

**INDEPENDENCE WITH A
CAPITAL I**

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Annual Report
Text 2007

**THE STORY ISN'T OVER YET.
ON THE CONTRARY.**

Capital Bank 2007

“A WORKING CLASS HERO
IS SOMETHING TO BE”
(JOHN LENNON)

Don't panic.
Even if the
following
pages might
confront you
with thoughts
that could
deeply worry
you.

THERE IS ONE SMALL PROBLEM.
KARL MARX WAS RIGHT.

We should all catch the first plane to Heathrow, get in a cab and request Highgate Cemetery. There, under an ivy-covered monument, lie the decaying remains of the author of the Communist Manifesto, the Communist theorist, Karl Marx. A steady stream of visitors comes to the cemetery to view the last resting place of the great man.

Elsewhere in the world, crowds flock to view the decaying remains of Marx's disciples.

We, too, should pay homage. We should pay homage to Ho Chi-Minh. He may be in a crystal coffin in Hanoi with a controlled environment of 60 percent humidity and 22 degrees centigrade, but he has the consolation that he was right.

Basically,
we're sticking
to our favour-
ite topic –
independence,
and the role
it plays in our
daily business.

The same goes for Vladimir Illich Lenin. Every 18 months he has a bath and is lowered into a mixture of water, alcohol, glycerine and potassium acetate. Two weeks later, his skin is as soft as a baby's bottom. Some 80 years after his death, Lenin's mausoleum is no more than a tourist attraction for capitalist comrades from the West. Yet, in spite of such indignities and ironies, Lenin was right. As was Chairman Mao Zedong.

Mao is now marketed with free market abandon – for a mere 50,000 Hong Kong dollars you can buy a 24 carat golden statue of the great helmsman from the Sing Kwong Jewelry & Gold Co. Place your orders for Erich Honeker tea sets and Enver Hoxha memorabilia now.

THEY WERE ALL
DIRTY COMMUNIST DICTATORS,
BUT THEY WERE ALSO RIGHT.

They were right because they subscribed to the Marxist view that the workers should own the major assets of society, the critical means of production. We now do – though we do so individually rather than collectively. And, perhaps, we did all along but we just didn't have the insight to realize it.

Workers control the principal means of production. The Revolution Part 1 is over. Workers – people in software houses in Frankfurt; shipyard workers in Stavanger; creative geniuses in Chinese ad agencies; suits in offices in Sydney; factory workers in Los Angeles; derivative traders in Singapore – use their brains and, sometimes, their brawn to create new wealth.

In a modern company 70 to 80 percent of what people do – often more – is now done by way of their intellects. The critical means of production is small, gray and weighs around 1.3 kilograms. It is the human brain.

The human brain is gloriously complex and intricate. It uses holographic organizing principles – the parts reflect the whole. Laboratory research even shows that you can take away nine-tenths of a brain and it will still work. Try doing that to your car, iPod or Sat Nav.

Our brain is capable of outperforming the most powerful computer on earth. Some of you may draw our attention to the chess battle between the IBM chess computer, Deep Blue, and the human Gary Kasparov. In February 1996, didn't the computer eventually beat the human grandmaster? It did, but the victory was possible because both players adhered to the rules, the given number of possible strategies.

Yet another reason to look for the brightest minds in the business. And have them work for your success.

The trouble for corporate chess players is that future competitiveness will not be about following rules. It will be about breaking old rules and making new ones. Future success will be about challenging current wisdom and moving your pawn from A2 to E7 in one move. Future success will be about solving Fermat's last theorem through creating your own rules.

It seems that John F. Kennedy was also right – even now when the computing power on planet earth is estimated to be larger than our assembled brain power – when he said that “man is still the most extraordinary computer of all.” People can be creative, come up with new ideas, invent new rules and sense emotions; computers cannot – yet!

While the human brain is celebrated as the most wonderfully designed, incredibly intricate mechanism, the matter of who actually owns it is blissfully simple. It is not controlled by shareholders, investment funds, or any other body. George Soros may be able to destabilize currencies and markets, but he has no control over your brain. Baghdad Bob can tell you that black is indeed white, but you don't have to believe him. Governments can issue all the propaganda in the world, but your brain is your own.

It is controlled, for better or worse, by the individual.

THE BATTLE OF BRAINS.

Perfectly formed and individually owned, the human brain is overpowering the traditional means of production – raw material, hard labor and capital. Try to think of one major, successful contemporary business organization that is brawn-based. Even the Mafia and the Hells Angels are now driven more by brainpower than by brutality and horsepower.

Not a carmaker. Manufacturing cars competitively in the new millennium is concerned with utilizing technology to manage logistics; to design and manufacture great products; to provide service support; and to communicate internally as well as with networks of suppliers and consumers.

Value no longer resides in the metal or the engine. Instead, value lies with the intangible elements. Some 70 percent of the value of a new car lies in the intangibles.

Henry Ford is often celebrated for his invention of the five dollar day. This is usually referred to as a glorious act of capitalist benevolence. Highly unlikely we suspect. Old Henry's thinking was impeccably capitalist: greed was good and higher wages meant it was more likely they'd buy the cars.

The result is that the brawniest car producer will be the bankrupt car producer. Car manufacturing is not about mindless, repetitious tasks carried out on a production line. Henry Ford is long dead and so are his methods.

Ford once lamented, "How come when all I want is just a pair of hands I get a human being as well."

Now, most successful companies are more likely to ask – who needs hands?

Jack Welch, former head of General Electric, once predicted that GE Capital could amount to 50 percent of the company – not in terms of employees, office buildings, and parking lots, but in terms of profits. Why did the undisputed king of heavy industry turn soft?

Where do all of our good results come from? If we were to say it in a single sentence – from a committed and dedicated workforce.

BECAUSE NOWADAYS THE REALLY HARD STUFF IS THE SOFT STUFF.

Jack Welch's retirement endeavours – marriage to the former editor of the Harvard Business Review whom he got to know rather too closely at an interview and a string of saccharine self-help bestsellers – should not detract from what he stood for: straight-talking, results-driven, hard-working, a blue collar in the ultimate white collar job. Welch is the Springsteen of the corporate world.

Entire countries increasingly compete on the basis of knowledge. If you think back, all countries became rich through a combination of natural resources, labor and capital. Think forward and these factors are no longer relevant. In our age, you cannot earn money from natural resources alone.

Even the Pope agreed. In his 1991 centesimus writings, Pope John Paul II concluded: "At one time the decisive factor of production was the land, and later capital... Today the decisive factor is man himself, that is, his knowledge."

Business success is, as a result, a matter of herding flocks of brains. It doesn't matter whether we are talking about Thailand, Germany, Turkey, the United States or Chile – primacy of knowledge is the only thing we are left to compete with. Natural resources, labor and capital, are rapidly diminishing in importance. Look at Dubai: no oil, but lots of talent. That's why Bill Clinton and Tony Blair talked about a 'cold knowledge war'.

They were determined to create conditions facilitating brain gain rather than brain drain. The Cold War of the post-war years was about brawn – as symbolized by lines of tanks rumbling past the Kremlin; the new cold war is more subtle (it comes in lower case for a start), but equally crucial – it is brains battling brains.

THE THIRD KNOWLEDGE REVOLUTION.

'Knowledge is power' is a neat aphorism. It has been used for decades in a loose, vague sort of way. We said it, and we may have said it repeatedly and loudly, but, however loud we shouted, there was the underlying belief that it really wasn't true – the reality was that force was power or, perhaps, power determined what was considered as knowledge.

Now, knowledge really is power. We can shout it and believe it. Use all the force you want. Bludgeon down walls; threaten and cajole. It won't get you anywhere if you are dealing with someone who is smarter, quicker and hungrier. A nimble lightweight will always beat a ponderous heavyweight – except in the boxing ring. Neanderthal man is long gone; now we must bid farewell to Neanderthal behavior and thinking.

Skeptics might say that the role of knowledge in moneymaking activities is nothing new. They would be right. In 1452, mankind saw the dawn of the first knowledge revolution. Johann Gutenberg's invention of the printing press made information more widely available than ever before. Some 500 years later we were hit by the second wave when radio and television began to dominate our lives.

Fantastically, the early 1990s marked the beginning of the third wave. As Time magazine put it, instead of 500 TV channels, we now have millions of websites.

And they are interactive, two-way and live. The scale and speed of the third knowledge revolution is what makes it so different. It is calculated that some 90 percent of all scientists that have ever walked the face of earth are alive right now.

When the US Army fought the Vietnam War, only 15 percent of the soldiers had a college degree. During Operation Desert Storm, approximately 99.3 percent of the soldiers were college graduates.

One of the interesting things about the even more recent Iraq War is that the best military minds are not necessarily planning battlefield strategy. Instead, they're dealing with the media. Leading the American media offensive was Brigadier General Vincent Brooks, one of the US Army's brightest officers and, according to one report, 'a master of both vivid description and impenetrable obfuscation.'

Knowledge is the new battlefield for countries, corporations and individuals. We all increasingly face conditions that demand more knowledge for us to function and, in the long run, for us to survive.

You can't build a wall around knowledge. You can't isolate it. It is there. It is crackling down phone lines. It is in the air; in cyberspace.

Constantly evaluating and adapting our knowledge and expertise counts among the features that give you the certainty of being well serviced in terms of your assets.

BUT BEWARE, ARTICULATED KNOWLEDGE IS INCREASINGLY BECOMING A COMMODITY.

