How great companies think differently

A Harvard Business School professor sees parallels between the great public companies she identified in her research and the cooperative movement.

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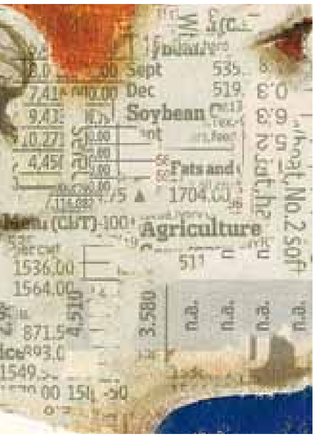
There is a growing critique of Western capitalism as far too focused on financial transactions, putting shareholders above other stakeholders and short-term profits above creation of long-term value to society. Critics are calling for a new model of capitalism, one that retains free enterprise and the innovation that stems from it, while acknowledging the relationship of business and society.

My recent research identified a group of companies I called "supercorps" for their ability to combine innovation, profits, growth, and social good. They are publicly traded—listed in their headquarters countries and beyond—but they flourish by emphasizing both financial and social considerations, as well as by seeking long-term sustainability as institutions that contribute to the well-being of multiple stakeholders. Their cultures could be the wave of the future.

Among global companies, the supercorps represent a tiny, if growing, fraction, and they are maneuvering against the tide. But there is another set of enterprises that shares many values with these vanguard companies and has proved its viability over the long term. In the cooperative



movement, values-based, stakeholder-sensitive activity is the norm, not the exception. There are even cooperative ventures of large scale and scope that I can call “super coops.”

Super coops are organized to serve the needs of stakeholders as members. Membership is a metaphor sometimes used by supercorps, but for cooperatives, this is a structural requirement and an entitlement. Coops cannot forget their core purpose of service, and this includes a desire to improve the lives of members and the communities in which they operate. Moreover, members have a voice: a role in decision making and in selecting those who represent them in strategic and managerial roles.

Cooperatives think differently, and they share or exceed the standards for good companies that I sought in my research. Any enterprise seeking long-term sustainability would do well to learn from both the supercorps and the super coops that stress purpose, values, principles, partnerships, and member voice. This abridged version of an article I published in the *Harvard Business Review* discusses what I call the “institutional logic” that supercorps follow. Although the examples I cite are of public companies, this same institutional logic applies to the management of super coops.

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It’s time that beliefs and theories about business catch up with the way great companies operate. Traditionally, economists and financiers have argued that the sole purpose of business is to make money—the more the better. That conveniently narrow image, deeply embedded in the American capitalist system, molds the actions of most corporations, constraining them to focus on maximizing short-term profits and delivering returns to shareholders. Their decisions are expressed in financial terms.

I say convenient because this lopsided logic forces companies to blank out the fact that their enormous resources influence the world for better or worse, and their strategies shape the lives of the employees, partners, and consumers on whom they depend. Great companies, on the other hand, believe that business is an intrinsic part of society, much like family, government, and religion. Great companies work to make money, of course, but in their choices of how to do so, they think about building enduring institutions. They invest in the future while being aware of the need to build people and society.

In this article, I turn the spotlight on the social or institutional logic that lies behind the practices of many widely admired, high-performing, and enduring companies. My continuing field research on admired and financially successful companies[1] in more than 20 countries on four continents is the basis for my thinking about the role of institutional logic in business. Institutional logic holds that, beyond generating money, companies are vehicles for providing meaningful livelihoods for their employees and meeting other societal needs. According to this school of thought, the value that a company creates should be measured not just in terms of short-

[1] Rosabeth Moss Kanter, *SuperCorp: How Vanguard Companies Create Innovation, Profits, Growth, and Social Good*, New York: Crown Business, 2009.

term profits but also in its ability to sustain itself and endure.

Great companies believe that corporations meet stakeholders' needs in many ways: by producing goods and services that improve the lives of users; by providing jobs and enhancing workers' quality of life; by developing a strong network of suppliers and business partners; and by ensuring sufficient financial viability to generate improvements, innovations, and investor returns.

In developing an institutional perspective, corporate leaders internalize what economists have usually regarded as externalities and define a firm around its purpose and values. Whereas the aim of financial logic is to maximize the returns on capital, be it shareholder or owner value, the thrust of institutional logic is to balance public interest with financial returns.

Institutional logic should be aligned with economic logic but need not be subordinate to it. For example, all companies require profit to furnish capital for business activities. However, at great companies, profit is not seen as the sole end; rather, it is a way of ensuring that returns will continue. If companies are to serve a purpose beyond their business portfolios, CEOs must expand their investments to include employee empowerment, emotional engagement, values-based leadership, and related societal contributions. That means that well-established practices, such as R&D and marketing, cannot be tied solely to profits in the short or long run, even if analysts applaud such behavior.

