IS YOUR COMPANY READY TO SUCCEED?

Srikumar Rao has asked thousands of students about the ideal company of the future, the kind of place where they would want to spend their lives. Thinking about what he has heard from them, he believes tomorrow's successful enterprise will be a different kind of company indeed.

Those in the media love to generate lists of best companies to work for. It's understandable; so many people dislike where they're working now that any report detailing the charmed life of those employed by "The Best, Ltd" is sure to attract a widespread audience. Each year, *Fortune* lists 100 companies that meet its criteria; *BusinessWeek* proffers 40; even WorkingMother.com has 100 favourites. And the companies that make such lists are not found in one nation. The Great Place to Work Institute, which does some of the research for these media lists, claims it scours 40 countries to find the companies that are worthy of their coveted "best" designation.

Although I understand the interest in today's best companies, my own research has been focused on the best companies – to come. For many years, while teaching a course called "Creativity and Personal Mastery" at many top business schools, I have asked some of the best and brightest business students – men and women who are highly intelligent, deeply driven and fiercely ambitious – to put forth their own vision of the ideal company to work for. I asked these students to describe their ideal jobs, considering every aspect of the job in excruciating detail; many of their reports explain their thinking over 15–20 pages or more. They also are encouraged to repeat this exercise every few months, and many send their later efforts to me as well.

Reviewing and analysing more than a thousand such reports about what these highly desirable employees are seeking has given me a clear picture of what they find wonderful or distasteful about the organizations with which they are currently affiliated, organizations that rank among the largest and best-known firms in the world. After thinking about the responses, I concluded that the ideal company of the future will have to be a different kind of company from those that exist today. As I see it, it's not enough just to think about the best company to work for; one must simultaneously define the best company for customers, suppliers or investors. My students have helped me see tomorrow's best company. Here's what it looks like.

Mission possible

The mission of an organization is where it all starts. There is complete unanimity that the company has to stand for something greater than itself, that its existence must serve the common weal. It is essential that the mission statement not be a cynical attempt to portray the organization in a good light, but a statement that its leaders truly believe in. Of course, virtually every major commercial organization today has a carefully crafted mission statement that promises to honour employees (which many organizations claim are "our greatest asset"), honour customers, serve society and be a force for good. In the vast majority of cases, this statement hangs unnoticed on the wall of the boardroom. Most senior executives do not even know it, and it is rarely, if ever, brought up as the touchstone that shapes major decisions.

Instead, expedience is the real driver in these companies, and the objective is to report financial growth that propels share price ever higher. In fact, growth in share price is used quite often to define success, and CEOs are lauded in the business press for increasing the market capitalization of their companies. "Maximization of shareholder value" is what managers are supposed to accomplish, according to business school dogma; some academics even assert that managers are derelict in their duty and misguided if they let other considerations, such as the social desirability of the consequences of business actions, affect their decisions.

Such a view is roundly rejected by the vast majority of students I've met. The "double bottom line" (that is, profits as well as social good) and the "triple bottom line" (that is, profits, social good and safeguarding the environment) are the concepts that resonate deeply with them. They admire the philosophy of Google founders Larry Page and Sergey Brin who built a corporate culture anchored to the injunction, "First, do no evil." The result of keeping that mantra in mind is that Google has become larger than life as a beacon for those seeking a humane workplace. It remains to be seen whether it can retain its mystique as it continues growing.

The idea of business serving a social cause is a counterpoint to the notion that the business of business is to be profitable, with the "invisible hand" (that is, the equilibriating mechanism of market forces) working to deliver benefits to society. Thus profits are important, but so is the well-being of various stakeholders, such as employees, customers, suppliers, shareholders and the community at large. This is an idea that has emerged at various times. For example, Edward A. Filene, the founder of the Filene chain of department stores in the early 20th century (later Federated Department Stores, then Macy's) was known for his belief, stated in *The Way Out: A Businessman Looks at the World* (1925), that "there is nothing necessarily contradictory between successful business and social progress." And some organizations also have shared this viewpoint.