It envelops the human race. The internet makes almost anything available to anyone, anywhere, and at anytime. It is gloriously (and worryingly at times) independent of time, space and device. If knowledge is power, power now potentially resides everywhere. The scale of the changes, and of the opportunities, makes this a genuine revolution.

In such times we are all condemned to be perpetually un(der)-educated.

An interesting footnote is that Socrates is strangely fashionable in business literature. Socratic discussion and questioning is in. We are all ears.

The revolutionary manifesto moves around the world with frightening speed. Once you could have a monopoly on knowledge, as an individual or a company, for a fairly long period of time. If a company had a smart idea in 1950, it took a while for others to jump on the bandwagon or even to find out.

The archetypal firms of the early and mid-twentieth century were companies like the UK glassmaker Pilkington; the South African mining company De Beers; and the American giant, Xerox. These companies often had as long as 20 or even 30 years to globally exploit their firm-specific advantages – the stuff that made them unique. They could use an incremental and sequential internationalization process, gradually adding nation after nation. They conquered Argentina, then moved onto Peru and so on. The world could be inexorably dominated.

This is no longer the case. Today, knowledge spreads internationally and instantly. Business best practice moves faster than ever before. Business schools and universities spread the word with remorseless efficiency. In the 1960s, US business schools graduated some 5,000 MBA students per year. Today, that figure is 75,000. Back in 1967, two such MBA programs existed in the UK. In 2006, 152 programs were up and running. In the US, there are now around 800. In the United States

alone, there are nearly half a million MBA students, and that number should reach one million by 2012. Around 100,000 MBA graduates are let loose on the world every year. As they nurse their graduation hangover, they might like to contemplate the fact that much of their knowledge is already out of date.

Following our company's slogan one might say – Education with a Capital E. Which means we have more than doubled the amount of in-house training.

KNOWLEDGE SPREADS.

The Danish hearing-aid company Oticon launched a different way of organizing itself – project organization instead of regular hierarchy, no papers, new office architecture, etc. It was innovative and imaginative. Jack Welch of GE launched the concept of an organization without boundaries – transforming the whale into a shoal of dolphins. Before long, such bright ideas are written up in case studies. Organizations benchmark. They look around. Word spreads. Other companies copy Oticon and GE. Like some deadly virus, once knowledge is out there, it cannot be stopped.

Therefore, we have abolished the typical bank-style command structures and replaced them with a system of independent decisions by our experts.

As a result, there are no more one-size-fits-all answers. Instead, we supply our customers with well-founded solutions to their problem. For further information on how Capital Bank operates just have a look at our 'Declaration of Independence.'

REVOLUTIONS. REVISITED.

The fact that Karl Marx and his dictatorial disciples were right does not mean that we are reconstituted Communists. While they were right, they were far from entirely right. Indeed, they may only have been right about one small thing.

If you look around, the rich have never been wealthier. If you look around, capitalism has rarely looked healthier.

Of course, not everyone agrees with this view of the world. Complacency is easily found. Before he fell sick, in one of his execrable and lengthy sermons, the Cuban leader Fidel Castro informed his long-suffering people that they were going through un periodo especial. Castro promised that normal service (or lack of service if you are Cuban) would be resumed shortly. Castro advised his people to sit tight, wait, and relax. They are probably still waiting – and now, with some apprehension, for his successor. It is not often that you encounter someone who is totally, completely, absolutely, 100 percent, wrong. But, Fidel is. Revolutionary zeal has turned into wishful thinking.

Like it or not, change cannot be turned on and off. At the moment it is pouring uncontrollably. Put your hand over it and the water will spread in all directions. Sit back and you will drown. Welcome to the real revolution, Fidel.

The reality is that the revolution we are currently experiencing is bigger than Marx could have imagined. It is a revolution that will change the very nature of our societies, economies, industries, firms, jobs, and personal lives. It is all-embracing. And it is happening now. You may not be able to see barricades in the streets and tear gas filling the air, but it is happening – in your and our minds.

In all likelihood you have never experienced a revolution. Nor have we. (We are European after all.) But, we know that during revolutions you throw out the rulebook.

Herb Kelleher did just that at SouthWest Airlines. He set fire to it. Greg Dyke did much the same at the BBC. His rule-eliminating initiative was engagingly called ‘Cut the crap’. Unfortunately, thanks to the deadly spectre of politics, Greg didn’t cut it at the BBC.

Revolutions are lawless, spontaneous and dangerous. We are not suggesting you begin looting, but pointing out that, in this new environment, there are no rules, there are no laws, nothing is given. There is constant motion – perpetual crises. Traditional roles, jobs, skills, ways of doing things, insights, strategies, aspirations, fears and expectations no longer count. In this environment we cannot have business as usual. We need business as unusual. We need different business. We need innovative business. We need unpredictable business. We need surprising business. We need funky business.

FUNKY BUSINESS IS TRULY GLOBAL.

The word 'funk', once defined in dictionaries as body odor or the smell of sexual intercourse, was commonly regarded as coarse or indecent. African-American musicians originally applied 'funk' to music with a slow, mellow groove, then later with a hard-driving, insistent rhythm because of the word's association with sexual intercourse. This early form of the music set the pattern for later musicians.

But that's not the reason for asking two of the world's most prominent economic thinkers to outline their views.

NO KIDDING THIS TIME.

Internationalization has gone through a number of false dawns. Now it is the real thing. There are no borders for Luciano Pavarotti or the Kaiser Chiefs, a band from Yorkshire in the UK, named after a South African soccer team, who opened Live8 in Philadelphia. Madonna feels no borders. Lenovo does not care about nation states. Terrorism cuts across the globe and you have to carry your toothpaste in a plastic bag at the airport. And we have never seen a larger economic space. During the last 40 years, international trade has increased by 1,500 percent.

The most recent figures: Total merchandise trade of exports was worth 58,000 million in 1948; and 10,431,000 million in 2005 – that's US dollars at current prices.

No wonder, when average tariffs have simultaneously been slashed. We travel the world and the seven seas. We have global satellite channels, international magazines, TV shows, movies, hit records, etc. The global village envisaged by Marshall McLuhan in the 1960s is here.

Capitalism is on the move. Look at Eastern Europe and the former Soviet Union.

There are more than 30 new nations in the UN since the Wall fell – such as Belarus, Ukraine and Georgia.

Some are poor but want Western affluence as quickly as possible.

So, they have been exporting madly. They export pulp and paper products. They export software. They export chemicals. In fact, they export everything they have. They are cold – freezing to death – and still export coal and oil. They are the new competitors. Even wealthy Switzerland joined the UN in 2002 after more than fifty years of hesitation.

Many more are joining the throng. In the mid-1990s, there were roughly 200 million people outside the OECD with realistic notions of joining the capitalist march. Countries like Japan, Singapore and Hong Kong were coming up fast. They were within reach. Now more than 3,000 million people are on the move. OK, we're not actually sure where we got this figure from. The world population is 6.5 billion and

how many of them are prepared to chase economic prosperity?

Since Funky Business was published, hundreds of thousands of Poles have moved to the UK. Towns like Reading now have a Polish newspaper and fantastic plumbing.

Many, many millions. They come from the Indian sub-continent (1 billion people), the former Soviet Union (143.5145 million), Poland (38.639 million), Vietnam (84 million), Pakistan (162.5163 million), Indonesia (2465.5 million) and so on.

What is staggering is that the figures we used in Funky Business were much lower. The population of countries such as India is still on the up – many millions up on even a few years ago.

They are all in the process of building lives and societies similar to those in the West. They would like the same comfort, material possessions and decadence. They will achieve their objectives. It is simply a question of when. In India, 20 percent of the people already have the same standard of living as the average European (in purchasing power parity terms). In 2006, 22 percent of Indians lived under the poverty line.

An awful statistic we know, but down from 50 percent in 1995. At this moment, in Bangalore, 140,000 IT engineers are at work. Bangalore is now the world's second largest city for software development.

Novell is there. Siemens is there. Ericsson is there. In fact, more than 20 percent of the Fortune 500 companies are there. Multinationals are not in India for charitable purposes. Think how much these Indian engineers earn. The answer is something like \$1,000 a month. Why would you hire anyone from Sweden, Germany, France, or the US, when Indian engineers work so cheaply and the quality of their work is identical to that found in our supposedly advanced societies? The economics could not be simpler; the ramifications could not be more profound.

So tough is the competition from the experts of Bangalore and beyond that some of the most prestigious US universities – including Stanford, Berkeley, and UCLA – already operate a quota system to limit the number of non-American students. The stark truth is that, competing on grades alone, many US students would not stand a chance against their Asian fellows. Limiting this talent pool has been questioned by authors like Richard Florida. Without a flow of students from abroad the US might become less innovative over time, he anticipates.

In the global village we can't do it alone. Sisters and brothers simply can't do it for themselves. We need to find world-class partners. We need the best – the best architect, the best supplier, the best consultant – rather than the closest. This is already happening.

Who makes how much money by doing exactly what? As far as we're concerned, we've answered all these questions in our 'Declaration of Independence.' Which is, in fact, your declaration of independence.

Think global,
but act close
to our cus-
tomers. That's
the way we
like to work.

