TechCast Article Series

Governing Markets
Collaboration offers a Visible Hand

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In addition to solving the immediate economic crisis, Americans will have to redefine financial institutions, and corporations themselves, to avoid the structural problems that caused this crisis in the first place. Now that the U.S. Government has invested several trillion dollars in banks, insurance companies, and the auto industry, the free market philosophy celebrated by the Reagan Revolution needs to be augmented by a broader economic framework that avoids hobbling business with excessive regulation and dampens innovative enterprise. And there is strongly felt need for more clear understanding of these complex business systems, to make their results transparent, and to generally manage them better. That's a tall order and it requires rethinking the very nature of business, markets, and Capitalism itself

If anything, markets are penetrating the economy even more deeply because the very nature of today's knowledge-driven world is far too complex for anything else. As the information technology (IT) revolution automates routine jobs and others are outsourced or offshored, what's left of corporate operations is basically entrepreneurial. And since business units can operate anywhere virtually using IT, it's almost impossible to supervise people closely.

That's why Best Buy moved to a "results only" system that allows employees to choose when, where, and how they work as long as they produce. Google uses teams to manage each project as a small internal venture, while the Company serves as an internal venture capital firm placing bets on the best projects. Nokia uses autonomous business units to launch new phones each year. At IBM, 42% of employees do not have offices and one-third of all AT&T managers are free to "telework" from home, the client's office, or wherever they choose.

The result is that large corporations are fragmenting into far-flung constellations of "internal enterprises" operating in a web of economic markets. When you get down to it, the basic cause of the recent financial meltdown, for instance, was that countless loan officers in commercial banks, account managers in investment banks, and other professionals were encouraged to grow their own business with few sound controls.

The plight of America's big three automakers illustrates limits of the dying "capital-centered" economics. Under the traditional belief that profit is the only serious business goal, auto executives failed to serve the public's real needs for clean, energy efficient cars and they seem unable to work with the UAW in reducing wages and benefits. Wal-Mart's reputation for poor employee benefits and cut-throat treatment of suppliers is thought to have reduced its stock value by $16 billion.

It's going to be painful to yield the trusted belief in "pure" free markets, but we are starting to realize that the invisible hand can be nicely augmented with the visible hand of collaborative governance. A new field of "innovation economics" addresses the messy reality of unfettered markets that are prone to failures of the type being manifested on a global scale. With the critical factor of production shifting now from capital to knowledge, the great need is to form public-corporate partnerships to better handle the turbulence of today's fast moving, constantly changing economy.

At the level of the firm, socio-economic studies of large corporations make it clear that any enterprise is inherently a collection of these "social constituencies" or "stakeholders" whose contributions must be effectively integrated to create value if the firm is to survive. Progressive corporations are building a "collaborative corporate community" that is more productive and transparent. Nucor is America's most successful steel firm because of a cohesive corporate culture based on performance and collaboration. Top workers earn three times the industry average, and the CEO said: "Our culture outperforms anything by 30%, 40%, 100%." Johnson & Johnson has grown a robust 15% each year for 120 years by requiring each of its 80 small businesses to be self-managed, including having their own governing board.

Whole Foods allows small teams to manage themselves, including hiring new co-workers and selecting products to carry, and teams earn performance-based bonuses. Employees can be seen doing high-fives in the aisles, while the CEO is happy earning a paltry 14 multiples of employee pay, compared with the typical multiple of 500. Yet company stock multiplied 25 times under a philosophy that holds - "Profits are a by-product of treating people well, not the top priority."

Our financial institutions would be far less volatile, for instance, if banks worked more closely with the various parties essential to their operations. Politicians have argued the need to help homeowners avoid defaulting on mortgages. Greater transparency would result from employee-managed units carefully supervised with open performance measures in collaboration with corporate management. And the public's interests should be safeguarded by government regulations that ensure sound operations. Reforms of this type would go a long way to dispelling the gambling casino culture of Wall Street that serves mainly to fuel excessive consumerism, debt, and risk.

The challenge facing Americans is to resolve that puzzling contradiction between our Democratic ideals and a crass, authoritarian form of Capitalism. By extending a modest form of democracy into business, we could lead the world again by creating institutions better governed by the informed support of the governed.

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