



CENTER FOR BUSINESS ETHICS
175 Forest Street, Waltham
Massachusetts 02452 USA

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RAYTHEON LECTURESHIP IN BUSINESS ETHICS

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VALUES INVESTING: HOW COMPANIES CREATE
INNOVATION, PROFITS, AND SOCIAL GOOD

Rosabeth Moss Kanter

*Harvard Business School Professor of Global Leadership
Chair and Director of Harvard's Advanced Leadership Initiative
Co-Founder and Chair of Goodmeasure, Inc.*

Center for
Business Ethics

Tel: 781.891.2981

Fax: 781.891.2988

E-mail: cbeinfo@bentley.edu

On the Web: www.bentley.edu/cbe

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BENTLEY UNIVERSITY is a leader in business education. Centered on education and research in business and related professions, Bentley blends the breadth and technological strength of a university with the values and student focus of a small college. Our undergraduate curriculum combines business study with a strong foundation in the arts and sciences. A broad array of offerings at the McCallum Graduate School emphasize the impact of technology on business practice, including MBA and Master of Science programs, PhD programs in accountancy and in business, and selected executive programs. Enrolling approximately 4,000 full-time undergraduate, 250 adult part-time undergraduate, 1,400 graduate, and 20 doctoral students, Bentley is located in Waltham, Mass., minutes west of Boston.

The Center for Business Ethics at Bentley University is a nonprofit educational and consulting organization whose vision is a world in which all businesses contribute positively to society through their ethically sound and responsible operations. The center's mission is to provide leadership in the creation of organizational cultures that align effective business performance with ethical business conduct. It endeavors to do so by the application of expertise, research, education and a collaborative approach to disseminating best practices. With a vast network of practitioners and scholars and an extensive multimedia library, the center offers an international forum for benchmarking and research in business ethics.

Through educational programming such as the Raytheon Lectureship in Business Ethics, the center helps corporations and other organizations to strengthen their ethical culture.



Over the last several years a plethora of business books have purported to reveal the secret of what makes a company great. Typically, these books provide a variety of insights pertaining to leadership, innovation, and efficiency — and the bottom-line proof of their thesis is invariably the bottom line. But while many analysts measure greatness in terms of profits, Rosabeth Moss Kanter has done a masterful job in identifying the core component of what makes a corpora-

tion super, and that is its ethical values. This is the theme of her impressive book, *SuperCorp: How Vanguard Companies Create Innovation, Profits, Growth, and Social Good*, and it was also the theme of her remarkable Raytheon lecture in business ethics.

As a Harvard Business School professor, Kanter is committed to rigorous scholarly research, but her work is anything but mere academic theory. Her talk drew from her copious experience as the chair of the company she co-founded, Goodmeasure, Inc., as a board member of numerous businesses and nonprofits, and as an adviser to various governmental initiatives. Moreover, as the director of Harvard University's Advanced Leadership Initiative, she is a highly respected scholar of leadership.

To where do all these credentials point? Kanter's message was clear and compelling: She has assembled the empirical data to show the value of values in business. From this, can we infer that ethics pays? In most cases, clearly the answer is "yes." We all know there are rich crooks, but there is ample evidence that those who trick the system not only forfeit their integrity; their businesses are based on a model that is inherently unstable.

The world economy has been through some dark times over the last couple of years. Kanter's talk sheds light on the fact that we can create a brighter economic future. Of the many inspirational points of Kanter's talk, these stand out: there may be no guarantees in business, but ethical, values-driven companies operate in a climate of greater trust; they earn the respect and loyalty of their customers; and ultimately, it is ethical companies that have the potential to grow into sustainable, super corporations.

W. Michael Hoffman, PhD

*Executive Director, Center for Business Ethics
and Hieken Professor of Business and Professional Ethics
Bentley University*

THE RAYTHEON LECTURESHIP IN BUSINESS ETHICS AT BENTLEY UNIVERSITY is made possible through the generous support of the Raytheon Company. Raytheon is a technology and innovation leader specializing in defense, homeland security and other government markets throughout the world. With a history of innovation spanning 89 years, Raytheon provides state-of-the-art electronics, mission systems integration and other capabilities in the areas of sensing, effects, and command, control, communications and intelligence systems, as well as a broad range of mission support services. The company reported sales of \$25 billion in 2010 and employs 72,000 people worldwide. Raytheon aspires to be the most admired defense and aerospace systems supplier, through its world-class people and technology. It has built a reputation for adhering to the highest ethical standards in the industry. The lectureship series aims to illuminate and promote ethical values and conduct in business, highlighting best practices in corporations throughout the United States.

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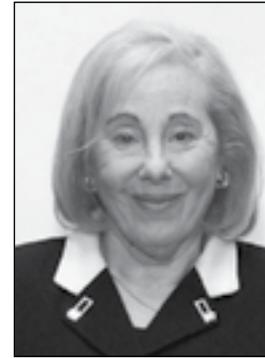
Ethics in business is about so much more than just following rules. Fundamentally, it is a matter of creating the right culture in our organizations, so that people have the ability and support to make decisions that are not only effective, but consistent with the values and principles we hold dear. Raytheon has worked very hard in establishing an ethical business culture that is accepted by our employees and woven into the fabric of the ways in which we work. Our continued growth and profitability depend on it.