The Ford Focus is produced by factories in: Saarlouis, Germany; Valencia, Spain; Santa Rosa, Laguna, Philippines; Pacheco, Argentina; Chongqing, China; and Wayne, Michigan in the United States. Kits are supplied for assembly to Vsevolzhsk near Saint Petersburg, Russia. The intermediary products that make up Ford's Escort model come from 15 countries. These include not only raw materials, but components and entire systems which come from a worldwide network of subcontractors and suppliers. The cars are finally assembled in two plants, one in the UK and one in Germany. The economic realities of our time mean that everybody competes with everybody else. All of us are in global competition.

The long-tail phenomenon is not simply a neat idea for a book, it's happening. The category 'others' is growing in most industries. Now, it can be incredibly profitable to target small groups of consumers.

Individuals are in global competition. Companies are in global and generic competition. Countries are in global competition. There is nowhere to run and nowhere to hide. For us. For you. For Enron. For Fiat. For U2. For Oprah. For Leo DiCaprio.

FOR EVERYTHING IS EVERYWHERE.

In the West we have been brought up with the belief that more is good. This is not necessarily true. But, more is certainly evident wherever you look. More products; more markets; more people; more competition. More is a fact of life.

In 1996 at the Atlanta Olympics, Sweden won two gold medals.

When the medalists returned to Stockholm, they held a press conference at the airport. One medal winner pointed out that athletes from 53 nations took the 271 gold medals on offer at Atlanta. Four years earlier in Barcelona, 37 countries won gold medals. She predicted that at the Sydney Olympics in 2000, 80 or 90 nations would be able to win a gold medal. If you are an athlete you don't know where the competition is going to come from next.

She was wrong. Only 51 nations did, but the point is still valid. It is becoming harder and harder to win gold in athletics or car production.

A similar rule applies elsewhere. Even the hallowed and sheltered halls of academia are not immune. We taught at the Stockholm School of Economics. At the time we worked there, in some years there were 5,000 applicants for just 300 places. Those who succeeded in getting into the school had the highest grades in every single subject, truly Renaissance men and women. The School was founded at the beginning of the twentieth century to educate the elite of the elite. Twenty or so years ago if you were Swedish and interested in business administration and economics our school was the only real choice. The same was largely true just five years ago.

Now, bright, twenty-year old Scandinavians look around. They look at the Universität zu Köln, Ashridge in the UK, SDA Bocconi in Italy, INSEAD in France, Duke University in North Carolina. They weigh up the pros and cons. They compare the schools. Stockholm used to be the only choice, now it is one of more than 1,000. And things will only get worse – or better depending on who you are.

The net will spread so that students automatically consider (so far un-built) Asian business schools or even schools in cyberspace. There are now more than 1,000 MBA programs to choose from in India. Alternatively, you can obtain a perfectly acceptable MBA if you stay in Lapland, buy a PC, read your Michael Porter assiduously and never leave home.

We are moving towards what academics call techno-economic parity. Techno-economic parity implies that there are very few commodities, technologies, products, services, insights, knowledge areas or procedures in London, Paris and New York, Milan and Madrid that are not also available to our friends, brothers and sisters in Bangalore, Seoul, Gdansk, Buenos Aires and Kuala Lumpur. Techno-economic parity also implies that the basic prerequisites for doing business are becoming more flat by the day.

The playing field once had a slope as steep as Mont Blanc. Now it is being forced to the horizontal. In essence, techno-economic parity means that the best man or woman wins, no matter where they come from. The industrialized world no longer has a knowledge monopoly because knowledge moves freely. So we all need to prepare for the 'Business Olympics'. And, this event is not held every four years. It is happening now – in real-time, nonstop.

FUNKY BUSINESS REQUIRES A CREATIVE SEARCH FOR DIFFERENTIATION.

In the wild market economy which now exists it is increasingly difficult to differentiate yourself. If you think about it, most of what your business does could be bought from someone else using the Yellow Pages or Google. If you have a unique idea your competitors will steal it in two or three weeks. With three billion people in the process of building lives and societies similar to our own, competitive pressures are reaching boiling point. And they will keep on simmering.

There is only one way out. It is deceptively simple: Stop the karaoke and do something else; do something that the world has not seen before. Innovate so that you are, for a moment in time, unique and uniquely competitive.

But, be warned, you will have to be unique in new ways. The old way of achieving uniqueness was to add a few extras to your product. This no longer works – it will be copied within days, perhaps hours, and consumers are no longer so easily fooled. Organizations, services and products are becoming more and more similar. Often you need a microscope to spot the differences.

In the United States, the car industry waits expectantly for reports from the rating institute, JD Power. Its final report for a recent year began with the observation that ‘There are no bad cars any longer, because they are all good.’ The car companies, whether they are Audi, Toyota, Ford or Renault, understand all the technology at their disposal. They understand each other’s products. They take them apart and examine their innermost workings. Differentiation in the car industry must, therefore, come from other areas. The new competitive battlefield is not the engine or the air conditioner – it is the design, the warranty, the service deal, the image and the finance package. Intelligence and intangibles. Emotions.

And, of course, people. People can make your organization, your products, and your service solutions unique. How you manage and lead people, how you organize your operations, will determine whether or not you succeed.

As a result, we need to rethink our definition of what is really valuable. According to the Economist, the new acid test is whether it hurts when you drop your competitive advantage on your toes. If it does, you should start rethinking the way in which you operate.

Things that were in demand used to consist of a little knowledge and a lot of stuff. The new valuables are made up of a little stuff and a lot of knowledge. Stuff it! The average weight of a real dollar's worth of US exports has more than halved since 1970.

FUNKY BUSINESS REQUIRES ORGANIZATIONAL INNOVATION.

Organizing is the art of achieving extraordinary things with ordinary people. In our times, organizational innovation means creating conditions that enable a constant flow of creativity, not the churning out of yet another standardized product or service. Therefore, the funky firms needs to be different, look different and work in new ways.

All modern companies compete on knowledge, but knowledge is perishable. We must treat it like fresh milk – we have to date it.

Unless we use the knowledge of our firm it becomes sour and loses its value. Continuous innovation, both revolutionary and evolutionary, is a necessity. Or, as David Vice famously put it when he was CEO at Northern Telecom: “In the future there will be two kinds of companies – the quick and the dead.” We are either fast or forgotten.

In the new economy, there are no speed limits. Agility rules. Speed is everything. The need for renewal is something that applies to everything in the organization; it concerns everyone; goes on everywhere; and is nonstop. “We intend to move as fast as we can, ripping up the road behind us,” says Intel’s Craig Barrett. And he means it. Look around and the advice is simple.

MOVE IT. In a single year, 1000 new soft-drinks were launched on the Japanese market. A year later, one percent was still for sale.

MOVE IT FASTER. At Hewlett-Packard, a majority of revenues come from products that did not exist a year ago.

MOVE IT NOW. In Tokyo, you can order a customized Toyota on Monday, and be driving it on Friday.

FUNKY BUSINESS PUTS MANAGEMENT AND LEADER- SHIP CENTER STAGE.

Leadership and management are more important than ever before. Gurus and commentators have been proclaiming this for years, maybe because it justified their existence. Now it is reality. This is the age of time and talent, where we are selling time and talent, exploiting time and talent, organizing time and talent, hiring time and talent, packaging time and talent.

Talent = Intellectual capital + Social capital + Psychological capital. To succeed in making financial capital dance you need know-how and know-who, plus a can-do attitude. So the smart thing to do is to enhance your competencies, develop your community and to be courageous.

THE MOST CRITICAL RESOURCE WEARS SHOES AND WALKS OUT THE DOOR AT AROUND FIVE O'CLOCK EVERY DAY.

We are not suggesting that everyone who wears shoes is a critical resource. It's the right people. Also remember that seen from the firm's perspective the wrong people are liabilities, not assets.

As a result, management and leadership are keys to competitive advantage. They differentiate you from the mass. How you attract, retain and motivate your people is more important than technology; how you treat your customers and suppliers, more important than technology. How a company is managed and how a company is led are vital differentiators. They can create sustainable uniqueness. But just as management and leadership have reached maturity as potent competitive weapons, their very nature has changed.

THE BOSS IS DEAD.

The executive dinosaur – witness David Brent in ‘The Office’ – is officially extinct. (Obviously, members of the species are usually the last to realize that their days are numbered.) No longer can we believe in a leader who claims to know more about everything and who is always right. Management by numbers is history. Management by fear won’t work. If management is people, management must become human-agement.

THE JOB IS DEAD.

No longer can we believe in having a piece of paper saying ‘job description’ at the top. The new realities call for far greater flexibility. Throughout most of the twentieth century, managers averaged one job and one career. Now, we are talking about two careers at least and seven jobs or more.

The days of the long-serving corporate man, safe and sound in the dusty recesses of the corporation, are long gone. Soon, the emphasis will be on getting a life instead of a career, and work will be viewed as a series of gigs or projects.

Inevitably, new roles demand new skills. Thirty years ago, we had to learn one new skill per year. Now, it is one new skill per day.

Tomorrow, it may be one new skill per hour. Skills like networking – in 1960, the average manager had to learn 25 names throughout their entire career; today we must learn 25 new names every single month. Tomorrow, it may be 25 new names per week (and half of those are likely to be names from different languages).

FUNKY BUSINESS GIVES US THE POWER.

No jobs but more power. We now own the major assets of society – our own minds. And power equals freedom. We are all potentially free to know, go, do and be whoever we want to be. We can choose. We can be picky. It is up to us. But freedom is not something you are simply handed. It is something you conquer.

