Your book *The Living Company* was very well received. Why haven’t you written a follow up?

Most of the time since *The Living Company* was published I’ve been working on a theme that’s in the book but not very strongly. It is an economic theme. The business of business is the production of goods and services – for which other people are prepared to pay a price. Companies produce those goods and services by combining three factors of production – land, capital and labour.

In *The Living Company* I was saying wouldn’t it be interesting if these three factors of production didn’t always play the same role – but had different weightings. Notably when you look back through history you can see a clear development in the countries and continents. Look at Western Europe, for example. There’s an early period when land and natural resources were the dominant production factor. That is followed by a period in which capital is the dominating productive factor. So my hypothesis is that it is possible that we are now in a period when the dominant production factor is slipping towards what the economists call labour but which I prefer to call people and human talent.

If this is true then the consequences are immense.

*A lot of business commentators now use biological imagery but you were one of the first to describe companies as living communities. Was that a deliberate attempt to challenge how we think about management?*

Yes. Words are important. I’m very concerned to change the language of business because language creates reality. And the language in which we create the reality of business is still based on the capitalist period.

We still talk about human capital, for example, which is a contradiction in terms. Yet it is...
Companies have been saying people are their most important asset for years; yet they are often quick to lay off workers in a downturn.

Yes. One of the many aspects of this particular theme that has kept me busy for the past five years is why do they do that. One of the reasons is that we still use the words from the capitalist era to talk about new modern business in which humans have become the decisive factor.

The minute you use terms like human capital you are beginning to think in terms of yield, in terms of cost, and you are back into the old paradigm for managerial success, which is efficiency.

So how would you characterise the new rules for managerial success?

The media industry, where you work, is a 100 percent people-based industry. It is not about efficiency. The production of a good article or book that sells is not a matter of capital efficiency, it is about effectiveness. So, the word capital leads to thinking about efficiency whereas the word people leads to thinking about creativity and effectiveness. As long as you use the wrong words you will think in the wrong way.

Do we need a new business language then?

We certainly need to change some of the processes and the way we think. One obvious example is legislation. We still have the legislation from the previous period, which gives ultimate power to shareholders. Anglo-Saxon law even talks about ownership belonging to the capital suppliers.

Shareholders can force management to run a company in their interests – to maximise shareholder value. So we have to change the law. Then we have to change accounting. Accounting is not a science; it is an agreement about how we

Perhaps we have now reached the point where people cannot be replaced by machines any more
report information and distribute benefits. We have this word “the bottom line”. Very few people query the fact that the bottom line doesn’t necessarily belong to the shareholder.

In a company where all the revenue and production of services and goods are based on human talent there is a very strong case that the company is a living community that belongs to its members. As such you could argue that a greater share of the profits should be distributed to the employees rather than shareholders.

There are other consequences of not using the right language. But some of these changes are in the system now and are undeniable.

Can you give an example?
I see signals like the $20m club in Hollywood. Films are totally dependent on the quality of the people who make them – the director, the writer the actors. And they have upped their remuneration to the point where you have this $20m club, where they expect to be richly rewarded.

Look at soccer clubs. Here again, the results of the club are totally dependent on the talent on the field. Yet we have just gone through a period where some people still living in the 19th century have converted most of the best clubs into limited liability companies with shareholders and we are trying to run them in a way that will make a return to those shareholders.

So there is on the one hand a massive denial and use of the old language – but with the reality creeping in and creating pressures.

But the reason for the denial is that a huge power shift is involved?
Oh yes. When it comes to explanations the vested interests are enormous, absolutely enormous. Think about Wall Street and the City of London; they will be wiped out at the moment this reality comes through. Capital, in my view, has become just another raw material. All you need is an auction process – that’s the place where you buy your wheat or minerals and that’s where you go for your capital. Money would be a commodity like crude oil.

What does that mean for big companies?
My original theme in the Living Company is the nature of companies. In the book I say let’s assume they are living systems, would that change the way we run them? I’m now convinced we are very close to having the theoretical evidence to say that companies are as much living systems as you and I – as every cell in our bodies is.

What are the consequences of this for business?
If we accept that companies have a material content of which the most important part is people then that is very important. If we accept that you and I together make up a group and with many others we make up a company and that company with other companies and others will make up a nation state – like the Russian Doll idea, where each doll contains smaller dolls – then we are getting close to proving that we are a living system. The combinations in which we work include our family, but the company in which we work is also a living system. If that is so then we should change our language.

What does it mean for managers?
If companies are living systems then the goals change. Living systems do not live to maximise shareholder value. They live to survive and to increase the potential of their components because that is how they increase their own potential.