Raytheon has supported the Center for Business Ethics at Bentley University for many years, and our sponsorship of its Lectureship in Business Ethics is an important commitment for the company. We recognize the enormous value of the leadership given by the center for more than three decades, to promote ethical business practices and cultures in the United States and around the world. And ethical leadership — illuminating and inspiring conduct that is instinctively ethical — is what the Raytheon Lectureship in Business Ethics is about. I'm proud that Raytheon can play a part in bringing to the Bentley campus highly respected leaders of companies that have a manifest and deep-rooted commitment to doing business in the right way. Their insights contribute much to an important discourse on how the business community can and should achieve ethical excellence.

William H. Swanson
Chairman and Chief Executive Officer
Raytheon Company



(From left to right) Gloria Larson, president of Bentley University, Rosabeth Moss Kanter, Harvard Business School professor of global leadership, Patricia Ellis, vice president of business ethics and compliance at Raytheon Company, and W. Michael Hoffman, founding executive director of the Center for Business Ethics and Hieken Professor of Business and Professional Ethics at Bentley University.



Rosabeth Moss Kanter holds the Ernest L. Arbuckle Professorship at Harvard Business School, where she specializes in strategy, innovation, and leadership for change. The former editor of *Harvard Business Review* (1989-1992), Kanter has been named one of the “50 most powerful women in the world” (*Times of London*). She is the author or co-author of 18 books, most recently, *SuperCorp: How Vanguard Companies Create Innovation, Profits, Growth, and Social Good*. Kanter has received 23 honorary doctoral degrees. She is the co-founder and chair of the consulting group Goodmeasure, Inc. She has served on numerous business and nonprofit boards and national or regional commissions, including the Governor’s Council of Economic Advisors. As the chair and director of Harvard University’s Advanced Leadership Initiative, she heads an effort across the professional schools to help successful leaders at the top of their professions apply their skills to address challenging national and global problems.

Values Investing: How Companies Create Innovation, Profits, and Social Good

THE RAYTHEON LECTURESHIP IN BUSINESS ETHICS
AT BENTLEY UNIVERSITY

March 18, 2010

ROSABETH MOSS KANTER

Harvard Business School Professor of Global Leadership
Chair and Director of Harvard's Advanced Leadership Initiative
Co-Founder and Chair of Goodmeasure, Inc.

Thank you President Larson and Dr. Hoffman for your kind words of introduction.

These are difficult and troubled times, given the financial crisis that has largely been brought about by banks. So I thought I would start today by doing something a little counterintuitive and talking about banks, some really good banks that I have encountered in my research and that I have written about in my book, *SuperCorp*. I do this because I think if we can find good examples from banks then we know it's something that everybody should be doing. Let me start by taking us far away, around the globe to Korea, where I found a very interesting story about a bank, and a merger, that also says something about change in that country. It's a story about how humanistic values and management made something very, very successful.

The bank that I will talk about is called Shinhan Financial Group. Shinhan, the original bank, started in about 1982 as a small, entrepreneurial bank serving society in a different way than had been the norm in that country. At the time, banking in South Korea was all about big banks, cozy with the government and big industrial conglomerates and practicing a form of crony capitalism where people were doing favors for one another and there were a lot of insider dealings in which the big guys colluded with each other.

Shinhan was different. It was entrepreneurial. Its aim was to build South Korea into a developed country by focusing on small and mid-sized enterprises, the middle market, and staying away from crony capitalism. So Shinhan grew quickly because it responded to a need. Often businesses that grow serve a societal need; there wouldn't be any businesses if somebody didn't need whatever products and services were being offered.

Shinhan grew quickly. In the late 1990s, there was a big financial crisis all over Asia. Chohung Bank, one of the largest banks in South Korea, which had been part of the system of crony capitalism, had to be bailed out by the government. Chohung was 105 years old; its people were proud that they were working closely with all the big conglomerates in South Korea, but still they failed. Shinhan made an offer to buy Chohung from the government. The unions, which in Korea extend well into the ranks of management, didn't like the idea that this upstart entrepreneurial bank was going to buy the proud old bank. So, when the government announced that it was going to sell Chohung to Shinhan, 3,500 men at Chohung Bank shaved their heads in protest and piled up the hair in front of Shinhan headquarters in downtown Seoul, Korea. Now, there is a labor action!

At Shinhan, the top executives wondered what they should do. Should they walk away from the deal? To carry this forward, the leaders of Shinhan had to sign a standstill agreement with the union, where they agreed not to integrate the companies for three years. They also had to agree to equal representation on everything. What should a good company do?

With the Shinhan spirit of, "We are here to produce social good in a humanistic way, with attention to people," they went ahead with the merger, but in a particular way. Without doing any formal integration, they build communities out of these two banks. It was all new young people at Shinhan who came up with this. They did what they called "emotional integration," by which they meant that they would seek an emotional integration even if they couldn't formally put the banks together.

The company took 1,500 of the top people off to climb a mountain, to the biggest shrine in Korea. I was there for the event. I was speaking about change management to the group. (As I looked out in the audience of 1,500 people I saw about five women, although they assured me there were at least fifty. I felt better, but things were not yet perfect at Shinhan.) However, by focusing on the people and the culture, within a year the two banks were starting to work together in task forces. They were starting to share a culture. They were starting to develop values together, and they were starting to create a future together. Within a year, the union was neutralized. They had no more sway over this, nobody was going to protest. Within a year and a half, financial performance was strong and they won back the customers they had lost who were a little freaked out by the pile of hair in front of the headquarters. By three years, the time at which they now could supposedly formally integrate, they had already self-integrated because they shared a culture and values. Five years later, not only did Shinhan Financial Group outperform other banks in Korea, they outperformed the entire Korean stock market. The investment in values and culture and humanistic management paid off, even in a culture that itself has a lot of militancy.