And today power lies in controlling the scarcest of resources: human intelligence.

The more unique we are, the better we will do.

And as opposed to physical resources, knowledge grows with usage and is portable – you can take it with you when you leave. So, if you really want to build a good life – and/or just make money – the route to success couldn't be clearer: get at it and get going. The power is yours to use and abuse.

INTO THE FUNKY FUTURE.

With the introduction of the plantation, we moved from the hunting and gathering society into the agricultural one and, with the coming of electricity, we entered the industrial era. Lenin once said that Communism equals Soviet power plus electrification of the entire country. Funkyism equals information mania plus the power of choice.

Some call our world the knowledge society and others the brain-based one. The only thing certain is that the critical skills and answers of tomorrow will not be those of today.

More important, however, may be the fact that the relevant questions are changing. Paradoxically, the ability to forget – unlearning – is becoming a key asset in a business world changing at the speed of light.

Change then change again. We are facing a world of chaos and genuine uncertainty. The new realities have been pithily described by Kent Foster, now the CEO of Ingram Micro, as: “Products that are still evolving, delivered to a market that is still emerging, via a technology that is still changing on a daily basis.” It won't slow down for you to understand what is going on or to take a snapshot. In such a world, the only thing that we can trust is that the certain becomes uncertain, and the unlikely becomes likely.

THE FUTURE
CANNOT BE PREDICTED –
IT IS TO BE CREATED.

Either you see things happen or you make them happen. You may be tempted to categorize the ideas and trends discussed in this book as good or bad, black or white. Resist temptation. Evolution is not right or wrong – it just is. We may use electricity to kill people or to make toast. Electricity is. The Internet can be used to distribute child pornography or to meet your future spouse.

Owning money is no longer attractive in itself. What's much more interesting is what you do with it. And that again depends on where your money is invested.

The Internet is. The future does not exist. It is not good or bad. It becomes what we make it. “What is is,” says the Dalai Lama (while Bill Clinton labored over the exact meaning of is).

Bill Clinton is no longer in office and his semantic difficulties pale against those of the Bush administration. As ex-Defence Secretary Donald Rumsfeld put it so eloquently: “Reports that say that something hasn’t happened are always interesting to me because as we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns – the ones we don’t know we don’t know.” Similarly, Henry Kissinger is reputed to have walked into a press conference and said, “Does anyone have any questions for my answers?” Welcome to the knowledge economy!

FUNKY IS.

Funky business means there will be many more questions with fewer and fewer answers. Einstein was wrong. No single theory can guide us. Diversity rules. Questions rather than answers fundamentally drive the future. And along the way do not expect any help from technology, because, as Pablo Picasso once pointed out: “Computers are useless. They can only give us answers.” But, if you ask smart questions, in a unique way, faster than anyone else, you will be momentarily ahead of the game. Enjoy it. Seconds later you have to think of the next question. Then the next.

FORCES OF FUNK

If you are in danger of underestimating the new funky world, simply recite a selection of the facts below. Expect the unexpected. Forget fact-checkers; now we need funk checkers.

Gerry Adams of Sinn Fein and archenemy loyalist, the Reverend Ian Paisley, held a press conference together.

In 1999, his holiness, Pope John Paul II, launched a CD ‘Abbà Pater’ on which he rapped. In a collaborative effort with techno and ambient musicians the Pope went pop. Later the Vatican announced the launch of a follow-up CD on which you could listen to the Pope’s prayers as interpreted by N’Sync and Britney Spears. Oops, they did it again!

The terrorist group Die Rote Armee Fraction sent a letter to the media in 1998 declaring that they were closing down their operations. They claimed that there was no longer any fertile ground for their ideas. In February 2007 a Stuttgart court ruled that Brigitte Mohnhaupt, the last of the incarcerated members of the RAT would be paroled and released.

Things definitely got weirder. By the time we came to write Karaoke Capitalism, some four years later, we looked at a world where the best rapper was white and the best golfer was black; Larry Flynt, founder of porno-magazine Hustler, wanted to become Governor of California and his main contender in the race was the Terminator – Arnold Schwarzenegger; France accused the US of arrogance; and Denmark sent a mini-submarine to a desert war. God and Mammon finally join hands and make friends. A UK university now offers an MBA in church management.

Article 11 of the Chinese constitution has been revised to read: “Individual, private and other non-public economies that exist within the limits prescribed by law are major components of the socialist market economy.” The constitution goes on to say that, “The State protects the lawful rights and interests of the individual and private sectors of the economy, and exercises guidance, supervision and control over individual and the private sectors of the economy.”

The GE factory in Louisville, Kentucky, was built in 1953 and has 25,000 parking spaces. Impressive. The problem is that in 1997 the factory only had 10,000 employees and, by 2003, GE employed about 7,600 employees in the whole of Kentucky.

Hermes’ Grace Kelly bag takes 17 hours to produce and can cost up to \$50,000 new. A Hermes Birkin bag (named after British-born actress and singer Jane Birkin, long resident in France) fetched \$64,250 at auction in New York and a single artist can spend up to 25 hours painstakingly constructing the bag. Nissan leads auto manufacturers on productivity with 28.24 labor hours per vehicle – just over three hours longer than a Hermes bag.

THE WORLD IS A STAGE
(AND THE STAGE LOOKS LIKE
A MARKETPLACE).

We all play roles – organizations as well as individuals. But instead of conventional costume drama, we now have constant, unscripted, improvised theater. The director has left, the original play is cancelled and the script is missing.

The spectators are pouring onto the stage, joining the actors, demanding leading roles. Boundaries are blurring. Every role is vacant. Old rules no longer exist – the goodies and the baddies are the same person.

EVERYTHING IS UP
FOR GRABS.

We are all contributors to the new society developing in front of our eyes. It is horrifying. It is fantastic. It is frightening. It is fun. It is depressing. It is weird. It is the funky village.

And if the world is being propelled headlong down a corridor of endless uncertainty and unceasing surprise, you would be justified in asking what forces are pushing us at the speed of sound?

Who closed down the theater, sacked the director and shredded the script? What has got us into such a funk?

We do not believe there is anything particularly mysterious about the forces behind the revolution we are now witnessing.

Revolutions are never subtle events. Tidiness and order aren't paramount as you storm the palace. At times of radical change, nuances are usually notable by their absence. We believe the three drivers moving us forward into the unknown are changes in technology, institutions and values. None operate in a vacuum. All overlap and interlink. Their impact is on each other as well as on society, companies and individuals.

TECHNOLOGY: THE ENDLESS RIFF.

Technology – in the form of biotechnology, nanotechnology, information technology, transportation technology and many other guises – is reshaping our world. Technology is the rhythm section of funky business.

Management guru Tom Peters provides a pithy summary of where we now stand: “The nerds have won.”

Technology is not just a matter of nuts and bolts or bits and bytes. It is not a sideshow, but the ultimate in mass participation.

It is now possible to replace defective DNA before a baby is born. Designer sperm is a reality. There is even a sperm bank where donors are Nobel Prize laureates. There is something bizarre about a world in which people first accept an award from the hand of a king and then go to the clinic to use their own hands for an entirely different creative purpose.

It is curious – and a little daunting – to think back just a few decades. In the fifties, sixties and seventies, technology was the domain of the military, rocket scientists, obscure academics and professors working in the R&D departments of pharmaceutical companies. Technology was Nobel laureates, Yuri Gagarin, Apollo, missile systems and radar. Then it became commercialized, hijacked by entrepreneurial geeks. Creators of weapons of mass destruction dumbed down (or dumbed up, depending on your prejudices) to become instruments of mass entertainment like games and gambling.

TAKE THE COMPUTER COMPANY SILICON GRAPHICS.

Fifteen years ago this company’s most sophisticated customer was the US Army; then it became Mickey Mouse. When Silicon Graphics gets a new request from the Disney Corporation or Steven Spielberg, the engineers know that their paymaster is on the line. Today, it is movies and computer games rather than missile systems that frequently drive the most sophisticated developments in IT. Similarly, often it is retailers rather than manufacturers who lead the IT way. Software has the upper hand over hardware.

THE RIFF OF TECHNOLOGY IS UNSTOPPABLE AND IRRESISTIBLE.

Axiom: technology is changing and will continue to change faster than any government can issue regulations to control it. It is easy to forget how far we have come in such a short space of time. Alvin Toffler, a man with his eyes open to future possibilities and who calls himself futurist, wrote his best selling *The Third Wave* in 1980.

Alvin and Heidi Toffler's *Revolutionary Wealth* was written in 2006. The Tofflers focus their attention on the revolution in wealth now sweeping the planet.

Look at it now and you will be startled. It was written comparatively recently, yet the technological leaps made since its publication have been immense. Toffler, for example, has to explain what a word processor is – ‘the smart typewriter’ or ‘text editor’. He envisages the office of the future: “The ultimate beauty of the electronic office lies not merely in the steps saved by a secretary in typing and correcting letters. The automated office can file them in the form of electronic bits on tape or disc. It can (or soon will) pass them through an electronic dictionary that will automatically correct their spelling errors. With the machines hooked up to one another and to the phone lines, the secretary can instantly transmit the letter to its recipient’s printer or screen.”

In 1980 to the vast majority of Toffler’s readers this read like science fiction. Now, it is reality to the vast majority of people in the industrialized world. To some, it is already dusty history.

DIGITAL DATA.

