**Editor’s Note:**

This issue of *Viewpoint* presents a conversation about business innovation and global sustainability between Academy Fellow Stuart Hart, Ph.D., whose best-selling book, *Capitalism at the Crossroads* came out in a third edition this year, and Academy Member Robert Tucker, whose latest book is *Innovation is Everybody’s Business*.

In this conversation, Robert elicits Stuart’s views on “the business innovation opportunity of the century,” progress on global sustainability over the last few years, and how “business innovation and entrepreneurship on an unprecedented scale” will reinvent the economy for a sustainable future, revolutionizing business and reinventing capitalism in the process.

Stuart is the S.C. Johnson Chair of Sustainable Global Enterprise and professor of management at Cornell University’s Johnson Graduate School of Business, where he founded the Center for Sustainable Global Enterprise. Before joining Cornell in 2003, he was the Hans Zulliger Distinguished Professor of Sustainable Enterprise and professor of strategic management at the University of North Carolina’s Kenan-Flagler Business School, where he founded the Center for Sustainable Enterprise and the Base of the Pyramid Learning Laboratory.

Stuart’s seminal article “Beyond Greening: Strategies for a Sustainable World,” won the McKinsey Award for Best Article in *Harvard Business Review* in 1997, and helped launch the movement for corporate sustainability. With C.K. Prahalad, he co-authored the path breaking 2002 article, “The Fortune at the Bottom of the Pyramid,” which first described how business could profitably serve the needs of the four billion poor in the developing world. Cambridge University selected *Capitalism at the Crossroads* as one of the 50 all-time top books on sustainability. Stuart has received numerous honors and awards for his work in the area of sustainable enterprise.

Robert is the President of *The Innovation Resources Consulting Group* in Santa Barbara, California, a consulting firm devoted to helping companies improve their top and bottom line performance through systematic innovation. His clients include over 200 of the Fortune 500 companies. His website gives a sample of his frequent public speaking and workshops.

The World Business Academy is pleased to share their conversation with our Members.
Robert Tucker: Since you first wrote *Capitalism at the Crossroads* in 2005, have you been pleased with the progress toward corporate sustainability or have you grown more pessimistic?

Stuart Hart: I have strong feelings of ambivalence when it comes to this question. On the one hand, the momentum for sustainable enterprise has grown substantially over the past five years, with much more activity today in the clean tech space and many more companies experimenting with business initiatives at the base of the pyramid. This is real cause for hope. On the other hand, the sub-prime crisis and the BP disaster remind us that environmental degradation and social inequity continue to worsen. We have not yet turned the ship in the direction of sustainability. And we are running out of time.

Robert Tucker: Do you think the stimulus bill passed by Congress will have a positive effect on accelerating the shift toward sustainability?

Stuart Hart: Most of the stimulus money has gone to “shovel ready” projects like road construction and repair of existing infrastructure. And while some of it has also been dedicated to energy efficiency projects and the creation of “green collar” jobs, these expenditures are not really going to help us turn the ship in the direction of sustainability. What is really needed is a sea change: massive investment in renewable energy and next-generation infrastructure, not just more pot hole filling and bridge repair. The race is on to see who will lead the creation of the 21st century sustainable economy, and so far, the U.S. appears to lagging behind countries like China, Brazil, and India. Ironically, many U.S. companies are actively engaged in this transformation, but most of the real innovation is happening outside the U.S.

Robert Tucker: What has been the impact of the global downturn on advancing the shift toward clean tech and the kinds of things you talk about in the book?

Stuart Hart: As I note in the prologue to the third edition of *Capitalism at the Crossroads*, the global downturn has finally made it clear to the masses that something fundamental is wrong. In 2005, many questioned the title of my book—after all capitalism ruled! Today, the landscape has changed substantially.
and few people question the title. It is now clear that decades of economic globalization, privatization, and “free trade” have produced mixed results at best. Whereas the wealthy in developed countries have grown richer and a new middle class has emerged in China and India, the vast majority of nations and people in the world have yet to benefit from the apparent triumph of capitalism. And the environment continues to take a beating. People from all walks of life have now begun to question the kind of economy that makes sense for their businesses, communities, and families. I believe that we have finally arrived at the turning point. The time is now to reinvent the economy for a sustainable future. And innovative corporations and entrepreneurs can lead the way.

Robert Tucker: You observe (page 94 of your book) that firms that develop disruptive technologies that address societal needs will drive growth and the firms that fail to lead development are “unlikely to be part of tomorrow’s economy.” Is there any evidence of lagging incumbents being seriously disrupted by clean upstarts?

Stuart Hart: We need look no further than the U.S. auto industry. Without the bailouts, GM and Chrysler would be gone. And because they made money over the past few quarters, there is growing confidence that the bail out “worked.” But just wait: the gales of creative destruction are just starting to blow. Will the Dinosaurs of Detroit be able to deal with the onslaught of innovation coming from India and China? Can they build and sell a reputable vehicle for $2,500 like the Tatas in India? Will companies like BYD in China come to own the electric vehicle space? Why are there no next-generation high-speed rail companies in the U.S.? I believe that over the next decade or two, every major industry wedded to unsustainable technology will be creatively destroyed and the corporations of the 21st century will rise to prominence.

Robert Tucker: Describe the most likely scenario ten years hence. Will there have to be some catastrophic global disaster to accelerate the focus on sustainability?
Stuart Hart: I certainly hope not. But nothing focuses the mind like a crisis. I fear that we still do not see the environmental and social challenges associated with global sustainability as the crises that they really are. Fortunately, entrepreneurs do not require crises to act—instead they focus on what might be. That is why I believe the challenge of global sustainability will be addressed through business innovation and entrepreneurship on an unprecedented scale. We can already begin to see the contours of this transformation taking shape: impact investing, social entrepreneurship, microfinance, clean tech venturing, base of the pyramid enterprise, sustainable enterprise. Taken together, these innovative new approaches will revolutionize business, and reinvent capitalism in the process.

Robert Tucker: Jeff Immelt said recently that firms should go after the billions of new consumers at the bottom of the pyramid. What CEOs do you think really “get it” and are embracing the new paradigm?

Stuart Hart: Ten years ago, when C.K. Prahalad and I first wrote “the fortune at the bottom of the pyramid,” very few CEOs could see the potential and need for focusing on the underserved or driving innovation from the base of the pyramid. Today, the list of CEOs and senior executives who “get it” is very long indeed. Awareness, however, is not enough. The real question now is which CEOs and companies will make the necessary investments and organizational commitments needed to build the skills and competencies to effectively serve the 4 billion poor at the base of the pyramid. This will require significant organizational innovation and change for large incumbent firms. In fact, the internal organizational challenge may be as significant as the external challenge of business model and strategic innovation.

Robert Tucker: In 2005, Walmart set the goal to be supplied 100% by renewable energy, to create zero waste, and to sell products that sustain resources and the environment. All this while still maintaining everyday low prices. Five years later, how have they done?

Stuart Hart: Walmart has been one of the real drivers of sustainable innovation over the past five years. Given their incredible buying power, they have effectively driven sustainability up the supply chain in ways that few of us thought would be possible. Driving sustainability while also maintaining everyday low prices
is also the key to making sustainability mainstream. Walmart is helping to shatter the presumed trade-off between environmental sustainability and cost competitiveness. In the process, they are helping to shift the mindset that going “green” is only for the wealthy and requires premium pricing. Indeed, only by transforming the mass market can we truly make headway toward a more sustainable world. This is the business innovation opportunity of the century.