ARTICLE .33

Tomorrow's Company - Bicycle, Frog, Puddle or River?

What are the drivers for sustainable success in Tomorrow's Company?

Elizabeth Hagiefremidis
Swinburne University
Australia

Abstract

It is becoming more and more evident that the prevailing business worldview of short-term gain and the machine-like model of 'command and control' is no longer viable. It has become unsustainable and ineffective, especially in human and environmental terms. Most of the problems that contribute to this breakdown point to a lack of a whole systems view; lack of systematic foresight, lack of vision, values and of purpose. To move forward, a new paradigm is needed to answer the question "What is a company for?" This paper examines some new models that are arising within and around the business community.

Introduction

Five primary forces have been identified as shaping the evolving seas in which business needs to navigate in the 21st century: growing diversity and division, shifting power relationships, relentless speed, increasing value of information and emerging networks. Business fundamentals such as competitive advantage, price, product channels, cost of capital and operating costs will still dominate, but the pathways to success will be marked by indicators such as environmental and social performance rather than solely by shareholder value.

Why Do Companies Exist?

What is a company for? What is its purpose, and its future? What criteria does a company need to make it sustainable, to give it and its communities longer and better life? In his 1990 lecture "What Is A Company For?", business guru Charles Handy (1990:59) described the need to challenge common assumptions about this question:

> *In my American business school in the sixties the answer was clear, it was inscribed above the blackboard in every class, it was "to maximize the medium-term earnings per share." Not short-term earnings, mark you, and not optimize, but maximize. From this all else flowed, given, of course, a perfect market and an intelligent one and managers who were clever, energetic and wise - something to which my business school was attending. Looking back, it is amazing that we never challenged either the statement or its premise.*

The old "business as usual" idea views a company as "a machine for making money" (Senge 1997:viii). But Handy said that "there is a growing sense of unease in many quarters about the unintended consequences of being in business." (Handy 1990:59) The 1994 BOC/London Business School survey of 21 British companies, "Building Global Excellence", identified complacency combined with ignorance of world standards for

"best practice" as a major obstacle to world-class performance (BOC, 1994:5). With recent events of large corporations collapsing because of bad business practices, such as Xerox, WorldCom, Enron and Arthur Andersen, and, in Australia, HIH and OneTel, the old motto of the '80s, "Greed Is Good", has definitely had its day.

Some of these companies are dying. But if companies are machines, then machines cannot die. Nor can they rebuild themselves to something new when conditions change. So what if we thought of a company not as a machine but as a living being? What difference would that make to the future of organisations?

Why Do Companies Die?

Most companies seem to have difficulty sustaining themselves for long. In his book "The Living Company", Arie de Geus - a former senior executive of Royal Dutch/Shell - quoted a Dutch study which found that, internationally, the average life expectancy of a company of any size is 12.5 years. (de Geus, 1997:2) One-third of the corporations listed in the 1970 Fortune 500 had vanished by 1983 - acquired, merged or broken to pieces. There are a few companies that have managed to survive for a human lifetime or more, constantly evolving and reinventing themselves. But most fade away, perhaps prematurely, in far less than a working lifetime. This would seem to represent a huge waste of potential in otherwise successful companies. So why are most companies unable to sustain themselves? Why do companies die?

At the surface, companies die of economic failure: loss of competitive advantage, loss of finance, loss of reputation and so on. But the deeper reason, de Geus suggests, is a disconnect from a more subtle issue: "their managers focus on the economic activity of producing goods and services and forget that their organizations' true nature is [also] that of a community of humans. The legal establishment, business educators and the financial community all join them in this mistake." (de Geus, 1997:3)

Another mistake that kills companies is seeing them as a machine. A "community of humans" can adapt itself to changing conditions; a machine cannot, and therefore tends to be less effective over time, especially in conditions of rapid change. Peter Senge explains:

> *A machine exists for a purpose conceived of by its builders. Again, this is the conventional view of a company: its purpose is to make as much money as possible for its owners. But living beings have their own purpose. This inherent purpose can never be completely supplanted by the goals of another, even though a living being might respond to others' goals. What happens to the life energy of a living being when it is unable to pursue its purpose? Seeing a company as a machine implies that it is fixed, static. It will change only if somebody changes it. Seeing a company as a living being means that it evolves naturally. (Senge, 1997:viii-ix)*

In his book "The Hidden Connections", Fritjof Capra describes in more depth these parallels with nature and change. When we look at nature and our natural environment we see continuous change, adaptation and creativity; and yet our business organisations seem to be incapable of dealing with change. He explains that the reason behind this paradox as to why organisations are unable to deal with change lies in their dual nature.

> *On the one hand, they are social institutions designed for specific purposes, such as making money for their shareholders, managing distribution of political power, transmitting knowledge or spreading religious faith. At the same time, organisations are communities of people who interact with one another to build relationships, help each other and make their daily activities meaningful at a personal level. (Capra, 2002:87)*

Russell Devitt of the Centre for Tomorrow's Company, in his lecture to Swinburne University, used the metaphor of the frog and the bicycle. (Devitt 2002) You can take a bicycle apart and put it back together again and it will still work. You can't do the same with a frog: it dies. When a company dies, the community of people bound with that company is torn apart. People lose their jobs; they are set adrift, without a work community. The debt the company owes to its previous generations, who gave

themselves to its future, can no longer be fulfilled. And the company's constituents - its customers and suppliers - are bereaved. (de Geus 1997:138) This is particularly severe when an entire community is tied to a single company or industry, which can be closed down overnight with little or no responsibility towards that community.

Fritjof Capra (2002:110) points out that when shareholders and other outside bodies assess the health of a business organisation, they concentrate primarily on economic parameters such as profits, perceived shareholder value and market share. They rarely inquire about the wider human issues such as the aliveness of its communities, the integrity and wellbeing of its employees or the ecological sustainability of its products. And because of this lack of awareness, they are likely to apply undue pressure to ensure quick return on their investments, irrespective of long-term consequences for the well-being of the employees or the broader social and environmental impacts - or for the health of the organisation itself.

Even if the organisation does not die, it can be hurt by being taken apart, or through what Sohail Inayatullah calls "change fatigue". (Inayatullah 2002:138) If so, the work community needs to become a healing organization, and may need help to regain its health, defined in five ways: individual health, group health, organizational health, environmental Earth health, and cosmic health - your spiritual life. (Inayatullah 2002:139)

The Healthy Organization

To prevent ill-health in the first place, it is better to understand what makes organisations healthy and long-lasting. De Geus, in his role as a coordinator of policy for the Royal Dutch/Shell Group, was involved in a study conducted in 1983, in which Lo van Wachem, the then Chairman of the Committee of Managing Directors (the review board of Royal Dutch/Shell) wanted to see examples of large companies that were older than Shell and significant in their industry. Most importantly he wanted to know about companies that, during their history, had successfully weathered fundamental changes in the world around them, such that they still existed today with their corporate identity intact.

Royal Dutch/Shell, based in Britain and the Netherlands, is one of the top three corporations in the world in size, composed internally of more than 300 companies in more than 100 countries around the world. The listing of the Shell Group dates back to the 1890s. Its British founders began as sellers of oil for the lamps of the Far East (Shell was named after the fact that seashells were used as money in the Far East), while the Dutch founders imported kerosene from Sumatra. From the moment they merged in 1906, Shell's primary business was the worldwide production and selling of oil and petroleum.

After further research de Geus found a list of 40 corporations that met van Wachem's criteria of large and older than Shell. In North America, these included Du Pont, the Hudson Bay Company, W A Grace and Kodak - all older than Shell. Some Japanese companies such as Mitsui, Sumitomo and the department store Daimaru all trace their origins to seventeenth or eighteenth centuries and still thriving. Mitsubishi and Suzuki are a tad younger, tracing their origins to the mid-nineteenth century.