The central contribution of technology to funky business is in creating communication and information systems. The impact of information technology is omnipresent.

Today, information flows freely. You can't avoid it. It's like getting sand in your swimming trunks – a little annoying and close to impossible to get rid off. The rhythm is never ending, like some mystical chant. Beat after beat. Today, there is far more computing power in the average car, than there was in the first Apollo spacecraft that took man to the moon. There is more computing power in a greeting card singing Happy Birthday than existed on planet earth back in 1950. One Blu Ray disc has the capacity to store 25 million pages of text. That's around 100,000 Funky Business books. Not so long ago the fax was an important technological advance. Who now trumpets fax technology? Ditto the electric typewriter (with memory!). Ditto the floppy disc. If we were to see the same development in the field of air

travel as that we have witnessed in the IT industry during the last 25 years, a flight from New York to Scandinavia would not cost \$500 or more and take some eight hours. In fact, by now it would take under one second and cost less than one cent.

The downside would be that the plane would be tiny and would crash once a week – trivial matters with such a price/performance ratio. The beat goes on. The current wave of digitization is already affecting us all. IT development continues to make huge leaps. Most people in the West have a mobile phone or two. Our homes may soon be gadget-filled temples of virtual reality – just like Bill Gates' but smaller.

We admit that we sometimes gave Mr Gates a hard time in Funky Business. His philanthropy is magnificent and carefully thought out.

The momentum is unstoppable for a variety of reasons. Think, for example, of how little fun it would be if you were the only one with a mobile phone, the only person with access to e-mail or if you belonged to a network of one. Ludicrous perhaps but it does lead to a more significant insight. ‘Metcalf’s Law’ states that the experienced utility of belonging to an electronic network increases exponentially with the number of users. Put simply, it is more than twice as fun if there are two instead of one.

And then there are three, then four and so on. Once these networks reach critical mass, they explode. It appears such fun to join that people just cannot resist. They spread as remorselessly as ivy. Mobile phones and the Internet demonstrate Metcalf’s Law in practice. It is notable that the dissenting voices about either of these technologies are now rarely, if ever, heard. The Luddite traditionalists who cast the internet as Big Brother have been silenced – many, no doubt, have signed up and are cruising somewhere in cyberspace.

In 2007 internet usage surpassed gardening as the preferred pastime for pensioners in a UK survey by the AXA insurance company. The Brits are blooming in front of their screens.

Those who continue to be critical usually miss the point. “Put me in a room with a pad and a pencil and set me up against a hundred people with a hundred computers – I’ll outcreate every goddamn sonofabitch in the room,” says the writer Ray Bradbury, mistaking the creative opportunities offered by technology for creativity itself.

The more well-known or used your customer offering is, the more people will want to use it. As a consequence, sooner or later, someone is probably going to start giving away whatever it is you are now selling. Give it away to gain these initial advantages and eventually kill all the others.

DIGITAL DREAMS.

New technology increases both nativity and mortality. Eras come and go. Winners rise and fall. Every now and then, the fundamentals on which society is built erode and our constructions collapse. The old must make room for the new. When shipping became a potent force for the creation of competitive advantage, cities such as Venice and Lisbon flourished. Later, railroads turned these cities into tourist attractions while new junctions became more critical. Then came the automobile. Then the airplane. Just as Petra in the Middle East lost its position as a leading commercial center and is now mainly of archeological interest, digitization will exterminate some species and enable new ones.

IT DECREASES TIME AND SPACE.

We live in a shrinking world. Cyberspace – once described by author William Gibson as a ‘consensual hallucination’ – is the seventh continent. We no longer have a workplace; we have a workspace – and a lifespace and the two seem to melt together with time. Our publisher moves his entire office from Stockholm to Majorca to escape the winter. A laptop, a printer and a broadband connection is all he needs. Then he moves back with the migrating birds. The new immigrants are virtual ones, taking jobs from someone else without even showing their faces. Instead of moving people, we are beginning to move their thoughts and ideas. It is an entirely new ball game – with entirely new rules. And, most organizations do not adapt – they die.

IT ENABLES TOTAL TRANSPARENCY.

People with access to relevant information are beginning to challenge any type of authority. The stupid, loyal and humble customer, employee, and citizen is dead. Voters are challenging politicians; subordinates are challenging managers; students are challenging professors; patients are challenging doctors; kids are challenging parents; customers are challenging companies; and women are challenging men. Anyone whose claim to fame rests on a historical information advantage is challenged – challenged by individuals, organizations and regions with direct access to the same information.

IT IS A POWER SHIFT.
THE PERIPHERY IS BECOM-
ING THE CENTER.
POWER NOW BELONGS TO
THE PEOPLE.

Challenge is in the air because the digital world removes the emperor's clothes. It makes George W. Bush transparent, GE transparent, and the UN transparent. And, you, too, are transparent. IT enables us to be anonymous – you can build your own personality, cafeteria style, on the Internet. You can be anyone. You can be man or woman, old or young, black or white. You decide. But, IT does not make us invisible. On the contrary. We all leave tracks. Every time you surf the net, you leave tracks. Every time you use your credit card, you leave tracks. Every time you make a phone call, you leave tracks. These tracks can be used for multiple purposes. Information can be used to capture criminals or customers – pedophiles or bibliophiles. Whether we like it or not, we are all becoming self-segmenting individuals. Companies, organizations and authorities can find out who else makes similar

tracks, people who follow similar trails – our binary and imaginary siblings in cyberspace – and so can we.

Total transparency also has a tendency to reveal and expose those not really adding any value. IT will mean the death of the intermediary as we know him/her – instead we will get infomediaries: information brokers. Infomediaries are people and firms who eliminate unnecessary actors in the value-chain by simultaneously functioning as purchase agents for customers and sales departments for sellers. They may be entirely new actors or just existing firms that take on this role themselves. We now routinely buy our airline tickets online and direct from airlines. Why give your money to a travel agent? Why give your money to a wholesaler? Why give your money to a traditional record company?

IT PERFECTS MARKETS.

In the beginning there were markets. We traded. People exchanged goods for goods, and then goods for money. Price became the carrier of information. In the local bazaar, all the information was available at your fingertips. You could see, feel and smell the tomatoes, fish, jewelry, or whatever. But, as products got more complex and geographical distances increased, information became scarcer and feedback slower.

Uncertainty exploded. Markets began to experience problems.

There is an on-demand revolution with the side effect of 'reversed queue phenomenon'. Companies not customers are waiting in line. Once you have opened up you can't close - if you snooze you lose.

By the way - in our business model, there are no queues on either side.

In response, we began to build hierarchies and formed them into organizations. We made stuff in-house rather than buying it from someone else. Markets and hierarchies basically fulfill the same function - they handle human exchange. In reality, companies are nothing more than private planned economies. Man rather than money coordinates them. They are ruled by plans not price. Long-term contracts dominate at the expense of constant negotiations. The advent of hierarchical organizations meant that uncertainty could be artificially reduced. It worked. The efficiency gains were sometimes enormous.

In an information desert, companies rule. But now we are re-entering an information jungle where information is again available at our fingertips. We are back in the bazaar - though this time it resides in the virtual world, the net neighborhood.

Day by day, markets are becoming more efficient thanks to information technology. Markets are beginning to consume hierarchies - business firms and other organizations. Instead of making everything internally companies have started buying more and more things from the external market. Instead of vertical integration - acquiring your suppliers and sometimes also your customers - the new trend is toward virtual integration and real disintegration. Rather than one big, fat cat, there are now several mean, lean kittens working together in networks. Business to business e-commerce is currently five times bigger than consumer e-commerce. Business to business e-commerce is worth more than \$4 trillion worldwide. By virtually linking up with other star-performers we can swap inventory for information.

At Wal-Mart, the gigantic US retail chain, 97 percent of goods never pass through a warehouse. The goods go directly from maker to shelf to you. The digital supply-chain operates in real-time. When you buy a woolen sweater from Benetton, the entire network feels it - all the way back to the sheep. A signal is sent from the cash register and, instantaneously digital dominoes start falling. Soon, the entire network knows that its time to produce a new sweater.

All organizations are being forced to e-engineer their operations. They are turning their businesses into bazaars. Storage cost nil.

IT affects us all and affects everything. Your competitors are never more than a click away. Markets are consuming firms wherever you look. All organizations are now information-based whether they are schools, the Red Cross, labor unions, the French Foreign Legion, rock groups or business firms. We are all becoming wired.

The only difference is that some are good at using IT, while others are bad. Already, there are great geographical differences – not that long ago in the US there were 63 PCs per 100 workers – and in Japan only 17.

A manager at a major construction company recently told us: “The Internet is the best thing that has happened to the construction industry since the invention of the crane.” It enables a construction company to organize work in a totally new way.

In just a few years, the internet has moved from being a solution looking for problems, to opening up the possibility of an entirely new business and societal logic.

As sellers we can reach a larger market – the world is out there waiting in cyberspace. Not only that, distribution costs can be dramatically reduced by transferring bits rather than atoms. Just look at digital newspapers and computer games. As consumers, we can not only enjoy better prices and more convenience, but also a wider selection.

If you were to print the cyberspace-based bookstore Amazon.com’s product catalog it would be the size of 14 New York City phone books. In addition to convenience and lower prices, we can enjoy better service – instant feedback and advice on which items others with similar tastes have bought. In the end Amazon will not handle the products – only the information and the payment. (Try their Pro Merchant programme.)

