

# *What Matters Now* by Gary Hamel

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*How to Win in a World of Relentless Change, Ferocious Competition and Unstoppable Innovation.*

*What Matters Now* is Gary Hamel's impassioned plea to rethink the fundamental assumptions we have about management, the meaning of life, and organizational life. He asks, "What are the fundamental, make or break issues that will determine whether your organization thrives or dives in the years ahead?" The answer is found in five paramount issues: values, innovation, adaptability, passion, ideology.

**VALUES:** With trust in corporations at an all time low, there is an urgent need to rebuild the ethical foundations of capitalism. What's required is nothing less than a moral renaissance in business.

**INNOVATION:** Innovation is the only defense against margin-crushing competition, and the only way to outgrow a dismal economy. In too many companies, innovation is still a buzzword, rather than the responsibility of every single individual. This must change.

**ADAPTABILITY:** In a world of accelerating change, every company must build an *evolutionary advantage*. The forces of inertia must be vanquished. The ultimate prize: an organization that is as nimble as change itself.

**PASSION:** In business, as in life, the differences between "insipid" and "inspired" is passion. With mediocrity fast becoming a competitive liability, success depends on finding new ways to rouse the human spirit at work.

**IDEOLOGY:** Today, businesses need more than better practices; they need better principles. Bureaucracy and control have their day. It's time for a new ideology based on freedom and self-determination.

## **1.1 Putting First Things First**

If you are a leader at any level in any organization, you are a steward – of careers, capabilities, resources, the environment, and organizational values. Unfortunately, not every manager is a wise steward. Some behave like mercenaries – by mortgaging the future to inflate short-term earnings, by putting career ahead of company, by exploiting vulnerable employees, by preying on customer ignorance, or by manipulating the political system in way that reduce competition. What matters now, more than ever, is that managers embrace the responsibilities of stewardship.

To my mind, stewardship implies five things:

1. *Faithfulness*: A propensity to view the talents and treasure at one's command as a trust rather than as a means for personal gain.
2. *Charity*: A willingness to put the interest of others ahead of one's own.
3. *Prudence*: A commitment to safeguard the future even as one takes advantage of the present.
4. *Accountability*: A sense of responsibility for the systemic consequences of one's action.
5. *Equity*: A desire to ensure that rewards are distributed in a way that corresponds to contribution rather than power.

These virtues seem to have been particularly scarce in recent years, as we've careened from Enron's devious accounting to the financial chicanery at Parmalat, from Shell's overstated reserves to BP's derelict safety standards, from Bernie Madoff's epic scam to Hewlett-Packard's spying scandal, from the predatory loan practices Countrywide Financial to disastrous excesses at Lehman Brothers, and India's corruption-marred sale of the wireless spectrum to the firestorm ignited by News Corp's phone hacking. Despite these and other dirty deeds, I doubt that today's tycoons are any less principled than their counterparts in earlier decades. The German word *raubritter*, or "robber baron," dates back to the Middle Ages, and was first applied to grasping toll collectors along the Rhine River. In the nineteenth century, the term was revived as a fitting epithet for America's buccaneering and occasionally rapacious industrialists.

If twenty-first century leaders seem particularly amoral, it's because a globally matrixed economy magnifies the effects of executive malfeasance. Consider the sovereign debt crisis that engulfed Europe in 2011. In a world of nationally constrained institutions, the credit problems of a country like Greece would be a small-scale catastrophe. Not so in an interconnected world where avaricious strategies are quickly aped and imprudent risks spread like a virus. It was these dynamics that led French and German banks to dump more than \$900 billion into the barely solvent economies of the "PIGS" – Portugal, Ireland, Greece and Spain. Turns out American bankers aren't the only ones who are susceptible to moral hazard. But it's not just bankers we need to worry about. In a networked world, lax security standards can imperil the confidential information of a hundred million consumers or more. A failure to exercise due diligence over a vendor can result in a worldwide food contamination scare. And a decision that puts quality at risk can provoke a global recall.

The critical point is this: because the decisions of global actors are uniquely consequential, their ethical standards must be uniquely exemplary. It is easy to feel sorry for Mark Hurd, the former Hewlett-Packard CEO who was pushed from his perch over what seemed to be a relatively minor infraction of HP's ethics rule. I don't know whether justice was done in this particular case, but I do know it's a good thing when influential leaders are held to high standards.

If the global economy amplifies the impact of ethical choices, so, too, does the Web. Word-of-mouth can quickly turn a local misdemeanor into a global cause célèbre. Nike, Apple, and Dell are just a few of the companies that have been castigated for turning a blind eye to the subpar employment practices of their Asian suppliers. There are no dark corners on the Web – miscreants will be outed.