In the Shell study, 27 of these corporations were studied in detail. Four factors were identified as being in common between these corporations that explained why they were so successful over time:

1. *They were sensitive to their business environment*. Whether they built their fortunes on knowledge (for example, Du Pont's technological innovations) or on natural resources (such as the Hudson Bay Company's access to the Canadian forests), they remained aware of what was happening around them. They excelled at foresight, keeping in tune with whatever was going on, through wars, depressions, technologies and political changes around them.

2. *They were cohesive, with a strong sense of their own identity and purpose*. Even if they were widely dispersed, their employees and even their suppliers felt they were all part of one entity. For example Unilever saw itself as a fleet of

ships, with the whole stronger than each independent ship. Strong employee links were essential to survive rapid change. Because of the need for "community", managers were usually chosen from within the organisation, and regarded themselves as stewards of the enterprise.

3. *They were tolerant of experiments at the edges*. They generally avoided rigid centralised control and allowed diversity within the boundaries of the cohesive identity, which allowed them to adapt to new possibilities.

4. *They were conservative in financing*. They kept borrowings to a minimum and did not risk their capital without reason. Having money in hand gave them flexibility and independence of action, and could grasp a new opportunity without having to convince outside financiers of its attractiveness. (Devitt 2002)

This last criterion is important for values-based companies. As Anita Roddick, founder of Body Shop discovered after 'going public' - floating the company on the stock exchange - "once the stock price started going down, she discovered what her core values really meant to her fellow stockholders: absolutely nothing." (Suzuki & Dressel 2002:48-9) By 1998 she had been "kicked out by her own board", losing control of the operations - and the values - of what had been her own company.

There were also some expected factors that did not appear on the Shell study's list for long-lived companies:

1. The ability to return investment to shareholders seemed to have nothing to do with longevity. The profitability of a company was a symptom of corporate health, but not a predictor or determinant of corporate health.

2. Longevity seemed to have nothing to do with a company's material assets, its particular industry or product line, or its country of origin. (de Geus 1997:7)

The results of the Shell study were not published and as a result are still not made available to the general public. This was due to the small sample size of 27 companies. The four key factors represented a statistical correlation but the results need to be treated with caution.

A further comment was made regarding to whether it is realistic to expect business history to give much guidance for business futures, given the extent of changes in the business environment which have occurred during the past century. Yet the Shell study is supported by the RSA "Tomorrow's Company Inquiry" described later and also by another study carried out at Stanford University between 1988 and 1994 by James Collins and Jerry Porras, professors at the university. They called 700 chief executives of US companies, large and small, private and public, industrial and service, and asked them to name the firms they most admired. From the replies Collins and Porras compiled a list of 18 "visionary" companies, most of which had existed for 60 years or longer.

Collins and Porras then paired up these "visionary" companies with key competitors in their industry (Ford with GM, Procter & Gamble with Colgate, Motorola with Zenith) and explored the differences. The visionary companies put a lower priority on maximizing shareholder wealth or profits. Much like de Geus' first and second criteria, they found that these most admired companies combined sensitivity to their environment with a strong sense of identity: "visionary companies display a powerful drive for progress that enables them to change and adapt without compromising their cherished core ideals" (Collins & Porras 1994:9). Their definition of a "highly successful company" was one that could survive for long periods in an ever-changing world, because its managers were good at managing change.

The Puddle and the River

To explain better the difference between the machine-like "economic" company - business-as-usual - and the living company, de Geus uses a water metaphor. The "economic" company is like a puddle of rainwater, a collection of raindrops gathered together in a cavity or hollow. When it rains, more drops get added, and its field of influence may broaden. When it shines, drops evaporate, and the puddle shrinks. But always the original drops try to remain in the middle, until the puddle evapo-

rates altogether in the next heat-wave. By contrast, instead of stagnating like a puddle, the long-lived "living company" is more like a river. Unlike a puddle, a river is a permanent feature of the landscape. But from the point of view of the drops of water, the river is turbulent, constantly changing. No one drop of water can dominate the river for long, and new drops continually succeed the old ones and in turn are carried out to sea. A company, by initiating rules for continuity and motion of its people, can emulate the longevity and power of a river. (de Geus 1997:102)