WE ARE IN THE PROCESS OF MOVING FROM REVOLUTION TO RELEVANCE.

But, revolutions take time. Research carried out by Paul David at Stanford University shows that it took 20 years for factories to reap benefits from the introduction of the electric motor. As noted more than a century ago by economist Alfred Marshall: “The full importance of an epoch-making idea is often not perceived in the generation in which it is made. A new discovery is seldom fully effective for practical purposes till many minor improvements and subsidiary discoveries have gathered themselves around it.”

Paradoxically, the age of achievement has really turned into the age of appearance. Society is increasingly superficial. It used to be about what you did. Now it is about how you appear. Paris Hilton is not famous for building a hotel chain, she is famous for being Paris Hilton.

CHANGE WILL NOT HAPPEN OVERNIGHT. BUT IT WILL HAPPEN.

When? Professor Michael Hawley at MIT’s Media Lab claims that “When computing becomes as basic as Jockey shorts, as sexy as lingerie, as absorbent as Pampers we have arrived. Now we are there: YouTube, MySpace, SecondLife – the result will be big change.”

We think we know what he means: it may take a little longer. Still, one certainty is that ‘infostructure’, the electronic nervous system of the company, will become more important than infrastructure. Organizations with lousy ‘infostructures’ will look like 65 year-olds competing in the Olympic marathon wearing high-heels and evening gowns.

INSTITUTIONS: REMAKING THE MAUSOLEUMS.

The second driving force of change comes from institutions. Institutions are contractual arrangements, sets of agreements that bind people together within political parties, marriage, companies, nation states, families, supranational bodies and many other similar groupings. Institutions are the slumbering bedrock of our world.

They are all the social structures that we humans create to promote stability and predictability. Institutions rest in large mausoleums as we busily go about our daily lives. They have a sense of timeless permanence. Untouched and apparently untouchable, they are there. And, because they are there, they matter.

Traditionally, the role of institutions has been to simplify. Strong and stable institutions subsume our freedom. This reduces uncertainty. We are free, but within tidy parameters erected by our institutions. Institutions act as stabilizers, touches of gray to tone down the bright colors. But though they look inert on the outside, institutions are continually developing. Institutions are changing in front of our eyes. They may appear to be sleeping giants but the moment our backs are turned they shift in their sleep never to regain their previous posture.

Appearances can be deceptive.

Confusingly, institutions often go out of their way to appear older than they actually are. Business schools, for instance, are institutions that like to give the impression of being older and, therefore, more permanent than they are in reality. A splash of ivy over the buildings is usually all it takes for them to convince themselves and everyone else they were there at the dawn of civilization.

Institutions are not renowned for their creative, innovative or entrepreneurial abilities, but they are changing. They must. In a wired world, where knowledge can easily be detached from people and places, competitiveness will depend upon having the best systems and institutional environments. Success will depend on having a fertile ground for developing and utilizing knowledge; an environment in which ideas can be created, tried out, tinkered with, and exploited.

Since we first wrote this we have seen Muhammad Yunus receive the Nobel Peace Prize for his neo-bankerism. Give them a little of what they need and they will become capitalists.

It is not for nothing that banks are also known as 'banking institutions.' You need more than that, though, to meet the challenges that the future brings. That is why we keep reinventing ourselves every day.

As new institutions develop, as there are what might be called institutional innovations, our lives are changed. The changes are not as obvious as when a bright new piece of technology impacts on our lives. Institutions do not – yet – come brashly branded in a box promising to halve our workload or weight.

THE INSTITUTION OF CAPITALISM.

At a macro level, institutional experiments abound. Communism, for example, was an institutional experiment that failed in the face of advancing technologies and changing values. Change did not come easily to societies built around five-year plans. Intellectual capital is difficult to explain and measure in a society in which capital is anathema.

After the fall of Communism, it would be easy to proclaim capitalism as the victor in the battle of institutional experiments. Celebration might be premature as there is now more than one type of capitalism. Indeed, there are capitalisms. The market economy comes in different dialects. These dialects are based, somewhat vaguely at times, on the same principles. But they are assuredly different. Even the most apparently fixed institution is built on shifting sand.

First, we have the European version of social-liberal capitalism with a fairly strong state that can and will interfere. (Do what you want up to a point.) Then there is North American market capitalism with minimal intervention. (Do what you want.) A third type is the Far Eastern collective capitalism built on trust and a very strong state. (We all know what we are doing and so does the government.) A final version is the robber capitalism or cleptocracy that we currently find in a number of the former USSR

countries and in some parts of Latin American. (Do what I want or I'll shoot you.)

At this point, you may indeed look around and conclude that capitalism's rude good health is a figment of our imagination. After all, recent years have seen a series of upheavals in major corporations with the downsizing demon wreaking havoc, as well as the Asian crisis and Russia's continuing problems in coming to terms with market forces. Then, there was Enron, Worldcom, Genua, Seattle, Parmalat and all the rest.

We counter that capitalism is robust. Capitalism is not perfect but it's the least imperfect thing we have come up with so far. It will carry on. But, the changes we are now seeing should not – and cannot – be underestimated. Capitalism is re-inventing itself; carrying out a revolution from within. Revolutions are not over in a day or a night, they rumble on and on. It is like a movie with endless sequels. Revolution is followed by Revolution II then Revolution III ad infinitum. Unlike in the movie world, each has to outdo its predecessor. It is more like Godfather and Godfather II, one of the rare cases where the sequel actually outshone its predecessor, than Rocky and Rocky II.

THE NATION STATE.

In Triad Power (1985) Kenichi Ohmae argued that countries are mere governmental creations. In the emergent 'Interlinked Economy', envisaged by Ohmae, consumers are not driven to purchase things through nationalistic sentiments – no matter what politicians suggest or say. "At the cash register, you don't care about country of origin or country of residence. You don't think about employment figures or trade deficits," Ohmae wrote.

Ohmae is right. The nation state is no longer a relevant unit of analysis. The students who collect business school prospectuses from around the world aren't limited or even concerned about nation states. Tomorrow's high achievers don't care if they study in Sweden, Italy, Germany, Taiwan, Argentina, Iceland, Australia, or South Africa.

Their decision is made on the basis of what would be the best program for them. No more and no less. They look at the usual stereotypical things – where are the best looking girls and boys, the nicest beaches, the cheapest booze and the laziest classes? You may laugh, but remember that, with the exception of the last attribute, these may well be among the few factors that actually do provide the true sources of competitive advantage for a region in the future.

Multinational companies no longer think in terms of nation states. The furniture retailer IKEA will work with the best suppliers, wherever they may be. Why should you have a subsidiary in Finland, one in Norway and in Sweden? Obviously, you have a Nordic office. Why should you have a subsidiary in Austria and one in Germany? You have a subsidiary for the German-speaking part of Europe or whatever.

Other units of analysis – language, culture, age, climate, gender, lifestyle, sexual preferences, or whatever they may be – are more relevant.

In the UK, more people voted before the last episode of Big Brother on TV, than in one of the latest elections to the European Parliament. It may actually be deceptively simple to increase people's interest in politics. Instead of voting people into parliament, let's vote them out.

The decline of the nation state is inextricably linked to the rise of internationalization as a potent force in business and beyond. In institutional terms, we are going through a period of globalization never before witnessed. For once, hype and reality are in accord. Whether it is through the European Union, the North American Free Trade Agreement, or the Asian and Pacific Economic Cooperation, critical decisions are being transferred to a supra-national level.

We are building superstructures. Unfortunately there is not much evidence to suggest that superstructures are efficient. Maybe this explains why most modern business organizations are abandoning these solutions. The United Nations has long been a blunt instrument. The European Union is acting like an ambitious company of twenty or thirty years ago, wanting to do everything everywhere and, as a result, doing nothing very well.

From an economic perspective, the nation state is handing over the reins of power. We are living in a global economy. Today's markets are virtual and international rather than national. Information knows no boundaries. At a macro level, the critical problems and opportunities facing mankind can no longer be fruitfully defined as local ones. Unemployment is not a Dutch problem, nor a French problem; environmental pollution is not simply a German or a Turkish challenge. National efforts in such areas are commendable but they are, by their very nature, simply Band-Aids when radical surgery is required.

For such global issues, the nation state is far too small a unit for useful decision-making. Unemployment, pollution, poverty and other such issues, demand larger bodies able to make bigger decisions. Then paradox kicks in. At the same time as the nation state is too small a unit, it is also, in other circumstances, too big. Increasingly, the nation state seems unable – sometimes unwilling – to help us with our small problems. What about my children's school? What about health care for my grandmother? Can the nation state help me?

The nation state appears to be caught in the middle: too small to make an impact on the big issues; too big to make an impact on the small issues.

POLITICAL PARTIES.

Political parties used to be institutions built on ideals. Most modern parties, from left to right, started as single-question groups with the aim of changing the world. Over time they evolved into opinion-conglomerates with a view on healthcare, the school system, law enforcement, pension systems, military service, etc. The trouble is that people are no longer coherent in their views. It might be more useful if we all had ten votes to distribute between a number of parties, as they all have good and bad ideas. The attempts at unwieldy political coherence are out of step with our fragmented and incoherent perceptions and experiences of the world. As a result, the opinion-conglomerates are losing legitimacy and gaining only contempt and disdain.