An intensely competitive global economy places a high premium on innovation, which depends on human imagination, motivation, and collaboration. Global mergers and acquisitions add further complexity, since success rests on effectively integrating the organizations. Moreover, aligning corporate objectives with social values has become a business imperative, since corporations that cross borders must gain approval from governmental authorities, opinion leaders, and members of the public wherever they operate. Their employees are both internal actors and the company's representatives in the external community.

Only if leaders think of themselves as builders of social institutions can they master these challenges. For that reason I believe that institutional logic should take its place alongside economic or financial logic as a guiding principle in research, analysis, education, policy, and managerial decision making. In the following pages, I describe six ways in which great companies use institutional logic, the advantage that confers, and the impact on leadership and corporate behavior.

A common purpose

Conceiving of the firm as a social institution provides corporations with a coherent identity that serves as a buffer against uncertainty. As companies grow, acquire, and divest, culture, roles, and processes change along with the business mix. Companies need a coherent identity to stay anchored amid this type of growth and change. Purpose and values—not the widgets made—are the core of an organization's identity, and they can guide people in their efforts to find new widgets that serve society.

Consider the Mahindra Group, an $11 billion multibusiness company based in Mumbai that employs 117,000 people in 100 countries. Like many emerging-market enterprises, the Mahindra Group operates in many industries,

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including automobiles, finance, IT, and several dozen others. And like the great companies, it invests in creating a culture based on a common purpose to provide coherence amid diversity, proclaiming that it is "many companies united by a common purpose—to enable people to rise."

Leaders can compensate for business uncertainty through institutional grounding. Great companies identify something larger than transactions or business portfolios to provide purpose and meaning. Meaning making is a central function of leaders, and purpose gives coherence to the organization. Institutional grounding involves efforts to build and reinforce organizational culture, but it is more than that. Culture is often a by-product of past actions, a passively generated outgrowth of history. Institutional grounding is an investment in activities and relationships that may not immediately create a direct road to business results but that reflect the values the institution stands for and how it will endure.

Institutional grounding can separate the survivors from those subsumed by global change. A sense of purpose infuses meaning into an organization, "institutionalizing" the company as a fixture in society and providing continuity between the past and the future. The name can change, but the identity and purpose will live on. In 2007, Spain's Grupo Santander acquired Brazil's Banco Real and folded it into its Brazilian assets. But Banco Real's spirit involved much more than its financial assets. Its then-CEO Fabio Barbosa was put in charge of creating the combined entity, Santander Brazil. Although the new organization faced pressure to increase branch profitability, under Barbosa's leadership Banco Real's focus on social and environmental responsibility, along with its private-banking model, were infused throughout Santander Brazil and the parent.

A long-term focus

Companies using institutional logic are often willing to invest in the human side of the organization—investments that cannot be justified by immediate financial returns but that are integral to long-term sustainability. After the Asian financial crisis of the late 1990s, for instance, the South Korean Shinhan Bank set out to acquire the larger but troubled Chohung Bank. The moment the acquisition was announced, 3,500 Chohung union members shaved their heads and piled the hair in front of Shinhan's headquarters in protest. That put the acquisition in question. To salvage it, Shinhan's leaders applied institutional logic. They negotiated an agreement with the Chohung union to defer formal integration for three years. They also gave Chohung equal representation on a new management committee and raised Chohung salaries in line with Shinhan's. In addition, they provided 3,500 caps to cover the heads of the protestors. Shinhan then invested heavily in what it called "emotional integration," holding a series

of retreats and conferences to foster unity and share strategic and operational information. Within 18 months, Shinhan grew both banks' customer bases and employees were working together on joint task forces and implementing ideas that made branches look more similar. Those moves also stanched the Chohung union's efforts to foment discontent. By the time the acquisition closed, Shinhan was outperforming the banking industry and the South Korean stock market. Had leaders viewed the transaction purely in financial terms, those early investments might have been seen as a waste of money, but because they applied a broader, institutional logic, they not only rescued the deal but created a flourishing organization.

Emotional engagement

Emotions play a major role in shaping corporate performance and organizational behavior. Moods are contagious, and they can affect such issues as absenteeism, health, and productivity. Likewise, people influence one another, and in doing so can increase or decrease others' performance levels. Well-understood principles can be a source of emotional appeal, which can increase employee engagement. A statement of values is not sufficient. Companies must articulate those values and apply them in practice day-to-day. The CEOs of companies I studied, for instance, whether headquartered in the United States, Mexico, the United Kingdom, India, or Japan, all allocated considerable resources engaging managers from the top of the organization down in the institutional task of communicating values. The aim was to keep the social purpose at the forefront of the corporate dialogue and ensure employees used those values to guide business decisions.

For example, long an adherent of Procter & Gamble's "Purpose, Values, and Principles" mission statement, Robert McDonald ratcheted up that commitment upon becoming CEO. Within a month of taking the helm, he turned the company's purpose—improving the lives of the world's consumers—into a major business strategy: improving more lives in more places more completely.