The Web is also producing a new sort of global consciousness, a heightened sense of our interconnectedness. Increasingly we understand that we live in the same planet, breathe the same

air, and share the same oceans. In civic and commercial life, we expect the same high standards of equity and fair play to apply everywhere, and are offended when they don't. And thanks to the Web, that displeasure can quickly congeal into a global chorus of indignation. Around the world, ethical expectation, if not behaviors, are leveling up.

The intermeshing of big business and big government is another force bringing values to the fore. As citizens and consumers, we're smart enough to know that when lobbyist and legislatures sit down to a lavish meal, our interests won't be on the menu. Instinctively, we know that democracy and the economy do better when power isn't concentrated, but since it often is, we must do whatever we can to ensure that those occupying positions of trust are, in fact, trustworthy.

For all these reasons, we need a values revolution in business – and it can't come soon enough. In a 2010 Gallup study, only 15% of respondents rated the ethical standards of executive as "high" or "very high." (Nurses can in first with 81%, corporate lobbyist last at 7%.) This lack of trust poses an existential threat to capitalism. Companies do *not* have inalienable rights granted to them by a Creator; their rights are socially constructed, and can be reconstructed any time society feels so inclined. (A fact made abundantly clear with the passage of the Sarbanes-Oxley Act of 2001 and the Dodd-Frank Act of 2012 – two U.S. statutes designed to dramatically curtail corporate prerogatives.)

The good news is that the values revolution has already started. No one's waiting for executives to have an epiphany. One telling statistic: Between 2005 and 2010, U.S. assets invested in "socially responsible" funds (as defined by the Social Investment Foundation) grew by 34%, whereas total assets under management grew by only 3%. Today, of more than \$25 trillion under management in the United States, one dollar in every eight is invested in socially oriented funds. And there are other harbingers. A decade ago, no car magazine would have noted a vehicle's CO2 emissions, but now most do – at least in Europe. A decade ago, "Fair Trade" wouldn't have been a marketing pitch, now it is. A decade ago, few would have paid attention to executive pay, now millions do.

Given all that, the question for you and your organization is simple: Are you going to be a values leader or a values laggard? It's easy to excoriate fraudster CEOs and greedy bankers, but what about *you*? (And what about *me*?) We can't expect others to be good stewards of we're not. Though some executive cast a bigger moral shadow than other, we must all shoulder the responsibility of protecting capitalism from ethical vandals.

From Adam Smith to Ayn Rand, the defenders of capitalism have argued that the common good is maximized when every individual is free to pursue his or her own self-interest. I believe this to be true, with one essential caveat. Like nuclear fission, self-interest works only as long as there's a containment vessel – a set of ethical principles that ensure enlightened self-interest doesn't melt down into unbridled selfishness. Unfortunately, the groundwater of business is now heavily contaminated with the runoff from morally blinkered egomania.

As parents, we expend enormous energy in socializing our children. While a rebellious teenage son might believe his interest are best served by dropping out of school and moving in with his girlfriend, his parents are likely to have a different view. That's what parents do – they teach their children to become stewards of their own lives.

So before you go any further in this book, ask yourself, am I really a *steward*?

1. What about fealty? Like an executor of an estate, do I see myself as a fiduciary?
2. What about charity? Like a self-sacrificing parent, am I willing to put the needs of others first?
3. What about prudence? Like a committed conservationist, do I feel responsible for protecting and improving the legacy I have inherited?
4. What about accountability? Like the captain of a vessel, do I understand I am responsible for my wake – for the distant ripples created by my decisions?
5. What about equity? Like a conscientious mediator, am I truly committed to finding the most equitable outcome for all?

If you are struggling to think through what this means in practice, here is something that might help. For years I taught a second-year MBS course at the London Business School. In the final session, I typically offered my students some parting advice.

When you take your first post-MBA job, I'd tell them, assume that the following are true:

First, your widowed mother has invested her life savings in your company. She's the only shareholder and that investment is her only asset. Obviously, you'll do everything you can to make sure she has a secure and happy retirement. That's why the idea of sacrificing the long-term for the quick payout will never occur to you.

Second, your boss is an older sibling. You'll always be respectful, but you will not hesitate to offer frank advice when you think it's warranted – and you'll never suck up.

Third, your employees are childhood chums. You will always give them the benefit of the doubt and will do whatever you can to smooth their path. When needed, though, you will remind them that friendship is a reciprocal responsibility. You will never treat them as human "resources."

Fourth, your children are the company's primary customers. You want to please and delight them. This means you will go to the mat with anyone who suggests that you should deceive or take advantage of them. You'll never exploit a customer.

Fifth, you're independently wealthy. You work because you want to, not because you have to – so you will never sacrifice your integrity for a promotion or a glowing performance review. You'll quit before you compromise.

These assumptions, if acted upon, will help nourish the seeds of stewardship in your business life and, by example, in the lives of others.

As we struggle with the uniquely complex challenges of the twenty-first century, it is good to remind ourselves that what matters most now is what's always mattered: *our bedrock values*.