We have always kept out of politics, and we will continue to do so in the future. So, whatever happens, we won't be affected by changes. Because that's the way we do business.

Not only that. Traditional political parties are also trapped in a geographical world. They are nationally structured. But, in a global world, who can take decisions that affect international capital markets, multinational firms and global super-specialists? Maybe, instead of hoping that the European Union or the United Nations can take care of all the global issues, and that any lack of global leadership should be handled by giving these institutions more power, we need to rethink our solutions more fundamentally.

Perhaps a more viable alternative is to establish a United Corporations. After all, the UN was set up at a time when the nation state was still a powerful and relevant unit of analysis. Today, companies rule the world, and this needs to be reflected in the institutions created to exert influence and control them. Even the ultimate benefactor of global super-capitalism gone wild, George Soros, echoes similar ideas.

The new political institutions are issue and problem-based, and they are global. They are organizations like Greenpeace and Amnesty International. The trouble for them comes when they seek to make the leap to mainstream acceptance – the Green Party in Germany has, for example, struggled to become a multi-issue party. Instead of being efficient external provocateurs, they find themselves having to adapt and ending up as toothless and impotent.

AS SIR WINSTON CHURCHILL POINTED OUT: “FIRST WE SHAPE OUR STRUCTURES – THEN OUR STRUCTURES SHAPE US.”

The bureaucratic firm is dead. It is just too small for effective exploitation and too big for energetic experimentation. As we shall see later (see Funky Inc.) the corporation is, and has to be, reshaped along entirely new lines.

Time and time again research suggests that companies fail to last the course. W. Chan Kim and Renée Maubourgne’s bestseller, *Blue Ocean Strategy*, pointed out that entire sectors disappear. In his book, *Sweet Spot*, the marketer Arun Sinha says: “According to the experts, half of all S&P 500 will not be around by the year 2020. The consulting firm McKinsey & Company went back to 1935 and tracked all the S&P 500 companies since then and found out that half of them disappear every 20 years.”

THE ETERNAL ENTERPRISE.

‘Many companies need to reinvent themselves.’ And reinvention is not changing what is, but creating what isn’t. A butterfly is not more of a caterpillar or a better or improved caterpillar; a butterfly is a different creature. Reinvention entails a series of continuous metamorphoses of this magnitude over time,” says American consultant and academic Richard Pascale. At the heart of this reinvention is the realization that companies should not and need not be around forever. In the past, corporate success was measured, as much as anything, by the ability to survive

There are many 80 year-old people who have had tedious, unproductive lives and many people who die young after lives packed with excitement and achievement. Much the same happens with companies. The prevailing view has been that permanence is good.

This explains why companies build such vast headquarters buildings.

The bigger the better; the deeper the foundations and the higher the tower, the better the business. In this world, the size of the company’s atrium is important. Atrium-envy is the rule. Longevity is attractive because it is better than dying. This is a tidy, but not very persuasive argument.

What benefits us – size doesn’t matter as much as trust. Especially in the field of private banking, where world market leaders didn’t manage to grab more than a 4% market share.

Yet still faith is placed in companies lasting a long time. If they are around for a while, surely they must do some good. Arie de Geus in 'The Living Company' quotes a Dutch survey of corporate life expectancy in Japan and Europe which came up with 12.5 years as the average life expectancy of all firms. "The average life expectancy of a multinational corporation – Fortune 500 or its equivalent – is between 40 and 50 years," says de Geus, noting that one-third of 1970's Fortune 500 companies had disappeared by 1983. Such mortality is attributed by de Geus to the focus of managers on profits and the bottom line rather than the human community which makes up their organization. Fix this, and you have discovered the fountain of youth.

What an exception to the rule – 180 years of success without any slumps. We must have done something right.

But what if de Geus is absolutely wrong in suggesting that firms should aspire to live forever? Greatness is fleeting and, for corporations, it will become ever more fleeting. The ultimate aim of a business organization, an artist, an athlete, or a stockbroker may be to explode in a dramatic frenzy of value creation during a short space of time rather than to live forever. Somewhat surprisingly, the places with the highest growth rates and most dramatic success stories, such as Silicon Valley and the Houston IT-cluster, also have an extremely high rate of corporate mortality.

For firms, this implies that the company becomes more disposable – a temporary camp for nomadic individuals who then move on to meet new people and challenges. After all, we have a disposable mindset in virtually every other area of life. Maybe we should, in the words of Sir Paul McCartney 'Live and let die'.

The disposable company is not a new phenomenon. Among the first enterprises we know of are the ancient vessels that sailed from upper to lower Egypt to collect gold, diamonds, and slaves. People invested in such ships and, if and when they returned, the investors and the crew struck gold. After the journey, this specific enterprise was terminated. History repeats itself.

So, don't be surprised if in the future it proves much more rewarding to be a reincarnating insect than a three hundred-year old tortoise. The firm with a future, short-lived or not, is energetic rather than eternal. Listen to Canadian rock legend Neil Young: "It's better to burn out than to fade away."

THE FAMILY.

There is a mystical aura around the concept of family, a rosy glow of well being. The family is the maternal bosom. It is the sugary sentimentality of 'The Waltons'. It is mother and father standing proudly with their children. It is well balanced and sophisticated; warm and uncomplicated; unsullied by reality.

Of course domestic reality is quite different from the saccharined sentiments served up by the advertising and media industries. No matter how bright, happy and sophisticated their members may be, families are all dysfunctional. It is simply a question of how dysfunctional.

There is little doubt that traditional notions of what constitutes a family are breaking down. Divorce rates are skyrocketing and a lot of young people never marry or marry extremely late in life – they stay single or just live together. Dinkies rule. As it stands, the family could soon become a luxury item – happily married couples with 2.4 happy children (a pet dog, and a whitewashed house with a wicker fence) will be the exceptions, unusual archetypes of a fading ideal. Although laws and regulations do not always reflect it, for many the de facto standard is already serial monogamy, threesomes, etc.

A quick look into the future – following Dunbars 'rule of 150', Capital Bank will soon split its operations up into smaller, more powerful units. How will this new strategy help us to stay on top? Well, just wait and see ...

Lots of kids are brought up without being exposed to long-lasting, permanent relationships. They may have two fathers and three mothers. Two of their brothers have another dad, and their sisters have a totally different set of parents.

And then we expect them to work for one company and one boss for the rest of their lives!

And if people indeed form families, they no longer spend that much time together. During the 1960s, US fathers on average talked some 45 minutes per day with their kids. Today, the equivalent figure is six minutes.

We are brought up with a set of notions. Previous generations called them standards and are fond of telling younger generations that standards have fallen. The reality is that standards have changed. Yet, when it comes to families we are still measured against former family values.

We consider ourselves to be failures. There is a nagging suspicion that we are aiming unreasonably high. Perhaps there is nothing wrong. We are just different.

VALUES:
FROM TELESCOPES
TO KALEIDOSCOPIES.

The final part of the triad of driving forces is value systems. For better or worse, values affect all of our thoughts and deeds. Values are the way we relate to work, technologies, and people. Values influence artifacts and actions. Values are enormously powerful, omnipresent and hugely different from place to place, person to person. Values create unity and conflicts. But values also change – slowly, very slowly.

WORKING VALUES.

Capitalism and Christianity are close relations. We would never have seen capitalism, as we know it, without the Protestant revolution resulting in a new work ethic. Martin Luther said that we should pray and work – ora et labora in Latin. Work in itself was good, an act of homage, spirit enhancing and humbling.

The corollary of this is that the actual nature of the work is not that important. Work is good. And, if you spend 12 hours working on a machine carrying out repetitive tasks work is still good. The act of work is good; therefore, you want to and need to work. Luther's edict produced generation upon generation of self-motivated workers.

They wanted to work because work was the route to betterment.

Look elsewhere and value systems are at odds with basic Western conceptions. While work was the fulcrum of the Western world – and the basis of our initial industrial pre-eminence – the East embraced its own Luther: Confucius.

LUTHER VENERATED WORK;
CONFUCIUS VENERATED
WISDOM.

In the Far East, many people start to save money for their children's education before they have even found a partner. In the East wisdom is all.

In Eastern economies many people believe in both Buddha and Confucius. Buddhism stands for horizontal solidarity and Confucianism propagates vertical subordination. What for most Westerners is a classical oxymoron and paradox – being simultaneously horizontal and vertical – is for these people the most natural thing in the world. Add capitalism to create a little direction, and you get a mean machine moving at the speed of light. Put Communism on top of this system, and you get another type of mean machine – there are far too many who can verify that particular fact.

VALUES DIFFER. The Chinese economy is built on the concept of trust – Guanxi – a strong and inexpensive substitute for contracts and lawyers. This concept extends to the overseas Chinese who tend to cooperate wherever they are. They have created a global network in which knowledge and capital, goods and services flow freely. How much business would you do in the absence of contracts? If it came down to trust, how many colleagues, suppliers and customers would you really get involved with?

VALUES DIFFER. In Japan, robots are named after famous singers. How many of you have an ABB Madonna at your job? A Japanese union's idea of a strike is a one-hour work stoppage timed for the lunch break. Since the firm is the family, the goals of employee and employer overlap. A strike during working hours would, therefore, be counter-productive – you would effectively be striking against yourself.

Muhammad Yunus in 'Banker to the Poor' points out that, in banking parlance 'credit' really means trust. Yet, banks seem to show little trust when they ask you to mortgage all you have so that you can be credit worthy. VALUES DIFFER.

