



Transforming Giants

- Moderator: **Rosabeth Moss Kanter**, Ernest L. Arbuckle Professor of Business Administration
- Panelists: **Ann S. Moore**, Chairman and CEO, Time Inc.
Daniel L. Vasella, Chairman and CEO, Novartis AG.

Overview

A new type of 21st century company is emerging that is transforming how business is conducted. These are values-driven companies that define a core set of values and rely on these values in making all strategic decisions. Such companies are transforming themselves, their industries, and the world. This values-based orientation attracts and motivates employees, appeals to customers, leads to focused innovation, and creates competitive advantage. A focus on values enables companies to change and bounce back quickly from challenging situations. This is how successful companies will operate and behave going forward.

Context

Professor Kanter described her recent research on vanguard companies and the panelists then described the role that values play in managing and transforming their companies.

Key Takeaways

- **Vanguard companies are market leaders that are able to change themselves and the world because they put values at the center of their enterprise.**

Professor Kanter described conclusions she has drawn from recent research about large companies (“giants”) that have transformed themselves. She concluded that these companies (termed “vanguard” companies) are able to transform themselves because the transformation is fundamentally driven by a core set of values.

Vanguard companies are ahead of the pack because they are visionary in the way they look at society. They have clear value statements and their actions are consistent with these values. There are several examples of vanguard companies that have relied on their values and principles to define their business and guide them through tumultuous times. These companies became stronger because of their commitment to values.

- *IBM*. CEO Sam Palmisano understood that in the 21st century IBM’s knowledge workers would not follow values handed down from the top. For values to be meaningful, all employees had to be engaged in the process of defining them. As a result, IBM conducted a live, online, companywide “values jam” where all employees could weigh in on the company’s values.
- *Procter & Gamble*. While still successful, P&G struggled somewhat in the 1990s. To align and transform the company, P&G’s CEO, A.G. Lafley, led the codification of the company’s purpose, values, and principles (“PVP”) to help align all employees and expedite the cultural assimilation of new acquisitions and employees.

- *Banco Real*. This Brazilian bank used its commitment to social and environmental responsibility as a core value, a competitive differentiator, and a means to meaningful growth. The company has grown from a small bank to one of the largest, most respected banks in Brazil.
- *Cemex*. This globally acquisitive Mexican cement company used its strong values and management principles to assimilate its acquisitions. Cemex cleaned up the cement factories, improved the environment, experimented with innovation, and earned the respect of those who were acquired. As a result, the company has achieved great financial synergies.
- *Omron*. Every morning Japanese workers recite the purpose of this company, which centers on serving society. The company uses its core values to guide all aspects of its decision-making process.

“This is a 21st century phenomenon . . . they are doing it differently . . . they are coming with a new model for the world. What is this model? The model is that values are at the heart of the guidance system for the enterprise.”

— Rosabeth Moss Kanter

- **Vanguard companies gain tremendous advantages.** Vanguard companies have strong values at the heart of their enterprise. Their statements of purpose, values, and principles guide strategic choices and are used as a test of whether a strategic choice is appropriate. Vanguard companies are responsible for their actions and walk away from business that is inconsistent with their values. These companies are a force for raising standards in the world. Through their values-based approach these companies are gaining many advantages.
 - *Competitive advantages*. Vanguard companies attract customers who share their values. They also become a preferred acquirer, paying a lower price for acquisitions because the acquired entity shares their values.
 - *Innovation advantages*. Employees in vanguard companies are engaged in their jobs and are motivated to change the world. Employees are also empowered to look beyond their core job to see how they can innovate and engage in more collaborative endeavors.
 - *Productivity advantages*. Engaged employees are highly efficient. They are motivated to find new and better ways to do things.
 - *Credibility advantages*. Vanguard companies have strong brands and enjoy great credibility with consumers and other stakeholders such as governments.



- **Holding true to core values through a transformation is important.**

No *Fortune* 500 company has double-digit growth forever. All big companies stumble and go through periods that require transformation. Understanding, articulating, and committing to core values can help companies maneuver through a difficult transformation.