Today, an even more radical viewpoint is beginning to be heard, perhaps best articulated by Nobel-prize winner Muhammad Yunus in his book, *Creating a World Without Poverty* (PublicAffairs Books, 2009). This notion is that the function of business is to serve society. Profits are a by-product and should be ploughed back into the enterprise →

→ to expand its reach and depth. Shareholders should move to the back of the bus, if they are on it at all. Most of my students (and remember, they are attendees at some of the top business schools) do not agree entirely with this. They continue to believe, strongly, that profits are important and should be distributed to those who are the "owners" of the business. But – and this is what is important – they also believe, even more strongly, that companies have obligations to employees, customers and society and that these cannot and should not be subordinated to the interests of stockholders.

On the basis of what I have heard from so many, I can confidently state that the classical idea of capitalism – in which each person acts solely in his or her self-interest and market forces somehow magically transform this selfish activity into social good – is dying. There are far too many instances of market breakdowns, and these cause incalculable human misery.

Attracting employees

The reports I have collected indicate that how companies treat their employees is the single most important touchstone of how potential employees will make their decisions about working for a company. They are aware that practically every company boldly states that its employees are their most valuable assets. However, they also are aware that, at the slightest hint of a downturn, these valuable assets are thrown overboard with more alacrity than ballast. This hypocrisy is quickly noted, and employees reciprocate with their own form of revenge, which turns out to be terrible for both the individual and the organization. They react by becoming disengaged and disheartened, with the attendant physical and emotional damage, giving the organization only a fraction of the innovative ideas and dedicated service it might have obtained. And when the downturn ends and such a company looks to rehire, attracting the best and brightest is not going to be easy. My sense is that the best and brightest employees will be drawn to organizations that must provide, at least to some degree, these characteristics if they hope to flourish:

Trust Each employee needs to know that he or she is trusted and that the company not only gives autonomy to each employee but also expects each employee to use initiative. Lack of trust manifests itself in many ways, from close scrutiny of expenses and time sheets to hoarding of relevant information. There are sound legal and business reasons why some information cannot be shared, and this is fine. What is important, however, is that employees know what cannot be revealed and why; everything else should be provided to them as vital information.

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Employees should be given discretion to act on their own, and the occasional mistake should be treated as a learning opportunity instead of a reason for punishment.

Justice Employees need to know that a set of values and rules exists that applies to everyone, regardless of rank, and that these rules are applied uniformly and openly. And they need to know that mechanisms are in place to prevent abuse of rules, that they have a chance to appeal decisions to another level, and that resolution of complaints and charges will be speedy.

Transparency In any organization, decisions need to be made – marketing decisions, financial decisions, personnel decisions, technology decisions. The *process* by which these decisions are made is what counts. Do employees feel that any relevant information they have is solicited and used appropriately? Do they feel that they can participate in the process if they have anything to contribute? "Black box" decisions (that is, those made based on information collected but not shared) produce alienation and disengagement.

Learning Do employees feel that they are growing personally and professionally? Do colleagues and supervisors care whether their employees are being stretched without being overwhelmed? Obviously, whether a person learns is as much a function of individual curiosity and determination as it is of organization design. But what is obvious is the intent (or lack of it) to provide a challenging environment and to provide the means and tools for employees to upgrade their skills.

Competence Are most persons in management, by and large, competent? Do they have the requisite domain knowledge and interpersonal skills?

Employees need to know that the people in charge have been screened, are regularly evaluated and are fully capable of performing the tasks with which they are charged. This is a simple and intuitively appealing concept, but is extremely difficult to make happen. For example, if an employee is not performing well, is an effort made to determine whether it is because that person is going through a bad period? If so, should he or she be cut some slack or be terminated for the greater good of the company? How such decisions are made obviously has implications for justice and transparency as well.

Fun Is there a sense of jollity, an understanding that we are all humans in this predicament called life and that we might as well have a blast while traversing our respective paths? Does laughter come spontaneously and often? Is hilarity encouraged? There is a place for decorum; but if the environment is a grind, then there will be no long-term loyalty and commitment. It is important to be serious, but it is even more important not to take oneself too seriously. And some few companies have actually put in place CFOs (Chief Fun Officers), a move other organizations might want to emulate.