Let me now switch geographic locations for a moment and go to Latin America. I know the CEOs of many of the greatest companies in the world, including Eric Schmidt of Google, Indra Nooyi of PepsiCo, among others, but I think the prototype for the leader of the future is Fabio Barbosa, the CEO of Grupo Santander Brasil.

This story starts about 10 years ago, about the same time that Shinhan was buying Chohung. I want you to think about this timing, because I'm talking about a 21st century phenomenon. I know the Center for Business Ethics at Bentley has been in operation for a long time; I know we've been talking about values for a long time, but it's really in the last 10 years that this concern has taken hold and been manifested in companies in every part of the world, not just what are called the "developed countries."

Fabio Barbosa is the recipient of what I call "The Noble Prize." We all remember that on October 9, 2009 it was announced that President Obama was going to receive the Nobel Prize. Two days before, Fabio Barbosa received what I call "The Noble Prize" - the prize for having a sense of purpose and values at the heart of an enterprise. The prize that he won was that, when his bank in Brazil went public, they started to float 14 percent of their shares but ended up floating 18 percent. The bank's stock was floated on the São Paulo and New York stock exchanges and ended being the world's largest IPO for the previous 18 months. This was the largest IPO coming out of the recession, and please note that I didn't say "Brazil's largest IPO," but "the world's largest." They won an \$8 billion capital infusion for being noble, for doing the right thing.

Let me tell you what they did. Fabio Barbosa was the Brazilian head of an international bank that bought a large Brazilian retail bank called Banco Real. As they did, they asked themselves: "How do we integrate? How do we bring cultures together? What do we do to differentiate ourselves in the marketplace, while at the same time motivating employees and building a strong culture?" Fabio Barbosa and his top executives examined the conditions in the country and decided that Brazil had big needs but was surely going to grow. They examined their own values; who did they want to be as people and what did they want to bring to their organizations? They decided that the business strategy of Banco Real would be built around serving society in a way that demonstrated social and environmental responsibility. That was their business strategy. That was their trigger for innovation. That was their way of saying, "What needs are there out in society that banking services, financial services could help provide for?"

They focused on the environment. Environmental issues were big in Brazil back then, even before green issues became mainstream in the United States. They were especially concerned with issues about the rain forest pollution, and growth. And so, Banco Real created lending products that helped people retrofit their houses or cars to make them more energy efficient. They began screening their customers

based on social and environmental standards. Now wait a minute: When we think about good business practices we don't usually tell our customers, "I'm sorry, we're not going to let you be our customer because our standards are so high." They decided to take the risk and walked away from some customers because it was good risk management. Values are really good risk management. If they made loans to a project that was cutting down the rain forest or displacing farmers or had some other hidden consequence, they considered it poor risk management. They thought: "We're not necessarily going to get our money back, so by holding high social and environmental standards we'll create innovations in products and begin to work with customers in a different way."

And yes, they did walk away from customers in certain industries — armaments, for example. They found that where there was a risk of losing customers, they created confidence among the staff so that they could educate customers about how they could meet these higher standards. That turned out to be a really profitable business decision because the customers also knew that regulation was coming and that they'd have to make changes eventually. Now, they could work with a bank that could help them with compliance. So they began to innovate; they began to work with customers differently.

When Fabio and his executives started at Banco Real, it was a back-of-the-pack bank: middle range with lots of branches, but not the biggest, most admired, or most profitable. Over time, by changing its ways of operating, plus developing the culture that they were creating for employees, they began to have a talent advantage. Banco Real went from relatively unknown to becoming one of the most desirable places for the best graduates to work. Over the years, gradually the bank became among the most admired in Brazil. It grew in size and became among the nation's largest banks. Santander of Spain then acquired Banco Real. The CEO who survived that merger was Fabio Barbosa, who found himself suddenly with twice the number of staff. On October 7, 2009, it was announced that 18 percent of the shares had been bought in the largest IPO in 18 months. I call that "The Noble

Prize." Here's a bank doing it right by values; it was committed to social and environmental responsibility as a business strategy, not as an add-on, and for this they got "The Noble Prize."

These examples from banks illustrate that even in industries that have gotten us in trouble, purpose-based and values-based strategies work and are good business.

The Four Elements of Values Investing

There are four key elements to the 21st-century vanguard company that manages humanistically through values and uses its clout for social good

Element 1: Purpose

The first key principal is to start with a very strong sense of *purpose*. This is something that we're seeing startups increasingly want to model. A strong sense of purpose must be at the heart of the enterprise — a purpose that involves serving the greater good, serving society as Banco Real, Shinhan, Yanmar in Japan, IBM, and Procter & Gamble have done.

Procter & Gamble is now nearly 180 years old. Procter & Gamble has always had a strong culture and sense of purpose but in recent years that has been revived as a driving force for the enterprise, not just as a nice-to-have, but as something increasingly articulated and central to its business strategy.

When A.G. Lafley became CEO of Procter & Gamble at the start of the 21st century, he had to manage a little turnaround, partly because the Asian financial crisis that I mentioned earlier hurt a lot of big U.S. multinationals that had been counting on growth in Asia. So they needed a mini-turnaround. On the day Lafley's appointment was announced, the company's stock price immediately dropped. So he felt he had a lot to live up to. Well, he's now going to go down in history as one of the greatest CEOs. He grew Procter & Gamble's sense of purpose again. He reinforced managing through what they call PVP: purpose, values, and principles. A statement, just words, but for Procter & Gamble it became a living rationale for making business decisions.

