TRANSFORMING WALL STREET
A Conscious Path for a New Future

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The Wall Street Coach
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About the Author
Shared Value Theory

The reason I interviewed Professor Michael E. Porter is because of the Harvard Business Review article he co-wrote with Mark R. Kramer titled “Creating Shared Value: How to reinvent capitalism—and unleash a wave of innovation and growth.” Erika Karp (one of my Wall Street 50) shared the article with me. In it, Porter and Kramer articulate how the connections between societal and economic progress have the power to unleash the next wave of global growth. They say that an “increasing number of companies known for their hard-nosed approach to business such as Google, IBM, Intel, Johnson & Johnson, Nestle, Unilever, and Wal-Mart, have begun to embark on shared value initiatives.” They tell us there are three key ways companies can create opportunities: 1) reconceive their products and markets, 2) redefine productivity in the value chain, and 3) enable local cluster development. They also say that if firms look at their decisions and opportunities through the lens of shared value, new approaches, greater innovation, and growth will occur not only for companies but society will also benefit.

What I enjoyed most about Professor Porter was his enthusiasm. His passion for this topic was infectious, and I was completely enrolled in how powerful shared value is for our economy, communities, and other nations as well as in alignment with what Adam Smith spoke of in The Theory of Moral Sentiments.

Professor Michael E. Porter is the Bishop William Lawrence University Professor at Harvard Business School and a leading authority on competitive strategy; the competitiveness and economic development of nations, states, and regions; and the application of competitive principles and strategic approaches to social needs, such as health care, innovation, and corporate responsibility.
MICHAEL: If I talk to most of the smartest people in finance who are in very senior positions in the field, they are still repeating the same old story about how finance is about providing liquidity and mitigating risk and . . . no, no, no. It’s not about that. Capitalism is about meeting customers’ needs.

KIM: When you hear me speak of consciousness, I’m curious what that word personally means to you.

MICHAEL: Well, I have many, many feelings and reactions. In a certain sense, people in finance just have to learn some basics. The CEO of one of the leading regional banks in America would tell you, “Our industry created products whose success was dependent on the failure of our customer.” The example he likes to use is free checking accounts. “We don’t make any money on free checking accounts. We make all our money on overdraft charges.” At some level, there is a kind of threshold a society needs to honor, and also a consciousness about society and societal impact such as “Do no harm.” And yet here’s an industry that has cleverly invented products and services that actually don’t serve the basic purpose capitalism is supposed to serve.

So when you view capitalism as meeting customers’ needs, then you can see that these products and services are not doing that. You can expand that definition to giving a person a loan when there’s no way he can ever pay it back. Or getting him into a credit card that you know has escalating costs if he gets behind on his payments. So I think at some basic level in finance, there’s been this massive failure to confront what the real purpose is of their organization.

I think if one starts to infuse a sense of, “Wait a minute. We should care about what happens to society. We should care about our customers as individuals. We should care about whether we are behaving ethically and in ways we can be proud of.” I think that’s a threshold to live up to. I think the irony of all the shared value work is that it’s actually capitalism, and what people in the finance world who are capitalists do is indeed the most powerful way in society for doing social good.
You talk about awakening capitalists. One of the ways we have to awaken capitalists is not just to get them to stop creating products that depend on the failure of the customer. That’s Threshold Level I. But what I found is we have to awaken capitalists to what capitalism really is, this enormously powerful vehicle for meeting human needs that has massive benefits. The first benefit is that it’s self-sustaining. If we can use capitalism to address poor nutrition, we don’t have to depend on giving and generosity. If we can use capitalism to deal with nutrition, we can scale it to hundreds of millions or billions of people. Whereas, if we use the NGO (non-governmental organization) or government model, we’re constantly strapped for resources. We’re constantly strapped for the next donation or the next fundraising cycle, and fundamentally, if we look back in history, capitalism is and has been the tool to make the world better. Some of the bad in the world may have been created by capitalists, but pretty much most of the good in the world had been created by capitalists who provide services and meet the basic needs of people, whether they’re food needs or security needs or housing.

I think many capitalists have lost this insight. What’s capitalism really all about? The making money part of it is actually sort of the gate that a capitalist has to go through, which is critical of capitalism, because as I like to say, capitalism is magic. It’s where all wealth in society is actually created. The government can’t create wealth. NGOs can’t create wealth. Only capitalists can. And it’s the active making of a profit that unlocks all that wealth creation in society because if you can actually figure out how to make that profit, then you get into the world of sustainability and scalability. And it’s the ability to make that profit that makes all those people you hire permanent employees, not temporary employees. It makes all the things you buy from suppliers to be things you can keep buying forever. So capitalism is this enormously powerful, almost magical phenomenon where you have nothing and then somebody comes up with a way to meet a need efficiently that you can make a profit at, and all of the sudden, you have vast value—a vast wealth in society plus all those needs are met.
I think what we've somehow lost at some deep level is what capitalism is really all about, and as a result of that, a lot of people in finance have kind of failed to understand what their role is. The fundamental role of finance is to provide capital to enable these investments that create all these values for society, but instead, the financial field has gotten sort of inward-looking, and they thought the goal was to create financial instruments that allow them to make a profit as opposed to seeing their core role as actually providing the fundamental feedstock to the magic of capitalism.