Flexibility We live in complex times, and the lives of many employees are complicated. Traditional family support structures are often lacking in our mobile world, which is particularly difficult for families with two working parents. *Time* (6 October 2009) reported that 71 per cent of women in the workforce have children under age 18, and 60 per cent of those have children under three. Women are now about half of the total workforce; some 23 per cent of women are heads of single-parent households. Given this change in the composition of the workforce, when an employee needs accommodation, what is the company attitude? Is it *Let's see if it is possible to make your request happen*? Or is it *Sorry, that's against procedure and sets a bad precedent*? The former is the wave of the future.

On a par with mission in terms of importance to employees, and of course derived from the mission, is the company's attitude toward its employees. Does it view employees as a means of accomplishing its goals? Or is it dedicated to helping each person reach his or her highest potential? These should be complementary aims. But it does take an enlightened leadership even to understand this, let alone achieve it.

Far too many organizations try to "motivate" dispirited and disengaged employees. Bluntly speaking, this is an attempt to manipulate people into doing what they find distasteful and would not otherwise do. Rather than motivate, some companies are trying (in truth) to goad, induce or spur employees to do what the company wants. True motivation is not something that needs to be inculcated. After all, no worker on the first day in a new job thinks, "In six months, I look forward to being a disgruntled clock-watcher, counting the minutes until Friday evening." Instead, a new employee is usually afire with enthusiasm and eager to get started. Disillusionment happens gradually.

The organization of the future, rather than attempting to "motivate" workers, will go to great lengths to find out what is de-motivating them and try to get rid of whatever that is. Managers will remind everyone of the mission and make sure that it is followed in spirit at all times; they will revisit it frequently and update it as the world changes. Involvement by all workers in this process is what keeps motivation high. It is a natural by-product of the process, not an end in itself.

Countless firms have found that investing in their employees is sound business practice in addition to being the proper thing to do. For example, the early success of Starbucks owed much to Howard Schultz's decision to offer health insurance to part-time workers. He did it because of his own experience with poverty, and the happy by-product was that employee turnover dropped precipitously, as did training costs. Similarly, Costco's Jim Sinegal pays his employees significantly more than his parsimonious rival, and the company enjoys considerably higher sales per square foot.

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Attracting customers

What will be the attitude of the ideal company toward customers? A silly question? Not at all. Every company should recognize that without customers, it will not survive – but how does the →

→ organization *view* its customers? Are they a necessary evil? Or are they the reason we exist? Where is the explicit focus? Is it on delivering outstanding value, or is it on extracting the maximum possible cash?

The attitude of leadership toward customers quickly becomes apparent to the rank and file and is adopted by them – and soon is reflected in their attitude toward customers. This means that providing superlative customer service has little to do with the customer. It has much more to do with the employees themselves and the leadership of the organization. When employees know that customers are considered valuable and should be cared for, they tend to love their jobs and brim with the energy that comes from feeling they are doing good. There is never a problem with their motivation.

The function of leadership is to make sure that every employee has the tools and training to provide such service. Leaders also should ensure that each employee is attuned to the market and quick to spot and report any changes in the market or operating environment. Each employee also needs to be empowered to make (or suggest) the requisite changes in products, services and delivery systems that are appropriate responses to such changes. Such rapid action by multiple employees is an organic self-correcting and regenerative process.

Frederick Reichheld articulated the concepts of good profits and bad profits in *The Ultimate Question* (Harvard Business School Press, 2006), his book on customer loyalty. Good profits come when the customer is delighted with the transaction and walks away with good feelings and a sense of satisfaction. Do you remember having a delightful meal at a restaurant, when the food was good, the service great and the experience pleasurable enough that you still think of it? That restaurant earned good profit.

For example, when L.L. Bean started his company, he offered an unconditional lifetime money-back guarantee. He trusted his customers. There are tales of people who came in years after buying a piece of clothing and returning a threadbare garment, and they got their money back, with no questions asked – thereby enhancing the company's marketplace reputation. And, of course, the company earned hundreds of millions of dollars of good profits from countless customers who bought from it again and again and again.