The old "puddle company" or "economic company" was a viable choice when there was little change and individuals could dominate industries. But they cannot survive the kind of changes going on now. In a special section of the magazine "The Economist", the business writer Peter Drucker described fundamental changes to five key business issues: the relationship between the corporation and the employee, the nature of employment, the scope of management, the source of industry knowledge, and the relationship between industries and technologies. All of these, he said, were almost the exact inverse of what they were in the 1950s, especially in that knowledge workers themselves now control the "knowledge capital" needed by new kinds of business. (Drucker, 2001:14) Which means that corporations need to find ways to attract and retain talented people: "Talent, knowledge and creativity - 'human capital' - is the critical factor in creating a competitive difference. The only sustainable advantage in the 21st century will be relationships among company, employees and customers." (Colvin & Gandossy 2003:2) Managers have had to shift their priorities, from running companies to optimize capital, to running companies to optimize people. Also customers are no longer so willing to be uninvolved "consumers": "There are no secrets. The networked market knows more than companies do about their own products. And whether the news is good or bad, they tell everyone." (Levine, Searls, Locke et al. 2000:xiii)

The puddle company treats people as plug-in components, as "human resources" or "attachments to somebody else's money machine." (de Geus 1997:101) By contrast, the river company - the living company - focuses on developing its people as people so that they contribute to the flow of the river. British statistics showed that companies with a reputation for putting people first - as demonstrated by their core backing for the Investors In People standard - outperformed the national average on a range of financial measures. Pretax profit was more than 50 percent higher. Return on capital employed was almost double. (RSA 1993:1.4) The Investors In People standard addresses four key areas - commitment, planning, action and evaluation. In Britain it is being used by companies representing 27 percent of the workforce. (IIP)

A 1994 study for the Department of Trade and Industry in Britain showed that nine out of 10 of the most successful companies fulfil four key "river company" criteria:

- they are led by visionary champions of change;
- they unlock the potential of their people;
- they know and exceed the expectations of their customers; and
- they constantly introduce new, differentiated products and services. (DTI/CBI, 1994: Foreword)

Because a "river company" aims to be a permanent feature of the business landscape, another important attribute is an emphasis on sustainability. Ray Anderson, CEO of Interface Inc - well-known as a company which has deliberately changed its operation towards 'living company' principles - describes sustainability not just as environmental responsibility, but also as profitability:

> *We have inventoried every single waste outfall; that means we have examined how much and where we're dumping any wastes, whether into the air, the water or on land. We are systematically eliminating all of it. Our goal is zero waste, because waste is unmarketable production. If we make it, we're paying for it... and we can't sell it. So we're trying not to make it in the first place. (Suzuki & Dressel 2002:27)*

From 1995 to 1996, sales at the publicly

traded company grew from $800 million to $1 billion. During that same period, the amount of raw materials used by the company dropped almost 20% per dollar sales. Which means, says Anderson, "The world just saw the first $200 million of sustainable business." (Fishman 1998:136)

Another very important attribute of long-lived companies is their ability to anticipate the need for change during times of crises. De Geus and his team found that most of the long-lived companies had anticipated the need not just for change but for complete transformation at least once during their lives. One perhaps extreme example is Nokia: "it has gone from manufacturing paper to making rubber boots, then raincoats, then hunting rifles, and then consumer electronics, until finally betting the farm on mobile phones." (Wylie 2003:46) Another is the Japanese zaibatsu Mitsui, which recreated itself over a ten-year period after being forcibly dismantled after the end of the Second World War. (Serieyx & Archier 1987:53-4) They applied tools of foresight to identify the crises ahead of time, but the important difference in their interpretation was that it was not seen as a crisis but as a new opportunity, another alternative for company growth and profitability. In the desire to "know" and reduce uncertainty de Geus notes that:

> *Some management teams ask, "What will happen to us?" They are engaged in prediction. But managers who perceive change early need to ask a more useful question, "What will we do if such and such happens?" These managers are engaged in alternative time-paths. By reverting to predictions as a standard way of thinking about the future, the corporate powers of perception remain greatly reduced. ... The future cannot be predicted. But, even if we could, we would not dare to act on the prediction ... because few people with real responsibilities dare take decisions based on the information, even though they eagerly asked (and paid for it) in the first place. (de Geus 1997:38-9)*

By answering the latter question "What will we do?", through tools such as scenario planning, managers are in a better position to work out one or more mental time-paths. It would allow them to build themselves what de Geus (1997:41) calls "a series of memories of the future - anticipations of events that might or might not take place." They would not have to try to predict the future because they could rely on their memory of the many futures that they have already visited.

The puddle and the river provide a useful metaphor to understand the social and structural differences between what de Geus calls the 'economic company' and the "living company", and their different approaches to foresight. But whilst de Geus tends to present a kind of "either/or" choice between the two models, it is, as Fritjof Capra explains, a "rather artificial" separation: a better approach is to see that both models are equally true. "A company is certainly a legal and economic entity, and in some sense it also seems to be alive. The challenge is to integrate these two aspects of human organisations." (Capra 2002:92) It would be easier to meet this challenge, says Capra, if we understand in exactly what ways organisations could be said to be alive, and how that "aliveness" might affect how they could develop in the future.

Tomorrow's Company

On 9th May 2002 a lecture was presented at Swinburne University, the full title being "A new agenda for business: sustaining success through mutually beneficial relationships." The speaker was Russell Devitt from "The Centre for Tomorrow's Company" ('the Centre'). The Centre is a think-tank, research hub and catalyst, researching and stimulating the new agenda for business. Its work involves exploring, with business, the fundamentals of success and in developing, throughout business, better ways of sustaining success. (Condon 2002:14)

The Centre actively promotes the principles of sustained success through research, advocacy and shared learning programs. Its origins lie in a research program initiated by the Royal Society for the Encouragement of the Arts, Manufactures and Commerce ("RSA"), in London. This was a business led inquiry where

25 of the top businesses in Britain were brought together by the RSA in January 1993 under the leadership of Sir Anthony Cleaver, then Chairman of IBM UK, to develop a shared vision of Tomorrow's Company. (RSA 1993) The main objective of the Inquiry team was to stimulate greater competitive performance in the UK by encouraging business leaders and decision-makers to re-examine the sources of sustainable business success.

The original stimulus for the Inquiry was a lecture Charles Handy had presented to the RSA in 1990, titled "What is a company for?" In his lecture Handy (1990:61) states "The principal purpose of a company is not to make a profit - full stop. It is to make a profit in order to continue to do things and make things, and to do so ever better and more abundantly." He regards profit as "the necessary but not sufficient condition for any company's continued existence;" and "I would still be looking for its driving purpose;" Handy says (1990:68). He then begins to describe the company of the future as follows:

> *I see the company as operating in a bounded space, a sort of hexagonal ring, surrounded by competing pressures from financiers, the employees, the customers, the suppliers, the environment and the community - the so-called stakeholders. There is no easy way to square the circle, or the hexagon. Undirected, the company will bounce from one side of the ring to the other, and many do - the oldest law of organisations is the pendulum. This time it swings six ways. Within that ring of forces I want to see the development of the 'existential corporation'. By that I mean the corporation whose principal purpose is to fulfil itself, to grow and to develop to the best that it can be, given always that every other corporation is free to do the same. It owes something to each of the ring-holders, but is owned by no-one. It is in charge of its own destiny, and it is immortal or would like to be. It is not a piece of property, inhabited by humans, it is a community, which itself has property. It also has shares, traded publicly, bought by punters, but those punters have limited powers. They cannot go into the auction room unless the company defaults. (Handy 1990:69-70)*