"I do believe that companies that have a strong value system can outperform the market—they can outperform their competition."

— Ann S. Moore

A common type of transformation is a major merger or acquisition that brings together different organizations and cultures. Devising one core set of values for the combined entity is a critical step in enabling an organization to successfully move forward. This is what took place when Time merged with Warner Brothers. A team was formed to agree on one core set of values for the combined entity, resulting in an effective marriage. In contrast, Time Warner and AOL could never agree on a core set of values, and the marriage never worked.

- **Identifying, understanding, and staying true to values are at the core of how Novartis operates.**

Novartis was formed through a merger of two Swiss companies. The predecessor companies had no explicitly stated values. When Daniel Vasella started as CEO of Novartis, his first priority was to articulate the company's core values; the values provide a way for all stakeholders—employees, customers, stockholders, the media, and others—to identify with the company. Values also provide a boundary and a control system; operating outside of this boundary is forbidden.

"For me personally, the clarification of the purpose—what is our purpose, our role in society—is absolutely crucial. I orient myself in difficult situations to that."

— Daniel L. Vasella

The company's values play a role in hiring and evaluating employees. The company has ten criteria it uses to assess how well an employee fits with the company's values. These criteria can be boiled down into three factors:

- **Competence.** Is an employee competent in his or her field and is he or she socially competent and able to work well with others?
- **Ambition.** The company wants ambitious, self-motivated people. The company's role is to create an environment

that enables these individuals to perform at their best and doesn't stifle their capabilities.

— *Integrity.* This is necessary to balance ambition.

- **More important than philanthropy is operating a business that brings value to the world.**

Mr. Vasella outlined three ways companies can contribute to the world: 1) by operating in a way that produces innovative products and creates value for society; 2) by acting based on enlightened self-interest; and 3) via philanthropy.

While Novartis believes in philanthropy, making contributions that no other entities can make, Mr. Vasella believes that business can best serve society by continuously bringing innovative and profitable products to market. In this way, companies will be sustaining and can invest in future innovations.

- **The panelists agreed that it is important to try to influence the behaviors of other corporations and leaders. The challenge is how best to do this.**

The question was raised whether it is enough for companies to operate under a clear set of values, or whether they should seek to actively influence the behaviors of other corporations and business leaders.

Both panelists are hopeful that through their actions and behaviors, and those of their companies, that they will set a positive example and will influence others. However, they were less inclined to go on a high-profile warpath to try to actively encourage individuals, organizations, or governments to adopt a more values-centric approach.

Other Important Points

- **Water purification tablets.** In 1999, Procter & Gamble purchased a water purification business and hoped to offer water purification tablets in third-world countries. However, the effort was unsuccessful as the company had difficulty convincing potential customers to use the tablets. Convinced of the societal value of these tablets, P&G created a nonprofit and partnered with NGOs to educate users and distribute the tablets around the world. This is an example of a company acting on its values. Even when the profit potential of a product failed to pan out, the company relied on its sense of purpose to find another way to get a vital product to consumers.



Speaker Biographies

Rosabeth Moss Kanter (Moderator)

Ernest L. Arbuckle Professor of Business Administration

Rosabeth Moss Kanter, the Ernest L. Arbuckle Professor of Business Administration at HBS, specializes in strategy, innovation, and leadership for change. Her strategic and practical insights have guided leaders of large and small organizations worldwide for over 25 years, through teaching, writing, and direct consultation to major corporations and governments. The former editor of *Harvard Business Review* (1989–1992), Kanter has been named to lists of the “50 most powerful women in the world” (the *Times* of London) and the “50 most influential business thinkers in the world” (Accenture). In 2001 she received the Academy of Management’s Distinguished Career Award for her scholarly contributions to management knowledge.

Kanter is the author or coauthor of 17 books, which have been translated into many languages. Her latest book, *America the Principled: 6 Opportunities for Becoming a Can-Do Nation Once Again* (2007), offers a positive agenda for the nation focused on innovation and education, a new workplace social contract, values-based corporate conduct, competent government, positive international relations through citizen diplomacy and business networks, and national and community service.