In contrast, bad profits come when customers are annoyed with the transaction and resent paying for it. They walk away with a residue of ill will, and they'll defect at the first available opportunity. Have you ever cried "foul" when you looked at the long-distance charges for a short phone call you made from your hotel room? That is an example of bad profit. And, of course, there is a huge amount of mediocre profits, resulting from transactions with which the customer is neither thrilled nor annoyed. This possibly represents the majority of commercial transactions.

The company of the future works hard to ensure that its personal balance is skewed strongly toward good profits and that its bad profits are minimal or non-existent. Delighted customers keep coming back, and interaction with them helps keep employees feeling fulfilled and alive.

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Attracting suppliers

How does the company view its vendors? Are they the enemy to be defeated by beating them down on price and terms? Or are they trusted partners in a holistic enterprise that ultimately leads to delighted customers and a better society? Is it a transactional relationship easily abandoned when someone else comes along with a better price or more favourable terms? Or is it a longer-term association based on warm mutual interest?

The organization of the future does not view negotiations with a supplier as a zero-sum game and never tries to seize an unfair advantage. It recognizes that even an attempt to extract that last bit of value leaves a legacy of bitterness that poisons the well for employees of both companies. Instead, the organization enters into a partnership in which it readily shares information and technical know-how to improve its supplier's operations and profitability, even as it seeks to lower its own costs by asking for lower prices.

This is a delicate balance, and it is quite easy to get the steps wrong in this dance. The only thing that will make it work is the intent of the company and the trust that has been built up over time, which again leads back to the mission. Suppliers are no different from employees; they, too, can be energized and motivated to be a force for good. For example, Honda buys more than 80 per cent of every car from external suppliers. Unlike US car companies, it does not "squeeze suppliers to the point that their survival is threatened," notes Raj Sisodia, co-author of *Firms of Endearment* (Wharton School Publishing, 2007). Instead, it partners with its vendors in a Best Partner programme that has earned it production improvements averaging 48 per cent.

Attracting shareholders

Shareholders are the "owners" of our public companies. And financial markets reward short-term performance and do not distinguish between good profits and bad profits. It is a major challenge for organizations to recognize the legitimate need for solid returns by shareholders and at the same time to refuse to cave in to the demands for short-term earnings, which may cause spikes in share price but cannot be sustained.

This is perhaps the most difficult challenge. However, transparency and authenticity make the task easier. When the mission is articulated clearly and is repeatedly held up to public view, investors get the picture. Some will be drawn to it because they too want to be part of this effort. However, those who subscribe to the idea that profits are paramount and that companies have no business being concerned about social good will leave. Those who stick with the company know that earnings will be reinvested for the long term. They know that employees and other stakeholders will have their interests preserved. And they will be comfortable in the knowledge that this also bodes well for the value of their investment over the long haul.

The result of this approach is that, over time, the organization will attract investors who share its values. For example, Berkshire Hathaway is perhaps the gold standard for shareholder satisfaction. There have been no stock splits, people scramble to buy one share and many view it as a lifetime investment to be bequeathed, not sold. In no small part, this is because of CEO Warren Buffett's detailed, no-holds-barred letters in which he is candid about his thoughts, his mistakes and his plans.

Coming attractions

In his book, *Good to Great* (Random House, 2001), Jim Collins talks about the importance of getting the right people on the corporate "bus". He says that companies would be wise to define the ideal employee and to hold out till they can find *exactly* the people needed to make the company a great one. Hire those people (bring them onto the bus), he says, and managing the company will be a much easier task.

My own sense is that something like that is happening in society right now – only it is tomorrow's employees who are designing what the organization of the future will look like. Imagine that: the riders of the future bus designing it today. Yet that is precisely how you can view this verbal picture of the organization of the future, drawn by so many bright and dedicated future employees in those reports I mentioned earlier. The company to come – at least the successful one – will be dedicated to a cause greater than itself, determined to improve the well-being of a significant chunk of society. It will lift employees, vendors, shareholders and others to a higher level of performance and contribution. Its success will grow out of a deep identification with all its stakeholders and their collective knowledge that the organization's success will be, in no small way and quite by design, their own. ■

Resources

"Are you ready to succeed?", www.areyoureadytosucceed.com.

Srikumar Rao, "The shape of leadership to come", *Business Strategy Review* 19, no. 1, 2008.

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