Around that time, my research team and I spent more than three years traveling the world, interviewing and working with companies. In Brazil, which is one of the biggest growth markets in the world, we discovered that Procter & Gamble was failing. In fact, Lafley's predecessor had said to the company's people in Brazil that if they didn't prove that they had a viable business, P&G might reduce its investment in Brazil. Imagine that: One of the biggest growth markets in the world and the world's largest consumer products company was not able to do business there. They were losing out to Unilever and domestic competition. Why? In part because they had a global strategy that said they only make premium-priced products at the high end, and that didn't fly in Brazil, which was a developing market where the largest segment was lower-income people. But then, there was a set of values and principles that was a challenge to P&G's people in Brazil and the corporate theory.

The people in Brazil did not want to see the business fail. First of all, they cared about their country. They believed in the products. And, they felt the products could make a difference for people. The PVP statement starts with: "The purpose of Procter & Gamble is to improve the lives of the world's consumers now and for generations to come." And the company's people in Brazil believed that their products could improve lives. They believed in the company. Many of them had joined the company because of that sense of values. In fact, that, like in many other values-driven companies, it has to be a matter of fit. It's not just the job — people are taking this on because they feel it's a commitment they can make given their own values.

So the people in Brazil went to work and they started innovating again. Like Banco Real, they found ways to bring more value into the products at lower prices. They created lines of products in things like feminine hygiene, diapers, and laundry detergent — those everyday things that actually make it possible for families to go to work. They innovated and created lines of products that were known as "basico." In Portuguese it turns out "basico" doesn't mean "basic," it means "essential." So they wanted to keep all the value, but sell to lower-income

people. This was incredibly successful; it saved their business in Brazil and became a model for the world. In fact, Procter & Gamble has launched some products in the U.S., such as Tide Basic, modeled on what was happening in Brazil.

My team and I interviewed P&G people in Brazil. They were often very energetic younger managers in the company who were very excited by what they had done. I asked them, "How did you do it?" They said, "We just looked at the PVP [Purpose, Value, and Principles] and it told us what to do." I just recited to you Procter & Gamble's statement of purpose, which is, "Improve the lives of the world's consumers now and for generations to come." That doesn't tell you specifically what to do with products — in this case, to reduce the price. I asked them, "How did the PVP tell you?" They said, "Well, if our mission is to improve lives and there's a whole set of people out there who can't afford our products, we're clearly not improving their lives. The situation told us what to do."

What's important about this is not whether the PVP told anybody to do anything; it's that people believed in it. It became their cause because they knew that their company wasn't just interested in the bottom line but how you got there, who the consumer was, and who was being helped.

Because this was not part of the global strategy, I asked them, "How did you get approval for something when the brand guardians in Cincinnati would say, 'This is not how we place products in markets.'" (As you know, in big companies people still talk about the headquarters city as though it was a person.) And they said, "It was really easy, we just used the PVP." I would reply, "The words in the PVP don't tell you that this is the answer." In fact, however, having this sense of purpose makes controversial business decisions to rise above politics or territory, such as: "I'm the brand manager in Cincinnati so I should determine what to do," versus "Well, we're the people in Brazil. We know our local market." When you have a noble purpose and a culture that transcends the interest of the individual, it's much easier to have the conversation about things that might be controversial and sometimes make business decisions that are not always directed just by the numbers.

P&G is a very fact-based company. To make policy or strategy, you need the numbers. The people in Brazil had to bring evidence that there was a market and that they could innovate fast enough. They did that by creating unique partnerships with distributors and manufacturing organizations to reduce costs in the manufacturing process. They acted on their values by acting in a collaborative mode, and they had something to bring to Cincinnati under this umbrella of purpose.

The sense of purpose animates the growth of the best companies and, in fact, this became a matter of strategic importance for P&G, which I talk about it in *SuperCorp*. P&G at one point decided that water is a very big issue. Water is important to households; water and the quality of water make a difference in the health of people. In fact, we could probably eliminate many childhood diseases and improve the health of the world simply by providing clean drinking water everywhere. So P&G said, “Ah ha! Perfect place for a consumer product that people could use on a daily basis people like they use toothpaste, we hope.” P&G partnered with the U.S. Centers for Disease Control and other researchers to learn about water and disease and finally got, through an acquisition, a product called Pur. Pur is a water-purification powder that could be sold in small sachets. If we scooped up water from the bottom of the Charles River, put it in a glass, poured in a little Pur, in twenty minutes we’d have clean drinking water. It might taste a little chlorinated because chemicals are cleaning up the water, but it works. It was miraculous. Around the world, in places that needed water sanitation, people loved it. In fact, they loved it so much that they would hoard it for special occasions, such as for a guest who deserved clean water.

There are often barriers to many of the things we want to do through business that do good in the world. One of the barriers for Pur was people’s theories about water and disease. It’s not something that’s necessarily intuitive. Secondly, it was very affordable even for poor people, but they didn’t really know what difference it would make and they didn’t necessarily have the daily habits that it takes to use the other kinds of products that a Procter & Gamble would have. And so, even though this was a miraculous thing, P&G wasn’t selling too much of it. The

market wasn’t there yet. They did find that in places, where kids learned in school about this connection between water and disease, they sold more. When we get to the fifth graders, then we have markets because the kids are the ones teaching the parents, especially in the growth markets in the developing world.

