

PROFIT FOR LIFE

How Capitalism Excels

By Joseph H. Bragdon

THE SUMMARY IN BRIEF

Why is it that companies which value life over profits have become today's profit leaders? And what is the stock market telling us about their extraordinary results?

Author Jay Bragdon shows how firms that mimic living (biological) systems have become market share and profit leaders. His evidence is based on a learning lab of 60 companies whose average investment returns have been roughly double the S&P 500 and the Morgan Stanley Capital International (MSCI) World indices since 1996. During this time, the learning lab average beat both indices every year in both rising and falling markets. These results have been verified by the financial consultancy Northfield Information Services (www.northinfo.com).

Bragdon's narrative is focused on 16 companies whose case studies he follows throughout the book. Like the larger lab from which they were selected, this smaller "focus group" represents a broad spectrum of the global economy. It is deliberately skewed to mature, smokestack industries (autos, airlines, energy, forest products, primary metals, steel) to make a point: that the biological model delivers exceptional results even in areas presumed to operate on mechanical efficiency.

Companies that deeply mimic living systems put a higher value on living assets (people and Nature) than they do on non-living (capital) assets. They think and behave in ways that continually affirm life—from their corporate missions, visions and values to the ways they are organized and managed. They understand that the critical properties of living systems are properties of the whole—synergies, feedbacks, self-preservation, adaptive behavior, goal seeking—that make the whole more than the sum of its parts. Bragdon calls this approach to management "living asset stewardship" (LAS).

As Bragdon looked more deeply into these companies, he discovered they had three additional advantages over their peers:

- consistently stronger balance sheets and credit ratings
- more robust free cash flow
- longer life expectancies

This gave Bragdon confidence that LAS was more than a passing fad, that it was a vibrant strategic system.

The 60 learning lab companies—collectively called the Global Living Asset Management Performance (LAMP) Index®—are the best of breed within their industries in modeling these attributes. Rather than imposing abstract sales and profit objectives on employees, a practice known as management by objectives (MBO), they emphasize building productive capacity by developing people and relationships. This practice, called management by means (MBM), is an important key to the high productivity of LAMP companies.

Using this analytic framework, the index itself, and lessons learned from sixteen selected index companies, *Profit For Life* aims to:

- Help corporate managers see a more effective congruent corporate model, based on living assets, which will improve economic returns as well as those to society and nature
- Help investment managers and analysts see why the LAS model is effective and profitable and why they must encourage firms publicly traded companies to adopt it
- Help researchers, universities, governments, NGOs and other corporate stakeholders to see an effective, alternative future

Companies that deeply mimic living systems are inspirational because people affiliate with their corporate values and trust them: they buy their products, want to work for them, and invest in them. With comprehensive examples and case studies, *Profit for Life* demonstrates how LAS firms came to be the new market share leaders and are likely to remain so in the future—a future where a new approach to capitalism is grounded in love of life and respect for living systems.

This summary will show how these companies achieved these amazing results by embracing five attributes. They all:

- are highly networked both internally and externally
- manage by means
- optimize their use of physical and financial resources
- foster exceptionally open corporate cultures
- recognize they are embedded in living systems and nurture those systems

This groundbreaking book helps the reader understand that the high performance results of these companies is no irony, but rather a reflection of a sea change that is occurring in today's economic system. Those who understand the forces at play in this shift, and who participate in its evolution, will have significant economic advantages. Those who ignore it, and continue playing by the old rules, will be left behind.

THE SUMMARY

Capitalism is undergoing a paradigm shift. Most corporate leaders don't know how to respond to this shift because it does not fit into familiar definitions of business organization and management. To succeed, they must begin by redefining the firm itself.

Companies are living systems, not mechanical ones. To optimize a company's most vital capacities—speed of learning, adaptation and innovation—leaders must manage by means (MBM) rather than by numerical objectives (MBO). Instead of ordering employees to meet sales and profit objectives, they must concentrate

on developing people and relationships along their entire value chain, with a view toward growing their productive capacity. To paraphrase Edward Deming, setting objectives beyond a company's means is a recipe for failure. The only sustainable way to grow is to increase productive capacity.