In West Africa, for instance, every P&G employee has a quantitatively measurable purpose-driven

goal: how many more lives have I touched this year? In response, P&G West Africa's Baby Care Group set up Pampers mobile clinics to reduce high rates of infant mortality and help babies thrive. A physician and two nurses travel the region in a van, teaching postnatal care, examining babies, and referring mothers to hospitals for follow-ups or immunization shots. They also register mothers for mVillage, a text-message service that offers health tips and the chance to ask health care professionals questions. At the end of each mobile-clinic visit, visitors receive two Pampers diapers. The initiative has proved a great success. P&G employees feel a strong emotional attachment to their work. They are inspired to see how their work saves lives and are proud to know their efforts have placed West Africa among P&G's fastest-growing markets.

Great companies that see themselves as social institutions ensure that work is emotionally compelling and that meaning resides in the organization as a whole. Although top leaders communicate the company's purpose and values, everyone owns them and the values become embedded in tasks, goals, and performance standards.

Partnering with the public

Expansion into new markets must be accompanied by public-private partnerships that incorporate societal and business interests. To thrive in diverse geographies and political jurisdictions, companies must build relationships with government officials and public intermediaries as well as local suppliers and customers. External stakeholders want to see a company contribute more to the community than just financial benefits. At the same time, great companies want enduring relationships and a seat at the table on policy matters affecting their business. Forging partnerships ensures agendas stay aligned even as circumstances—and public officials—change.

Innovation

Corporate claims of serving society gain credibility when leaders allocate time, talent, and resources to national or community projects without seeking immediate returns. As important, those projects provide knowledge that can lead to innovation back home. At Cemex, for instance, a desire to address local community issues produced innovations such as antibacterial concrete, which is particularly important for hospitals and farms; water-resistant concrete, useful in flood-prone areas; and road surface material derived from old tires, desirable in countries that are building roads rapidly.

Institutional logic can also produce business-model innovation by connecting partners across an ecosystem. For instance, in response to competition from Home Depot and Lowe's, which were then entering Latin America, in 2001 Cemex started Construrama, a distribution program for small hardware stores. Construrama offers the small stores training, support, a strong brand, and easy access to products. In accordance with its values, Cemex sought dealers who were trusted in their communities, rejecting candidates whose business tactics didn't meet the company's ethics standards. Cemex owns the Construrama brand and handles promotions but doesn't charge distributors, operate stores, or have decision-making authority. It requires, however, that stores meet its service standards. Among those is participation in community-building philanthropic endeavors—expanding an orphanage or improving a school, for instance. By the mid-2000s, Construrama had opened enough stores to qualify as a large retail chain in Latin America and was expanding into other developing countries.

Self-organization

Great companies assume they can trust people and rely on relationships, not just rules and structures. They are more likely to treat employees as self-determining professionals who coordinate and integrate activities by self-organizing and generating new ideas, not as paycheck-hungry shirkers who want to do the bare minimum, nor as robots that can be ordered to produce high performance. Instead, employees make their own choices about which ideas to surface, how much effort to put into them, and where they might contribute beyond their day jobs. Resource allocation is thus determined not only by formal strategies and budgetary processes but also by the informal relationships, spontaneous actions, and preferences of people at all levels.

Informal, self-organizing, shape-changing, and temporary networks are more flexible and can facilitate faster connections between people and resources. At Shinhan Bank, the two banks self-integrated through social bonds and relationships well in advance of the three-year mark when official integration was to take place. The new connections manifested in such actions as each bank's voluntarily hanging the other's banner in its headquarters. Likewise, had it not been for self-forming networks, IBM might have lagged behind or even missed out on two big business ideas: virtualization and green computing. These emerged among IBM's top strategic priorities in July 2006 after an Innovation Jam, a Web chat spanning several days, to which over 140,000 employees contributed ideas.

Great companies recognize that formal roles act as a home base from which employees can branch out to perform tasks, develop work relationships, and participate in team activities. Matrix organizations—in which individuals report to two or more bosses depending on the project—become what I dub a matrix on steroids when people

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are accountable along many dimensions simultaneously, attending to multiple projects and using their networks to assemble needed resources, often without going through a decision-making hierarchy. For example, on any given day about 40 percent of IBMers in the United States work at home or at customer sites, moving among locations and taking vacations at times of their choosing.

Institutional logic assumes that people can be trusted to care about the fate of the whole enterprise and to catalyze improvements without sticking to the letter of a job description. They recognize that job descriptions, performance reviews, and salary bands capture only some of the activities through which people add value to an organization.

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The six principles I describe in this article demonstrate that great companies sustain high performance by fostering cohesion between corporate and social values and by providing employees with the ability to define their work in a way that is meaningful and in line with the organization's long-term objectives. Although institutions concerned with serving society often come under more scrutiny, great global enterprises are not waiting for the critics to come around. They are already hard at work applying institutional logic to grow their enterprises. In so doing they are showing that while institutional logic cannot be captured by cost-benefit equations or reduced to the language of economics, it is nonetheless a powerful driver of financial performance.

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