They weren’t selling it. What’s a company whose statement of purpose is to improve the lives of consumers now and for generations to come to do? There were many debates at P&G, about what to do about this. There were other business units saying, “Get rid of it. It’s costing money. My business also improves lives, and we need the resources.” What’s a good company to do? Well, Pur had champions, and luckily those champions included A.G. Lafley, the CEO, and Bob McDonald, who’s now the CEO. They decided that they would not be true to their purpose if they let it go. They knew that there are other mechanisms a company could use to keep products on the market and to learn about developing similar products, and so they set up a not-for-profit in partnership with United Nations agencies and global NGOs. They set up a nonprofit called, “Children’s Safe Drinking Water.” You can find them on the web. Children’s Safe Drinking Water was the first winner of the American Express Member’s Project for a high impact social innovation.

I served on the advisory board for that project. At first, I was a little uncomfortable that something associated with a for-profit company was getting a prize for social good. And then I said, “Wait a minute, that’s the way it should be.” These lines between for-profit and not-for-profit start blurring when companies operate through a sense of purpose. P&G didn’t do that for the prize, they did it to be true to their values.

Bob McDonald succeeded A.G. Lafley as CEO in July 2009. In August he announced Procter & Gamble’s new growth strategy. P&G, which bought Gillette, is now the world’s largest consumer products company. Its growth strategy, the CEO says, is “purpose-inspired growth” — to “improve more lives in more places more completely.” The “more completely” suggests bundling a number of products, finding the synergies between them, serving households for

a range of needs. Let me repeat: Purpose-inspired growth is the business strategy.

Bob and I appeared on a platform in South Boston when *SuperCorp* came out. He had an analyst conference call that day, and there were some voices that said, “Soft-peddle that purpose stuff.” But he didn’t. He said, “Where are we going to find the growth?” His answer was that there are seven billion consumers in the world.... They spend, on average, \$14 a year on P&G products. If we could just find more ways to improve their lives in more places more completely, say \$2 a year on average, that’s a big business spurt. That’s where growth will come from. The sense of purpose animates the business, and Bob is very serious about it. He’s now getting a lot of press. I am proud to say that the other day - I think it was in the March 2 issue of Fortune - he was one of nine CEOs interviewed regarding what other companies they most admired. Bob said IBM because of what they did after the tsunami that struck the nations of the Indian Ocean in December 2004, which is the story with which I open *SuperCorp*. So I know where he got it (in fact he says that’s where he got it). But he’s very serious about this strategy guiding the company.

Indra Nooyi, the CEO of PepsiCo, is serious about having her company — which is known for sugar water and salty snacks — become a health company with a strong sense of purpose to make everything they do healthier and contributing to the health of the people that they serve. Interestingly, she has hired the first Chief Health Officer for the company. This “sense of purpose” is a trend and a wave of the future. That’s the first key element.

Element 2: Innovation

The second element is *innovation*. Where do we find new ideas for our businesses? Where do we find the businesses to start? We find them often at the fringes of society, often by looking outside. I call it, “thinking outside the building,” not just “thinking outside the box.” It’s going beyond the markets we’re already in and going beyond established ways of doing things. Innovation always involves solving some need or new problem. Those who prosper are those who serve more

needs in more places more completely. The engagement that these supercorps have with society is one way to trigger innovation.

When IBM started its “reinventing education” projects, they were giving pro bono services and technology to K-12 schools all over the world. Little did they know then that what they would get back was not just in terms of reputation or the satisfaction of helping education; they got new ideas and new technologies for their business. For example, in Pennsylvania, IBM had a partnership with the Philadelphia schools. It was different because when you’re going to work with the community, you have to listen to the community rather than simply hand off to them what you already have. So in that partnership, IBM was developing its program in collaboration with the schools, to create things that would solve their problems, and that triggered innovation.

In Philadelphia, literacy was a big problem, like it is in many urban and rural schools around the world. IBM thought this would be easy. The company had voice recognition technology they could put together for the school with which kids could learn to read by reading out loud and being corrected. There was one big problem: The voice recognition technology that IBM had at that time could only recognize adult male voices with accents like those of the American Midwest, which is like a CNN announcer from the U.S. So it could not recognize children’s high-pitched voices or changing voices. It could not recognize the 150 different accents you might have in a public school because of the countries that immigrants come from and the various languages and dialects spoken at home. And so, in order to fulfill its end of the partnership with the schools, IBM had to develop new voice-recognition technology. They developed it to give it to the Philadelphia public schools, but turned out to have large numbers of commercial applications. So engagement with society was a trigger for innovation — and in fact that product is now teaching reading to adults all over the world by a web-based program called Reading Companion.

When I say you are doing “good” or “well,” it’s because you’re getting ideas by stretching to solve problems no one has yet been able to crack. Innovation is the second key factor.

Element 3: Partnerships

The third element is *partnerships*, such as those between Procter & Gamble with NGOs and IBM with the schools. Another important area of partnerships occurs throughout the supply chain. That’s really important. It’s seen in the collaborative spirit with which a supercorp manages its supply chain. In *SuperCorp* I talk about a cement company based in Mexico. Now cement companies may seem kind of low-tech these days. And yet, in the case of Cemex, headquartered in Mexico, the chairman has been on the IBM board for years and his company is the most tech-oriented cement company. Although cement is a commodity, they’ve managed to create a branded cement. They innovated in cement and produced antibacterial cement, which is especially good for hospitals and homes.