Companies operating on the living systems model recognize the primacy of people and Nature (living assets) over capital assets. Acting on this premise, they practice what Jay Bragdon calls "Living Asset Stewardship" (LAS). They also understand the firm is nested within larger living systems (biosphere, society, markets) upon which it utterly depends. The health of these larger systems makes a difference to employees, customers and strategic partners, and affects their economic behavior.

The high performance of firms that mimic living systems is no accident. As nimble learning organizations, they are the quickest to see and respond to the huge adaptive shifts now taking place in the global economy. Because they also participate in the evolution of these shifts, they derive significant economic advantages. Firms that continue playing by the old rules, by contrast, get left behind. It's ultimately a matter of adapt or die.

Living Asset Stewardship

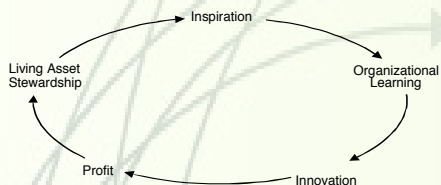
Living asset stewardship (LAS) is a term that recognizes the primacy of people and Nature (living assets) over non-living capital assets, and the behavior of companies that act on this premise. This is not, as some might suggest, politically correct behavior. It is solidly grounded in the real world. Living assets are the source of capital assets. And capital assets cannot function without the direction of people and the resources of Nature.

LAS demands that we think of Nature and society as more than "externalities." Companies that mimic life understand the power of synergies and feedback effects. Beyond caring about people, they care about the things people care about (family, community, environment, biosphere), which comprise the broader web of life that sustains us all. Such deep caring generates bonding and trust. What life-mimicking companies get in return is caring from their primary stakeholders. That is why these firms generally attract the best employees, strategic partners, customers and investors.

Companies that mimic life inspire us and activate our desires to reach beyond ourselves, to serve a higher purpose, be it service to other people, Nature or to a higher being. In doing so, they energize us with a desire to learn, experiment and create. Firms that do it well activate our quantum minds, our capacity to think out of the box. Anyone who has felt excited by an idea will know the

power of this type of thinking.

This dynamic can be illustrated with a simple diagram called the “reinforcing cycle of living asset stewardship (LAS) and organizational learning (OL).” It works as follows: LAS inspires OL. The more a company increases its learning capacity, the greater are its odds of creating innovative products and services. And the greater its innovation, the more likely it is to turn a profit. The cycle repeats as profit reinforces LAS.



The Creation of the LAMP Index

With comprehensive examples and case studies, *Profit for Life* demonstrates how LAS firms came to be the new market share leaders and are likely to remain so in the future.

In researching *Profit for Life*, Bragdon created a learning lab of 60 global companies that were established LAS leaders in their industry/sectors. Calling this group the Global Living Asset Management Performance (LAMP) Index®, Bragdon’s research shows that the average stock market returns of the group were roughly double the returns on the S&P 500 and Morgan Stanley Capital International (MSCI) World indices for the eleven years between 1996 and 2006. During this time, the LAMP average beat both indices every year in both rising and falling markets.

The Emergence of a New Capitalism

Humanity is at a major inflection point in global economic history. Global markets have become increasingly bifurcated over the past few decades. Companies that mimic living systems have been gaining market share, and those that operate like machines have been losing share. Most managers and analysts can’t see this bifurcation because they don’t look at the market in these terms. This blindness feeds back to deficiencies in their strategic thinking.

For the first time ever, we are at risk of so degrading or depleting essential natural resources—air, water, arable land, forests and ocean fisheries—that we face the prospect of future privation. Roughly 95 percent of what we produce and consume ends up as waste, much of it toxic or damaging to the biosphere. Global climate change, produced by our wasteful use of fossil fuels, risks future economic damages equivalent to a reduction

of 20 percent in global GDP.

The capitalist system, as originally conceived, treats most of the damage done to vital earth systems as “external” to the firm, and therefore not inherently relevant to strategic planning and budgeting. This attitude is clearly obsolete. The paradigm shift taking place today is one where firms evaluate this damage systemically and respond to it proactively. Their long-term goals range from “do no harm” to actively healing the living biospheric, social and market systems in which they operate.