Her previous book, *Confidence: How Winning Streaks & Losing Streaks Begin & End*, describes the culture and dynamics of high-performance organizations as compared with those in decline, and shows how to lead turnarounds. Her prize-winning book, *Men and Women of the Corporation*, offered insights about corporate careers and the individual and organizational factors that promote success. A spinoff video, *A Tale of “O”: On Being Different*, is among the world’s most widely used diversity tools. Another award-winning book, *When Giants Learn to Dance*, showed how to master the new terms of competition at the dawn of the global information age. *World Class: Thriving Locally in the Global Economy* identified the rise of new business networks and analyzed the benefits and tensions of globalization.

Kanter has received 22 honorary doctoral degrees as well as numerous leadership awards and prizes for her books and articles. Through Goodmeasure Inc., the consulting group she cofounded, she has partnered with IBM to bring her leadership tools, originally developed for businesses, to public education as part of IBM’s award-winning Reinventing Education initiative, and she is a senior advisor for IBM’s Global Citizenship portfolio.

Before coming to HBS, Kanter held tenured professorships at Yale University and Brandeis University and was a fellow at Harvard Law School, simultaneously holding a Guggenheim Fellowship.

Ann S. Moore, MBA 1978

Chairman and CEO, Time Inc.

In July 2002, Ann Moore was appointed chairman and CEO of Time Inc., the world’s leading magazine company. Time Inc. publishes about 125 magazines, which are read nearly 250 million times worldwide every month and account for about 20 percent of total advertising revenues of U.S. consumer magazines.

Moore became EVP of Time Inc. in June 2001, responsible for the business and development operations for several of the most popular consumer magazines in publishing: *Time*, *People*, *In Style*, *People en Español*, and *Real Simple*. She also managed the consumer marketing division of Time Inc. Moore joined Time Inc. in 1978 as a corporate financial analyst and later served in key executive positions at *Sports Illustrated*, *Fortune*, *Money*, and *Discover* magazines.

She was the founding publisher of *Sports Illustrated for Kids* in 1989, until going to *People* as its publisher in July 1991. She was named president of *People* in 1993. During her tenure, Moore took what was already the most profitable weekly magazine in the United States to new heights of success, both domestically and internationally. Under her guidance, *People* grew from a single title to the centerpiece of a thriving magazine family, spinning off the *Australian Who Weekly*, followed by *In Style*, *People en Español*, and *Real Simple*, as well as *In Style*’s growing international franchise.

A native of McLean, Virginia, Moore graduated from Vanderbilt University in 1971 and received her MBA from HBS in 1978. She joined Time Inc. later that year.

Moore serves on the boards of directors of Avon Products Inc. and the Wallace Foundation. Her numerous awards and honors include her appearance on *Fortune* magazine’s list of “The 50 Most Powerful Women in American Business” for all 10 years of its existence.

In 2003 Moore received the first annual Time Warner Civic Leadership Award, which recognizes the senior executive at the company who does the most to foster a spirit of employee volunteerism and corporate responsibility.

Daniel L. Vasella, PMD 57 (1989)

Chairman and CEO, Novartis AG.

Daniel Vasella is chairman and CEO of Novartis AG. He was appointed chairman in April 1999, having served as CEO and executive member of the board of directors since the merger that created Novartis in 1996.

Before the merger, Vasella was CEO of Sandoz Pharma Ltd. and a member of the Sandoz Group executive committee. From 1988 to 1992, he was with Sandoz Pharmaceuticals Corporation in the U.S., and before then he held a number of medical positions in Switzerland. He graduated with an MD from the University of Bern and completed the Program for



Management Development at HBS in 1989. He was also awarded an honorary doctorate by the University of Basel.

Vasella is a member of the boards of directors of PepsiCo Inc. and Alcon. He is also a member of the international board of governors of the Peres Center for Peace in Israel, the International Business Leaders Advisory Council for the Mayor of Shanghai, the Global Health Program Advisory Panel of the Bill & Melinda Gates Foundation, and a foreign honorary member of the American Academy of Arts and Sciences. He also serves as a member of several industry associations and educational institutions.