Cemex had a supply chain issue. It wanted to grow its markets in places where Home Depot and Lowe’s were going to enter. Cemex figured that they must capture some part of the hearts and minds of the market out there, or they would be overwhelmed at the retail end by heavyweight competition. Thus, in Mexico, and then throughout Latin America, Cemex created a brand (Construrama) for small hardware stores to join a network. They gave the small hardware stores computers and training, which increased their confidence. Cemex built a brand, they built capabilities, and they engaged the Construrama partners in community service. Cemex people worked with the small hardware stores to build schools or do other good things for the community. That was their defense against Home Depot and Lowe’s. They created jobs in small areas and increased confidence of their suppliers. It was all through its partner orientation. It was the same kind of attention to humanistic values about how to work together that helped Shinhan Bank create a climate where Shinhan and Chohung could self-integrate and formed a community before they were officially integrated.

Element 4: People

The first three elements are: purpose, innovation, and partnership. The fourth is the *people*. I’m a big believer that the new networking technologies that empower people to engage, contribute, and find each other in networks are a powerful force that supercorps are tapping. (I believe this; follow me on Facebook and Twitter @RosabethKanter.)

When Sam Palmisano became chief executive of IBM in 2002 (IBM will celebrate its 100th anniversary in 2011), he realized that IBM values had been laid down a while ago and that it was time to refresh them. So instead of sitting in a big office in Armonk, writing out what the IBM values should be, like Thomas Watson Jr. had done in a different era, Palmisano decided that in the 21st century, IBM should use technology to engage everybody. And so, he created what was then the world’s largest web chat, and certainly the only one focused on values. They had close to 400,000 people eligible to go on the web for a three-day values jam and talk about whether the IBM values were working and what they should be for the 21st century. About 140,000 people participated.

When Sam stood up at his board meeting to tell the board he was going to do this, he got very interesting reactions. There was an older retired CEO who wondered whether that was “socialism,” which we all know is not a good word to use in the United States. And Sam Palmisano replied that it was pragmatic, because values are not something that can be imposed from the center; they have to come from the people. IBM people are educated; they’re sophisticated; they’re cynical. They’re not going to believe anything unless they’ve engaged in it.

To hold this jam, IBM had to innovate to have technology sufficiently robust — if you know how often Twitter crashes, you know what I’m talking about. Now they’re selling this “jamming” technology to other companies. They have since held similar sessions to set IBM’s innovation priorities, and they just held another one on the environment. So, innovation includes people using the new tools to engage people.

It was the people at Shinhan who reached out to Chohung and formed the teams and formed the networks and formed the social ties. It was the people at Banco Real that helped them win the Noble Prize. Fabio Barbosa said to me, “I know that we’re succeeding in this new culture because I’ve lost control of it. Because the ideas are no longer coming just from the top, they are coming from the people. And we know what people want.”

Every study shows that the younger generations want self-expression. They want to weigh in on decisions. And more than anything else, they want their values to be expressed in their work. It’s not as though the older generations didn’t also want this. They just didn’t think they could get it.

A supercorp gets its superpowers — its larger-than-life ability to do things — from the people and by engaging their hearts and minds because of the sense of purpose, the opportunity to innovate, the collaborative partnership orientation, and most of all because of humanistic values. What this means, then, is that a business, when you really come down to it, is not the financial structure. It’s the people. And if you get the people right, if you get that part of it right, the financial success will follow.

Thank you.

Here are highlights of Rosabeth Moss Kanter’s question-and-answer session with Bentley University students, faculty, and guests.

Question: I am a grad student and, I’m about to graduate in May. My question is, are you happy with what you do?

ROSABETH MOSS KANTER: Wow, you have a great future. Am I happy with what I do? I’m energized by being able to work with people who share the idea that we can improve the state of the world. Work is not always joyous on a daily basis; that’s why it’s called “work.” There’s a lot of drudgery and a lot of things you go through, but if you lift your head up from time to time and say, “This is contributing to something that could make a difference,” that keeps you going.

I’m happy because of my family. That’s for many of us a great source of comfort and joy.... Some of them are here right now. It’s very fulfilling to have a sense of mission and great people to work with. It’s nice to be able to pause from time to time like coming here to say, “Hey, these really are ideas that can make a difference.” That keeps you going.

Question: I’m on the faculty here. I have long admired your work and have used quite a bit of it in the classes I teach. I was wondering about the sustainability of this model. Using this lecture series as an example, we had Ray Gilmartin of Merck here a number of years ago, and he talked about the wonderful things Merck did with river blindness. We had Ralph Larsen of Johnson & Johnson, too. I’ve long admired both companies but recently they have had some problems and slipped. When you have companies that have purpose and values that stand for these things, how do they lose that and how can that purpose be sustained?

ROSABETH MOSS KANTER: Thank you, that's a very good question. Ray Gilmartin is a colleague of mine at Harvard Business School now, and I have great admiration for Ray. If a company is not watching the heart of the business to make sure that the core products and services are being delivered with the highest possible standards, then they're not going to be great. That's why my book is not about corporate social responsibility. In fact, one of the reviewers said, "She seems to make the case for CSR without ever mentioning the word." What I am concerned with is not the things you do because you're generous after the fact, but how you're running the business itself.

I did an earlier analysis in my book *Confidence* about winning streaks, losing streaks, and turnarounds. Why do winning streaks end? They end because people in the company start taking for granted certain fundamentals. They lose sight of them and let them go. So Toyota started operating in a world that was a little unfamiliar. It somehow lost sight of the things that made them great: plan, do, check, act, quality control, and so forth.