This new capitalism is much more holistic than the traditional model. Its thinking is more organic and circular than mechanistic and linear, more adept at understanding relationships, feedback effects and synergies. It embraces complexity rather than trying to subdue the often-chaotic behaviors of humanity and Nature. This naturally makes it more adaptive.

Companies leading the evolution of this new capitalist model look on the earth’s essential natural resources as limited rather than endlessly abundant as the traditional school does. They therefore seek to minimize consumption of those scarce resources, and to optimize their use of human ingenuity, which they see as their only unlimited resource. This philosophy leads to corporate cultures that are more open, networked and interactive than traditional command-and-control models.

Companies that Mimic Life

Companies leading the development of the new capitalist model see themselves as living systems (communities of people with a shared purpose) operating in a living world, in which their most valuable assets are also living. It therefore makes sense that they would want to optimize their vital living properties: their capacities to observe, connect, think, adapt, create, reproduce, and self-heal.

As with all living systems, these are properties of the whole that emerge from relationships within the system. It is impossible to deconstruct a living being and understand its mode of operation the way you can a machine. The human heart, for example, is more than a pump, and the brain more than a computer. Likewise a living company is potentially much more than the sum of its parts. It has a collective consciousness and a will to survive and thrive that arise from its various parts working together.

Companies that mimic life place greater value on living assets (people and Nature) than they do on non-living (capital) assets. In doing so they set a cultural tone that elevates the whole firm, thereby reversing the normal practices of traditional capitalism.

Understanding that human intelligence and creativity

Attributes of Companies that Mimic Life

- They are highly networked to facilitate feedback and information exchanges internally and externally. Many of these networks are informal, self-organizing consortia of employees, suppliers, and customers. When you layer these networks over one another and the firm's chain of command, you get a structure that looks much like a double helix.
- They manage by means (MBM), understanding that people and relationships are the primary means by which they build network capacity and create value. They strengthen and empower employees by practicing servant leadership. They also give employees decision-making authority in their areas of competence and hold them accountable for results.
- They optimize their use of physical resources by "closing the loop" so the waste of one process becomes food for another. In doing so, they aim for factor efficiencies by producing more value for customers with less input of energy and materials. With similar intent, they conserve financial resources. Their guiding principle is "waste not, want not."
- They are exceptionally open in the ways they share information with employees and in their desire for stakeholder feedback. They know such openness builds trust, learning capacity and adaptability.
- They nurture the larger living systems of which they are a part (Nature, society, markets) because they understand the inherent connection of all life.

are their most unlimited resource, companies that mimic life do everything they can to inspire learning among employees and strategic partners. They know that inspiration is their greatest source of operating leverage so they seek to develop inspirational life-affirming cultures.

Strong Evidence

The fundamental premises of living asset stewardship are strongly supported by economic results. The 60 companies in Bragdon's Global LAMP Index® have four unique advantages over their peers:

- Stronger balance sheets and significantly higher credit rating
- More robust free cash flow
- Longer life expectancies than the average exchange-listed corporation
- Consistently higher stock market returns

LAMP companies maintain strong balance sheets because they characteristically want to keep their commitments to stakeholders, even in the most difficult economic times. It is significant that Toyota, Nucor and Southwest airlines—companies that operate in traditionally cyclical and layoff-prone industries—have not laid off employees

for lack of work for over three decades. Each carries the highest credit rating in its industry.

The average and median ages of companies in the Global LAMP Index® exceeds a century. By comparison, the average exchange-listed company has a life expectancy of roughly 40 years—a number that is shrinking because so many are mechanistically managed and accident-prone. The oldest LAMP company, Stora Enso, was founded in 1288, more than 7 centuries ago. The youthful vigor and ingenuity of LAMP companies, no matter what their age, is a direct result of the reinforcing cycle of LAS + OL.