For example, now an investment bank doesn't view its core customers as the companies it's providing capital for and it doesn't perceive its core function as enabling that capital to the right company and creating all the circumstances it can to help that company win in building a profitable business. I actually have this somewhat radical view that risk hedging is part of our problem today, because everybody's risk hedging rather than actually doing the homework, so that they get the money into the fundamentally right investments. So, all of a sudden, you can do quick and dirty. The fundamental role of capitalism is to get capital in the right place and then to provide the monitoring, governance, and pressure to enable whatever organization is using that capital to use it well to meet needs. And somehow, finance has gotten so far removed from that.

KIM: What do you think made that happen?

MICHAEL: When Harvard Business School and other business schools used to talk about “finance,” what we meant was “corporate finance.” And the core training at business school was: How do you fund a company? How do you decide how much debt to have and how much equity to have, and how do you allocate capital within the company to make sure the company is using capital well? That was the core of finance at business schools. But then with modern economics and so forth, this whole notion of capital markets popped up. And capital markets have overwhelmed finance. Finance is all about capital markets, and capital markets are about efficient markets, stocks,
movement of stocks, how you create derivatives from this and that. Way back at the beginning of every single derivative is some business that’s investing money and generating cash flow. And so for me, the cash flow is the dog. And the derivative is the tail. The long, long end of the tail. But somehow, finance is focused on the tail and not the core activity of finance, which is actually the use of capital to generate profit through capitalism.

I don’t think it’s evil or a consciously evil strategy, but it’s kind of how the field has evolved. I think people have just been lulled into thinking a bank’s purpose is to provide liquidity. No, no, no. That’s good but that’s not the fundamental purpose. The fundamental purpose is to get capital to people who are going to use it to meet needs profitably. And we’ve lost that purpose. And now, if you go one step beyond that, we have the issue that there’s been an inability to see that same engine of capitalism is an enormously powerful vehicle for dealing with every single social problem we have.

People have not seen the connection between the social and capitalism. They said, “Capitalism is this and social is that. And social is something you do with donations and philanthropy and being a good guy and being generous and all that.” And what we’ve lacked is the understanding that there’s really a profound connection between capitalism and meeting social needs. And now if we go one step beyond and ask, “What’s the role of an investor?” then we’ve had this evolution about socially responsible investing and ethical investing and all this kind of stuff and that’s fine. But that stuff is really more about values and screening out companies that are doing harm, but they miss this fundamental opportunity for investors really to drive this process of mobilizing capitalism on societal issues.

Right now, our big campaign, and Erika Karp of UBS (now of Cornerstone Capital Inc.) has been very helpful with this, to start to help investors see and understand that they’ve missed the biggest part of investment analysis . . . the core investment analysis that is going to determine where real money is made over the next twenty or thirty years, and it’s going to be with the companies that figure out and tackle these big societal problems; that’s where the biggest market
opportunities are. I mean, middle class people don’t need more food. We have all the food we need. Too much in fact. Middle class people need these new ways of dealing with the problems of their health and their nutrition. The capitalists who figure out how to do that are going to be the growth companies. Just like all the conventional food retailers in North America were pretty much ho-hum, which is why Whole Foods became the rocket ship—it figured out a way to tap this unmet need for healthier and more nutritious products. But that wasn’t good values. That wasn’t ethics. All those people may have ethics and values . . . and that may have helped them see the opportunity, but fundamentally, that was capitalism.

I’ve become a born again capitalist in a sense. I mean I always have been. I’m a Harvard Business School professor, and yet I used to think that capitalism is over “here.” But then I started this work with Mark Kramer on foundations in philanthropy. And it started out completely divorced from business. And it was all about, “Well, gee. We got these foundations. They’re giving all this money. How do we apply rigorous, strategic thinking and value thinking to a non-profit foundation?” And that led to the first article. From there we wrote an article on corporate philanthropy and began to apply the general theory of value from philanthropy to a corporation, and to do that you start asking yourself, “Okay. What can the corporation bring together with money to add value?” And then out of that came the strategic society article, which was a way of thinking more strategically about how a company was going to engage in society. One of the major conclusions of that paper was that the ability to connect to your business is fundamental. And from there it was actually not that big a leap to have this phenomenal aha moment where we said, “Wait a minute, actually, the biggest opportunity of all—that would infect society—is just to be a capitalist.”

KIM: That must have been a very profound moment.