Sustainability only comes from leadership. An organization is only as good as the leaders are at continuing to engage people, continuing to reinforce the values and not living on history. Johnson & Johnson became famous because they pulled Tylenol off the market. Well, how many years do you dine off that before you recognize the new issues and making sure you're doing well? So that's the problem: no business success is sustainable by itself. It looked like Apple had run away with everything, with the iPhone. We'll see. You need to innovate your products constantly or you will slip. Similarly, you always need to invest in the culture and continue to grow leaders who will do that and don't become so enamored of your success that you don't have to pay attention to that anymore because you're better than everybody else. That's how you're sustainable – through leadership.

Question: I'm a Bentley faculty member and a longtime fan of yours. You talk a lot about innovation in terms of the products and services for the market, but a big piece of innovation is also what happens within the organization. So, do the same principles hold and how are they carried out to get companies internally innovating?

ROSABETH MOSS KANTER: I feel that a culture of innovation extends across realms and domains. I was using examples that would resonate about how you can actually improve society through doing business and reaching out through products and services. But you also need to have high standards and to operate according to those values in the way you operate inside the organization and how you treat people. I would consider IBM's values jam, for example, a great example of organizational innovation. Suddenly opening a new mode for employee voices and supporting the idea of self-organizing networks — which is another thing that IBM does — that's the source of innovation that helps them bubble up ideas from the bottom. All of these companies also innovate in their HR practices.

The companies that I chose to write about weren't the only great companies; there are others. But they are differentially strong on various things. You can't say they're ahead on everything. But when you look at all the recent lists of who are the best in leadership development, who are the most admired, who have the strongest brands, IBM and Procter & Gamble are always in the top five. A little of that may result from the halo effect, but these companies are innovating in a lot of ways. Take the way Procter & Gamble handled the Gillette merger; it's not that there weren't any issues — no one loves mergers. The Gillette people didn't shave their heads, but they operated in a different way. But because of P&G's principle-driven approach, the merger was managed very well, and better than most.

Palmisano at IBM put forth an idea midway through the decade regarding the globally integrated enterprise. It was a true innovation for IBM to get away from the dominance of country general managers, territory, and geography, and move toward working together on a global basis. This showed that it's possible for people to form teams to serve client needs from wherever they may be. One piece of the globally inte-

grated enterprise became the global citizenship portfolio, which created, among other things, another organizational innovation: the Corporate Service Corps as a leadership development tool. Each year 500 IBMers, on a very selective basis, train for a month in the field, going to some place where IBM might not even be in that market, and work with diverse teams to solve new problems. In this we see leadership development as well as HR innovation tied to global citizenship, and market entry innovation starting with pro bono work that demonstrates capabilities and makes connections.

I would say that the spirit of innovation needs to pervade everything. It opens people's minds to wider possibilities; that's all innovation is. It's not just what's coming out of R&D; it's what's coming out of the engagement of people across borders and boundaries both inside the company and outside.

Question: Professor Kanter, thank you for a very insightful lecture. I am a graduate student here in accounting. I admire strong, independent, brilliant women who make a positive difference in this world. My question is: How do you turn out like this?

ROSABETH MOSS KANTER: Thank you, that's very flattering. I couldn't possibly answer that. I myself am a little puzzled because you just put one foot in front of each other every day. It's nice to dream big dreams and have a big goal, but you also have to have the daily to-do list and knock things off and just keep moving and not let the voices of negativity wear you down and be perverse enough to say, "They say it can't happen. All right, let's prove it can!" But you have to do it with a support system. Personally, I have had a great husband and a great son. My son said at one point he could never really get serious about dating a woman who didn't have an advanced degree, and he did marry one who had an advanced degree. You just do. You just believe that you can and keep going and accomplish things. I can't answer some of these questions because I am so aware of all the work still to be done and all the things that need to be fixed.

It is just like what I said regarding companies, that they should not get too caught up in remembering their history and congratulating themselves. It's like tennis. The biggest mistake I make in tennis — and I make many because I'm not that good — is stopping to admire a great shot that I just made. That is the kiss of death; you're going to miss the next one. You just have to keep focusing on each play, each next step, and keep executing. Then you may find that it adds up to something, which is really a great thing when that happens. Thank you for asking that question.

Question: Professor Kanter, I wonder if you would share just a few of your insights about how the concepts of *SuperCorp* might apply to higher education.

ROSABETH MOSS KANTER: Where better than high education? First of all, many institutions of higher education started modeling themselves after the worst aspects of business, not the best, by becoming very financially oriented, etc. Institutions of higher education need to keep their purpose and mission alive. This is a university that does that ... talk about putting one foot in front of each other! Bentley was a college until recently and now it is a university. So by continuing to execute on the mission, good things do happen.

Along with a sense of purpose, I think there clearly needs to be more outreach to the world. I love the fact that Bentley is the model for partnership with City Year, the "give a year" partnerships. People have to get off campus and get into the world. A university is all about having people's minds stretched and yet it's too easy to fall into orthodoxy in which people are trying to get people to look just like them and not to learn together. So we could do more co-learning. That's why I like the case method teaching at Harvard Business School. Class discussions never come out the way I thought they would because they are always determined by the voices and the experiences of people in the room.

I think many institutions of higher education have forgotten how to innovate. My friend Warren Bennis, a great scholar of leadership, was a university president for a while. He wrote about it later and said that a university is harder to change than a

graveyard! If you had your basic form laid down in the fourteenth century, well, it's tough. There's another advantage Bentley has by being newer, by being technology-oriented, and so on.