Learning Capacity is Key

LAMP companies have an uncanny ability to learn, adapt and reinvent themselves as conditions around them change. As learning organizations, they have two major advantages. First, they are organized as networks, where information flows quickly to where it is needed through mentored and empowered employees. Second, they inspire employees to learn by their life-affirming corporate values and goals. Catalyzed by the reinforcing cycle of LAS + OL, these learning companies often undergo radical changes when you look at them in the context of decades.

Nokia, for example, started life in the mid-19th century as a forest products company. Its interest in mobile communications evolved from the challenges it faced in moving information between customers, company headquarters, sawmills and remote forest locations. This evolution occurred because it was open to a flow of new ideas as the company grew. "Listening to you" is the ubiquitous Nokia motto, forged from decades of deep listening to employees as well as customers. This culture of listening to and networking with stakeholders has enabled Nokia to continue on the leading edge of converging the Internet and communications industries. As a relatively new entrant into the competitive world of mobile technology, its \$85 billion market capitalization at yearend 2006 was by far the highest in its industry.

Canon has also reinvented itself multiple times: from cameras (1930s) to copiers and business machines (1960s), to medical technology and information systems (1980s), to energy-saving technologies including solar (1990s) and onward to nanotechnology and environmental monitoring. In 1970, its market capitalization was small compared to either of its largest direct competitors, Kodak and Xerox. However, by yearend 2006, as a result of its prodigious learning and innovation, Canon was capitalized at nearly \$80 billion—roughly three times Kodak and Xerox combined. Like Nokia, Canon is also highly networked and cultivates an interactive learning environment for

employees. Innovation is focused on Canon’s high ideals, expressed in its life-affirming *kyosei* philosophy, which translates to “living and working together for the common good.”

HSBC, which calls itself the “World’s Local Bank,” has emerged from a small 19th century specialist bank, serving trade between England and China, to become the world’s third largest bank with a yearend 2006 market capitalization of \$220 billion. Since its beginning, it has had a culture of networking, listening to customers, developing detailed knowledge of local needs, and answering those needs with locally trained teams of experts. The bank inspires employees by being a positive force for ethical change. It has long been a global advocate for human rights, and has an ethnically diverse leadership. It was one of the original ten signatories of the “Equator Principles” on sustainable lending, and in 2005 it became the first major bank to attain carbon neutrality. Because this culture is attractive to talented, caring people, HSBC has a strong bench of homegrown leaders who safeguard its values and propel its growth with skills finely attuned to a resource-challenged world market. Few banks anywhere use the reinforcing cycle of LAS + OL with such dexterity.

Managing by Means

LAMP companies build productive capacity organically by trying to serve the growth of every individual along their value chain. This is called management by means (MBM) because people and relationships are the means

by which these firms create value.

Companies that manage by means typically practice “servant leadership,” an approach that emphasizes the leader’s role as a steward of the organization’s resources (human, financial, natural, good-will). It encourages leaders to serve the personal and professional growth of employees and colleagues while staying focused on achieving results in line with the firm’s values and integrity. By serving those who ultimately serve customers, they develop a responsive work ethic that grows the firm from within.

Since generally accepted accounting principles (GAAP) are only capable of measuring numerical objectives, such as sales and profit, companies that manage by means have developed new metrics to ensure the proper care and stewardship of their living assets. These companies measure for variables such as employee learning, morale, mutual trust and communication, and the “perceived value” of future products based on customers’ needs.

Companies that manage by means also consult with community leaders as well as environmental and human rights organizations on ways of improving their operations and services. Collectively, this information yields important feedback on a firm’s relationships with key stakeholders, which is a measure of their “relational equity.”

Relational equity is a good leading indicator of financial equity. The quality of a company’s relationships has a direct bearing on future employee productivity,

**Global LAMP Index® Investment Returns
Year-by-Year Comparison vs. Two Benchmark Indices**

Year	Global LAMP Index®	MSCI World Index	S&P 500
1996	28.20	13.48	18.84
1997	33.84	15.76	30.15
1998	33.73	24.34	28.58
1999	46.25	24.93	21.04
2000	3.73	-13.18	-9.09
2001	-2.10	-16.82	-11.88
2002	-13.33	-19.89	-22.10
2003	42.55	33.11	28.69
2004	18.07	14.72	10.87
2005	12.28	9.49	4.89
2006	21.07	20.07	15.79
Average	20.39	9.64	10.53

Sources: Northfield Information Services, Standard & Poor and MSCI.