FUSION IN THE GLOBAL VILLAGE.

Now values have been geographically liberated. Value systems were once local. In our part of the world, the church was in the middle of the village and had a monopoly over local values. Now next door to the church you are liable to find a mosque. Back in 1970, some 10,000 Muslims lived in our home-country. Today, there are more than 350,000. We are continually exposed to different values. Assumptions have been replaced by a need for decisions. We have to choose. Do we visit the church or the mosque? What is the difference between the values of the two? This is the MeWe generation. Often the end result is not as clear-cut as it once was. Now we might believe in God while embracing other cultures and other values.

The actor Richard Gere proclaims his Buddhist beliefs while at the same time carrying on a successful career in the distinctly non-Buddhist surroundings of Los Angeles. We are internally consistent but, to the institutions and values outside, a bewildering juxtaposition.

The new reality is reflected in the make-up of management teams; football teams; what we buy; what we eat – Thai chicken wings (Buffalo-style) with pasta; how we live; and who we are. Cultures, tastes, experiences, collide to create a cornucopia of values. Bollywood meets Hip-Hop with a touch of Sinatra. Mongrel mania.

Even evident among canines where dog combos have been legitimized – think of the labradoodle, a barking glad combo of labrador and poodle.

Fusion is too easily identified with confusion. The two do not necessarily follow. Japanese philosophies can operate successfully with Western philosophies. American companies can succeed in Japan. But success will only come to those who appreciate and are sensitive to different value systems. Competition is now global and value-based.

As values have been re-combined in powerful fusions and moved beyond national boundaries, old assumptions have been tossed aside. There are no easy and generally held

answers to questions about the value of material possessions versus knowledge, about right and wrong, good and evil. The questions remain, but the answers have become more blurred. For the first time in history, people from various parts of the world with partly different definitions of what constitutes what Socrates once called a ‘good life’ are going to compete. Individualists against collectivists. Uncertainty reducers against uncertainty producers. All against all.

Depository receipts are the result of a combination of financial instruments. With over 300,000 issued in the German-speaking region alone, confusion rules. With our service ‘Die Manufaktur’, we have tidied things up a little.

SPIRITUAL EMPTINESS.

Behind all these effects we see a gigantic spiritual vacuum. Welcome to the age of appearance. Our planet is being Paris Hiltonified. The meaning of life has given way to the meaning of lite. It is a mist sweeping over the world filling us with doubts and hesitation. We are no longer pilgrims with a clear mission living in a well-structured environment. Instead, we have become wandering vagabonds in search of who knows what.

Is this the end of religion? Do the Ten Commandments, Sharia or Bahá'í belong to the group of endangered species? How many of your friends regularly go to church and really believe in something other than themselves? French author Émile Zola was right back in 1886 when he observed: "We have stopped believing in God, but not in our own immortality." Is this the end of ideologies? No wonder that only half of the voters exercised their right to elect the new president of the US, 'the world's greatest democracy', back in 1996. The figures for 2004 weren't much better – 60.3 percent – and that's on the back of a divisive war. In the 1999 election to the European Parliament, in many nations less than 40 percent of the citizens voted. Democracy turns democracy. When people are only loyal to themselves, or whatever may be the worthy cause of the month, can we talk about the end of solidarity? We live in a world in which we buy letters of indulgence by watching Live8, sending a few bucks to Greenpeace or wearing a red nose for Comic Relief.

Is this the end of the modern project? Have we given up the idea of building a society in which all people can prosper? Hasn't the acceptance of leaving a few lost souls out in the gutter risen during the last few years? And without soul, objectives and meaning, is this not the end of progress? After all, if you have no idea of where you want to end up, does it really matter which road you take?

Pope Paul VI foresaw this development some 35 years ago. He rightly claimed that, "Technological society has succeeded in multiplying the opportunities for pleasure, but it has great difficulty in generating joy." So welcome to a world of violence, sex, drugs, and rock'n roll. A global freak-show. Jerry Springer-ville.

DEREGULATING LIFE: CONDEMNED TO FREEDOM.

The three drivers of technology, institutions and values have created an international, knowledge-based world. In this new environment competition is total, personal and generic. If knowledge is key we are all competing against each other. The genie is out of the bottle and cannot be replaced. People who spend their time putting genies back into bottles should not be approached, let alone employed. There is no going back. While a great many people recognize the genie is out, few have sufficient insight to turn this recognition into action.

Freedom has been thrust back into our hands. Institutions used to work to create certainty. Now, the certainties are withering. Blind loyalty has died.

We no longer proclaim lifelong loyalty to institutions no matter what they are or what they do. We shop around. Lifelong membership is defunct, whether it be of a political party, a relationship, a fan club, a company or a country. We are more promiscuous about our institutions. Promiscuity is based on choice. Technology used to be concerned with mechanization. Now, it creates complex systems. Values used to be built around strictures and clear expectations. Now, values are a moveable feast as our value systems are liberalized.

We are deregulating the banking industry, the telecoms industry, the airline industry, the energy industry etc. We are deregulating morally. We are deregulating technologically. As individuals, we could cross any boundary – gender included. Indeed, we are deregulating life for ourselves and for our children. They can freely choose where to live, what to do, where to work, what to study and who to be. They can choose to be homosexual, heterosexual, sado-masochistic or transvestites. They can choose when to work and when they want children, if they want children at all. We have the power of choice. It is the American dream to the max – total freedom.

Chaotic times
are here
again.

The Welfare
society
appears to
be designed
by IKEA – it
comes in self-
assembly flat-
packs without
assembly
instructions.

ENJOY IT.

Tomorrow we are going to wake up in a world in which we all need to realize that we are condemned to freedom – the freedom to choose. There is no escape. Institutions won't shoulder responsibility because they are in a state of confused flux. There is no church, no village, no town, no nation state, no market to rely on. There are no cut and dried values to use as escape tools. Technology exists to create opportunities, to create efficiency, not to take responsibility from us. So, we are faced with the prospect of taking charge of our own freedom.

With choice comes responsibility. Responsibility for our own health, for our own education, for our own careers – responsibility for our own lives. The more opportunities there are, the more responsibilities there are for us as individuals. We have been given greater responsibility at a time when the old certainties have evaporated. The institutions, values and technologies that previously existed are disappearing. The decisions and choices of today and the future will be made in a climate of all embracing uncertainty.

COPING WITH CHAOS.

The trouble is that the human race does not react very well to uncertainty. Change inevitably leads to unrest. One generic response to this is to reduce freedom dramatically. The fascist movements of the 20th century emerged from periods of economic turmoil and uncertainty. People cried out for strong leaders – leaders who could reduce uncertainty. Today, the uncertain are as likely to join a religious sect as a political party. People join because the complexity and uncertainty of everyday life can be removed. They don't have to worry about income tax, office politics or their credit cards. They surrender doubt with certainty. True believers have, it is often said, a far away look in their eyes. For true believers this is literally true. They have opted out. The downside is that you always have to opt in to something – and if that something eliminates uncertainty and doubt it is probably not good for your long-term mental health. While a minority cope with uncertainty by disappearing into the distance muttering mantras and

following their leader, others switch on the TV. TV convinces you that things could be worse.

This, sadly, explains the rise of freak show TV as exemplified by the Jerry Springer show. The show succeeds because it makes viewers feel normal. Even Dr. Phil and the super nannies make us feel superior. We watch TV to figure out ourselves, to be re-assured that we're better off, mentally, physically or financially, from the freaks on display.

Avoiding uncertainty is human nature. Companies bring in consultants to buy uncertainty reduction. We can't figure out what is happening so let's bring in some people who are really bright and have a model to deal with this sort of thing. The consultant's report is nothing more than a corporate comforter. We know of a consultant who offers his clients three choices: "Do you want corporate valium, a board-room alibi or business results?" he asks.

Throughout the business world there are a profusion of models, frameworks and assumptions. All are managerial versions of Prozac: guaranteed uncertainty reducers. Managers – hardly a breed associated with revolution – have created their own messiahs and their own religious sects in management gurus. The latest acronyms have been guaranteed to give the CEOs a good night's sleep and people months of meaningless reorganization.

TRY TQM AND NOW BPR AND THEN MASTER JIT.

Uncertainty reduction is a ritualistic part of corporate life. When you start a job, you spend a day or two on an induction program. The organization tells you how to behave. It is dressed up in nice, friendly corporate language, but that is basically what is happening. We believe that such complacent corporate certainty now has to give way to complexity. We believe that the optimum response must be to embrace complexity – not try to eliminate it.

Complexity is horrific but fascinating. We have to have the courage to face it. It may save our sanity. After all, if you measure yourself against uncertainty, life tends to look a little better.

If everything is in a state of flux the only fixed thing is the individual. A defined picture of yourself is as much as you can hope for. In the recent past our roles were pre-defined. The church, the family, or the corporation provided the historical script. No more. To be successful in a world of improvisational theater, you have to ask yourself questions. You have to know yourself and your objectives.

It is 'Management by Objectives' for individuals. Defining yourself is the only means of creating a good life. This gives leaders, anywhere in organizations, a new job. They must produce uncertainty.

Real leaders challenge people. They do not control them. True leaders set people free.

In case you've waited to get the moral of the story, we might have to disappoint you. Because the story isn't over yet. Still, there's one thing you can be sure of:

SUCCESS IS FUNKY. ENJOY IT.