MICHAEL: It was very profound. I have to tell you, Nestlé brought us along. Because Nestlé had read this Strategy in Society article
and they had this deep sense of, “Oh, my gosh, we’ve got to be connected to these communities of ours” because it was sourcing milk in India and buying coffee beans in Costa Rica. They understood that, so after Nestlé read the Strategy in Society article they latched on to that and said to us, “Look. This is big.” The company actually came to me and said, “Would you write another article on this?” So they gave us a lot of help and support, and out of that came the shared value article. And then we were kind of off to the races, but it’s interesting how I, as a Harvard Business School professor, started out thinking very differently about how we affect society. I started thinking the way you affect society is through philanthropy and foundations, and I was very concerned that our philanthropic institutions were not delivering the value they could. And I still believe that today. And I believe many NGOs are not delivering the value they could. One of the key items in shared value is that there’s not a tradeoff between social and economic. There’s not a tradeoff between good environmental performance and good economic profitability. So all these things raise my consciousness. I started seeing more dimensions; that you had to wrap around your understanding of how a company competed in its industry. And, again, out popped the shared value article, which took about two-and-a-half years to write. It was very hard to write because in a sense, it gets at the very basic underlying premise of what is business and why is it there and what does it do.

**KIM:** What do you think when you hear the word “consciousness”?

**MICHAEL:** Well, consciousness is somehow the awareness of a broader set of things that matter in affecting one’s worldview of how progress is made. To me, there are higher forms of consciousness, where you have a greater awareness of a set of factors that are influencing what you fundamentally care about in what you do. In that sense, I’m a classic case that my consciousness about business and capitalism has been fundamentally transformed through this journey.
KIM: Your story to me is: If a Harvard Business professor were able to have his consciousness raised as he continued on this journey and continued to stay curious, then how can we not ask our CEOs maybe to consider that their consciousness can also be raised. Right?

MICHAEL: Right. And they can be. I think that is happening in more and more companies now. Of all the things I’ve ever written—and I’m very proud of many, many of them and their impact for the good—our article on shared value has resonated with a lot of leaders and given them a way of thinking about social impact and their company’s role in a way they can wholeheartedly embrace. Asking a CEO to fill out a bunch of ESG indicators and publish his social responsibility report, he’ll do, but because he feels he has to. But this gets them excited. All of a sudden they are proud of running their company. It’s all about your business, your value chain, your surrounding environment, your supplier base, what your product is, who your customers are. Shared value requires much more tailored thinking. You can’t just get the general idea. You’ve got to say, “How do I apply it to me?” It is about capitalism because capitalism is fundamentally that each case is different. That’s been raising the bar. That raises the bar for shared value. Whereas, I think getting people to do some of the basics of sustainability has been easier. Because they have to think. I think the sustainability movement has been really positive. It’s sort of a foundation. It’s a platform. It’s stuff that you should be doing. But let’s not think that’s the same as the opportunity if we can go that next step. The next step will blow the ceiling out. Muhammad Yunus, creator of Grameen Bank, is a great example of shared value.

Capitalism is magic. But those of us who are capitalists, in capitalist businesses, don’t understand just how magical this really is. We’ve kind of lost it. Fifty years ago, when you had Hershey Corporation in Hershey Pennsylvania, Hershey Corporation made everything good, as I saw it happen in that community. Everything came from Hershey and that was because there was nothing else there. There were no other corporations and they just sort of intuitively accepted responsibility for building up the supplier base and improving the health
of their workers because it was good for them, and in the old, old
days, capitalism. The great capitalist understood this intuitively and
did it. But as we got a more modern society with more institutions
and more government entities and more non-profits, all of a sudden,
businesses kind of slipped away from this. It wasn’t that they actively
said, “No, we don’t want to do this.” The real blow recently has been
globalization. That an American based company says, “Oh, I’m not an
American company anymore. I’m a global company.” It was a slippery
slope to, “Okay; therefore, I don’t have to worry about my American
communities.” But worrying about the American communities actu-
ally was, in many cases, one of the reasons why they were successful—
because of the cluster they built.

**KIM:** Maybe they thought they weren’t needed anymore?

**MICHAEL:** I think that’s partly the view—there are other people who
do that; that’s not our job. And so a lot of businesses will tell you that
our responsibility is to maximize profit, full stop. But ultimately, the
shared value idea says, “But wait a minute guys, if you want to maxi-
mize profits, you’ve got to see these connections.”

And now, it’s interesting to interact with you because you come at
this from a different world, with a different set of experiences. We’re
learning from that as well because we have to find a way to imbed this
thinking in other lines and strains of thought and start to see how
these things come together. I think the problem is our intellectual
foundations of capitalism really come out of economics and out of a
relatively stylized view of what the firm is and what competition is.
And I think it has got driven out a little bit by the scholarly work.