The table shows the exceptional returns of the Global LAMP Index® versus the S&P 500 and Morgan Stanley Capital International (MSCI) World indices for the eleven years between 1996 and 2006. Northfield’s analysis of these results, which came after the book was published, verified that LAMP returns were “economically and statistically significant.”

The Global LAMP Index® is comprised of 60 companies and is equal weighted. It was developed as a learning laboratory on corporate stewardship between 1996 and 2002. For consistency, results shown here are for the same 60 companies, with no assumed changes or substitutions. Past performance is no guarantee of future results.

Although the Global LAMP Index® is only 60 companies, its weight in the 1,500 company MSCI World Index is disproportionately high. The reason can be found in the rapid market share gains LAMP companies have made in their diverse industry/sectors. Over the past few decades they have virtually redefined their industries by their extraordinary innovation and dedication to service.

supplier commitment and customer repeat business. LAMP companies typically use a “balanced scorecard,” which combines forward looking relational data with traditionally backward looking financial data to assess their effectiveness.

Toyota, often cited as the world’s premiere manufacturing company, is a prime example of management by means. Its famed production system is modeled on cybernetic principles about the flows of information and energy in Nature, and the value of continuous learning and adaptive improvements.

The Triple Top line

Management by means is a triple top line approach. LAMP companies know that means must be consistent with ends if their strategies are to be credible and effective. They also understand that means are ends in the making. So the better they are at creating relational equity, the more profitable they are likely to become. The stock market performance of the Global LAMP Index® offers ample proof of this.

Companies that consider stewardship a bolt-on method of cleaning up the deficiencies of traditional management practices do not enjoy these synergies. There is, in fact, a long, sad list of companies that have tried to mix stewardship with hierarchical command-and-control management, and utterly failed. These firms talk about triple bottom line objectives of economic, social and environmental return, but fail to achieve them because the means they use are inconsistent with the goals themselves. Companies can’t develop inspired learning cultures if they abuse human rights or compromise product quality on their way to improving environmental performance. And they can’t motivate employees if they treat their leaders as the sole repositories of knowledge.

A Strategic System

People have a growing sense of loss and fear about the degradation of our life-supporting biosphere, and blame corporations for most of the damage. Their disaffection is compounded when companies treat them in mechanistic ways: as replaceable factors of production or numbers in a computer system. This is why the loyalty of employees, customers and investors is fraying at traditionally managed companies.

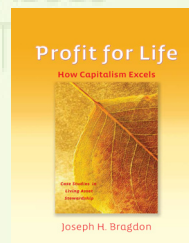
Firms that deeply mimic living systems look much better by comparison. They build stakeholder trust because they show a greater concern for life. This comes naturally to them since they operate from a premise that they are living systems whose capacity to add value resides in harmonizing with people and Nature—not in controlling or subduing them. Such behavior inspires people and

explains why employees want to work for them, customers want to buy from them and investors are more loyal to them.

Living asset stewardship is a strategic system that defines the emergent new capitalism. Its effectiveness depends on the consistency and congruency of company practices. Companies that deeply mimic living systems are inspirational because people affiliate with their corporate values and trust them. These firms are the new market share leaders and are likely to remain so for the indefinite future.

The logic of this strategic system is ingeniously simple. Profit can only arise from life. Therefore, to be sustainable, profit must serve life.

Sustainability cannot be reduced to tinkering on the margins of a failed economic model. For companies to survive and thrive into an expanding and unending future, we need a radically different model – one based on the simple fact that companies are living beings operating in a living world. Living asset stewardship is a management strategy whose operating principles are based on those of Nature, which have been tested over billions of years of evolution. It requires a consistent and congruent respect for life in everything a company does. Although no company fits this model perfectly, it is the direction we must go.



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