There needs to be a lot more room for innovation, but that has to come from the passions of the faculty, who are the core of the knowledge development. Again, they can partner with others and so make more room for people to seed things that can help the university, too. The problem with many universities is that people who work there don't care about the university — they care about their own profession or career. One of the jobs of a leader of a university is to inspire a sense of purpose and the sense that the university is a vehicle for them to realize their dreams, not just a convenient paycheck while they pursue other things. Collaboration is key. The Harvard Advanced Leadership Initiative that I lead (www.advancedleadership.harvard.edu) involves faculty from five of the biggest professional schools.

These principles apply to other sectors as well. Hospitals, for example, supposedly care about health and saving lives. However, they don't spend enough time stepping back to think about their purpose, their contributions to the world, and their coherence as a collaborative community. And here, too, I think these SuperCorp principles apply, because they are organizational principles, not just business principles. These are good principles for any organization, and the leadership principles certainly apply to both higher education and health care, just to name two.

Question: You mentioned some influential companies and great CEOs. But given the recent disorder in the United States economy, where do you see our economic state in 10 or 20 years? Do you see us following in the footsteps [of these exemplary companies] or do you think there is too much catching up to do?

ROSABETH MOSS KANTER: America could be like the companies that weren't sustainable. We already have fallen way behind in education, including higher education, too. Certainly we're behind in K-12. In higher education, I've forgotten the exact statistics, but at one point the U.S. produced something like 50 percent of all graduate degrees in the world, but now it's down to something like 22 percent

(these aren't exact numbers, so please don't quote me on them). And, some of that is really a good thing because other countries are developing, which is good for us as they can become our partners, allies, and markets. But we have to work even harder to catch up.

My colleague, Bill Kirby, who's a professor of Chinese history, is now at Harvard Business School, looking at Chinese history-in-the-making through business cases. The other night at a seminar we were doing together, he said that in the time since Harvard broke ground on one project, three Chinese universities have sprung up from scratch. We have to reinvest in every field and those things that were the foundation of greatness of our country.

Luckily, we have one huge asset, that is, if we don't fritter it away, and that is that our people have the entrepreneurial spirit that comes from our history, including immigration — people who have gone through the trouble to migrate here. That's our great hope — that we continue to invent because we have determined individuals who won't stop. But we really have to reinvest. We have to reinvest in infrastructure. In Asian airports, in most places, it's like you're in a palace to the future. Have you landed at JFK, recently? Logan actually stacks up pretty well in some ways with the new terminals. But we're not investing. I don't think we have to lose our edge — we have the potential.

We are the greatest crossroads nation on Earth. The *Wall Street Journal* yesterday had a front-page article saying that investors and companies are already souring on China. China has not welcomed diversity the way we have. Just because they're growing so fast doesn't mean they will take over. We have diversity on our side. One of the reasons I believe the U.S. emerged from World War II so strong was not only because those other countries had to rebuild; it's because we were already so diverse. Why is American popular culture — music and everything else — known all over the world? That's because when you're highly diverse you're also very superficial. In our culture, we have pockets of deepness, but they don't happen to exist on television, which is how a lot of cultures get to know us. In Australia they say they only watch American TV. What that means really

is [that U.S. culture is] a kind of common denominator. It's the same with our language: why did English become the universal language of commerce? English is very easy to speak badly and still be understood. Try getting a tone wrong in Mandarin or getting your accent wrong in French.

We'll still have problems: Communities are deteriorating where crime is still high. If we have a third of all African American males in their twenties having a brush with the criminal justice system, then we are handicapping ourselves and our future. So, yes, America can make it, but we better make a lot of the investments that we've been neglecting.

Question: I am a graduate student and my question is geared towards technology and children. They're already using technology that was invented for adults essentially, such as Google, e-mail, and so on. I'm wondering if you see an innovative opportunity there to gear some technology towards children or if it's kind of a done deal since they're using it anyway?

ROSABETH MOSS KANTER: Well they are using it anyway, that's certainly true. Of course there are enormous opportunities, and by the way, that's another strength of America: the young teach the old. Margret Mead once said we were the first culture in which the young taught the old because when immigrants came here, the kids learned English before the parents did and they would teach the parents. In other areas too, the kids understand things ahead of their parents. I think there are enormous opportunities with technology, but we will never replace face to face interaction, so we have to make sure that we don't let technology overwhelm every part of life. At one point, the CEO of Nokia said that his favorite focus groups were with 12- and 13-year-olds, but they already seemed a little old in that field.

We have to do more things that integrate children and adults in our society, and we have to listen to children. Children often have wise things to say. Technology can be an incredible asset. IBM's Reinventing Education project is not about com-

puters in the classroom at all; it's about the many ways that technology can give teachers access to wider resources.

With the Harvard Advanced Leadership Fellows, we visited a school on a mountaintop in rural Brazil where really poor rural kids were learning through technology, through interactive games. They were learning an incredible amount and in fact the real dilemma there again was their parents, who were puzzled and somewhat against it because they were left out. So everything we do for children we have to do for parents, too. I worked in a school in Union City, New Jersey that was one of the first to really make technology the center of a middle school, in collaboration with Verizon (then Bell Atlantic). They also set up a parent university. Today, there are a lot of these, where the kids teach the parents on weekends or after school. So, again, we have to bring the generations together so that technology doesn't become a dividing line, but is something that allows us to move forward together.

Thank you very much.