companies related a common enterprise to streamline their mutual operations, reduce overhead costs, and speed up the product-development process. The advantages are that everyone can share in the sustained profitability and security of growth rather than downward adversarial commerce.... This is definitely not for the fainthearted or for managers who like to be on autopilot. Some people will not be able to make the conversion, but the good thing is that, for everyone who fails, there is at least one individual who will find the collaborative approach to be more rewarding and challenging. The transition will not be easy, but it certainly is less onerous than waiting for pink slip for watching stock prices fall because of the negative results of the command-and-control adversarial style.”⁸

The elegance of *Collaborative Capitalism* is that it does not pit the wealthy against the have-nots; both sides can achieve the desired win-win outcome.

Put in another way: *Collaborative Capitalism* produces excellent returns for both investors and workers by aligning their interests.

One of the great advantages of *Collaborative Capitalism* is that it already exists in thousands upon thousands of businesses across the globe. In other words, it doesn’t have to be “invented;” it is not an unproven “ideal” that needs development and testing.

What’s been missing is the acknowledgement of its economic power as a new breed of capitalism, and the teaching of its underlying principles of collaboration.

There are many examples where old, presumed dead, businesses were resurrected by American collaborative capitalists. These leaders saw creativity and imagination in their workforce, increasing productivity enormously by emphasizing teamwork and trust.⁹

In hundreds of cases we continually find that *collaborative* capitalism creates greater, more sustainable competitive advantages. But our business schools flunk out when it comes to *collaborative* leadership, *collaborative* entrepreneurship, and *collaborative* capitalism. [It has been the realm of the “pracademics” like Tom Stallkamp and Jack Stack (Great Game of Business) to proclaim its value.]

So too, our government’s labour policies reflect the *transactional* and *adversarial* branches of our capitalistic system, but certainly do little¹⁰ to advance *collaborative* capitalism to a new stage of thinking and performance.

Most importantly, *Collaborative Capitalism* demonstrates that doing the ethical things in business can, and does produce competitive advantage. Under-handed business practices, in the long run, are not sustainable.

The themes that run through *Collaborative Capitalism* are:

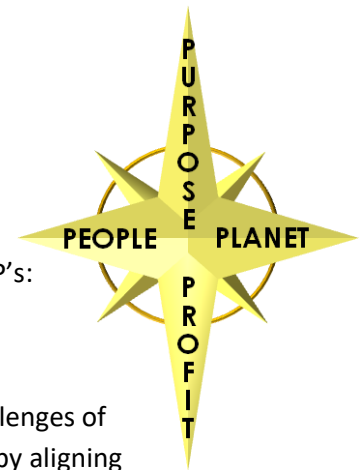
⁸ Stallkamp, p 195

⁹ Toyota in Georgetown, KY, and Honda in Marysville, OH figured out the equation. So did Springfield Remanufacturing (Jack Stack) of old diesel engines in Missouri. NuCor Steel learned how as well.

¹⁰ To be fair, the U.S. Government does provide tax breaks for Employee Stock Ownership Programs (ESOPs)

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- understanding of enlightened self-interest,
- collaboration across all sorts of divides,
- trust as a practical social tool,
- inclusion with the right sort of bridging leadership,
- innovation with learning through creative destruction.



One of the great benefits of Collaborative Capitalism is the Alignment of the 4P's:

People, Planet, Purpose, & Profit

The values-based institutions and progress that are required to rise to the challenges of the future are represented well in collaborative capitalism, because it thrives by aligning the interests of all its stakeholders, including investors, owners, employees, suppliers, customers, and the community in which it does business.

The key to success in business -- and to life really -- is creating aligned interests with smart people.

- Robert Kraft, owner of the *New England Patriots* football team
- the most successful sports organization since the industry began

***In the larger sense, Collaborative Capitalism,
with its high level of employee engagement,
is the right economic system for a democratic society.***

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Part Three: Strategic Initiative

Why Collaborative Capitalism has not caught hold

Collaborative Capitalism is not a new phenomenon – it has been imbedded in our economic system for hundreds of years. Why, then, has it not taken root more strongly, despite its powerful proponents and capacity to create competitive advantage. There are three primary causes:

1. **Differentiation:** Marketing 101 tells us to create distinctions in the mind of the customer. Until now, the idea of capitalism is muddled in the minds of the public. For all-too-many citizens in democratic countries, capitalism is darkened by the most unethical and uncompassionate members of the tribe. Our unique “breed” is indistinguishable from our counter-parts.
2. **Branding:** There is absolutely no common brand among the practitioners of Collaborative Capitalism. Each segment of the collaborative world labels its product from a myopic perspective, with no common standards, objectives, value delivery coordination, or concern about how the larger consumer base regards it.
3. **Unity:** The field of Collaborative Capitalism has been highly fragmented, made up of several constituencies that seldom reach out to cross the chasm to the other proponents. Several constituencies are hunkered down in their respective silos, preaching to their choirs, including a small segment of Supply Chain Management, a large proportion of advocates of Employee Stock Option Plans, Open Book Management specialists, and Strategic Alliance Professionals. In other words, there’s no “we” -- just a bunch of unenfranchised boutiques, specialists, and technicians.

Taking a Proactive Position

There are enormous political, social, and environmental forces that would benefit enormously when augmented by collaborative capitalism. What’s more, we do not advocate engaging in lobbying or any other governmental activity to reduce the footprint left by *adversarial* capitalism – it will extinguish itself by natural causes.

The best strategy to deal with *adversarial* capitalism is by *displacement* – inspire and energize the growth of *collaborative* capitalism in several ways:

- Write Books and Articles
- Provide Data to Business Journals
- Educate Business Schools with Field of Study
- Conduct Workshops and Seminars
- Give Speeches & Presentations
- Provide Consultation & Diagnostics
- Conduct Research & Evaluation
- Advocate in Board Rooms
- Elevate Business Associations
- Gain Endorsements from Business, Finance, & Economic Development Authorities
- Help Value Chain Alliances between Collaborative Companies
- Build Skills Levels of Collaborative Leaders
- Generate Enthusiasm in Collaborative Entrepreneur

In future months, we will be developing Action Plans to carry out this Strategic Initiative.