Returning back to the Tomorrow's Company Inquiry, it found that companies which will sustain competitive success in the future are those which focus less exclusively on shareholders and on financial success, and instead include all their stakeholder relationships, and a broader range of measurements, in the way they think and talk about their purpose and performance. This also helps financial performance, as James Collins and Jerry Porras (1994:4) found strong evidence for this in their research on "visionary companies":

> *Visionary companies attain extraordinary long-term performance. An investment of $1 in visionary stock on January 1, 1926, and reinvestment of all dividends, would have grown [by 1990] to $6,356 - over fifteen times the general market.*

Over-emphasis on financial measures alone is a primary cause of problems or failure for corporations. The "Building Global Excellence" report commented that "to be in a position to predict the future and discover that you need to change 3-4 years before the crisis comes, today's managers need to switch their attention away from the financial health of their companies and start measuring their strategic health." (BOC/LBS 1994:23) The reason is that, by itself, financial performance does not indicate the overall health of the business. Being focussed on the past, it does not define present or future competitive performance, nor does it measure the broader value created through product quality, service or speed of response. The Inquiry report commented that companies which rely solely on financial measures of success are exposing their shareholders to unnecessary risk and denying themselves the opportunity to improve returns. The risk to shareholders is real: business researcher Peter Doyle (1994) found that of the 11 companies named by "Management Today" magazine between 1979 and 1989 as Britain's "most profitable company of the year", four subsequently collapsed and two were taken over.

In short, the Inquiry argued, people and relationships will be "the key to sustainable success" - this being what the Inquiry termed "the inclusive approach." They further expanded this

point by explaining that "only through deepened relationships with - and between - employees, customers, suppliers, investors and the community will companies anticipate, innovate and adapt fast enough, while maintaining public confidence." Companies need to develop this capacity and capability through leadership and by establishing inclusive relationships with these five key groups of stakeholders. It is this inclusive approach which differentiates "Tomorrow's Company" from yesterday's companies.

> *Tomorrow's Company values reciprocal relationships. It thinks win-win, understanding that by focussing on all those who contribute to the business, it should improve returns to shareholders without in any way diminishing the company's accountability or focus on those returns.*
>
> *Yesterday's companies are locked into adversarial relationships. They think in terms of zero-sum, imagining that if they were to make customers, employees, suppliers and the community more important, then shareholders would be losers. (RSA 1993:2.4)*

Organisations operating in the new conditions of the 21st century will have to learn fast, change fast, meet the needs of all their of stakeholders, and inspire loyalty from them, if the organisation is to survive.

The global business environment is increasingly becoming ever more complex and doing so with increasing speed. Interviews conducted through the Inquiry with 48 business leaders confirmed that "greed" and "globalisation" were the words most frequently used to describe the new elements they face. One company reported that a product improvement gave them an "edge" over their competitors for a mere six weeks. (RSA 1993:1.3) Other major forces for change include technological developments, new employment patterns and organisational structures, the growing importance of environmental issues, and what the Inquiry termed "the death of deference" among employees, customers and communities. There is now also an increasing need for companies to maintain what the Inquiry termed their "licence to operate" - the confidence of the general public in their business conduct, the "legitimacy of their operations".

The "licence to operate" comes from balancing and satisfying many different needs: law and regulation, political opinion, industry reputation, media, pressure groups, political opinion, and public opinion and confidence. (Devitt 2002:7) The last point drives what the consulting firm Reputation Qest (RQ) calls "outrage" responses to company actions, and the need to turn accountability into responsible opportunity.

Unsustainable Law

Current company law in most Western countries reflects the attitude attributed to the American libertarian economist Milton Friedman, that "the only social responsibility of a corporation is to return a profit to its shareholders." As de Geus and others have shown, this is no longer sustainable even for companies themselves, let alone for the environment. Sustainability in the sense of "the notion that human use of a system, resource or environment could take place indefinitely without significant deterioration or impact." (Slaughter 2000)

The law gives shareholders absolute rights as owners of the company, but assigns them very few responsibilities. The laws were made many years ago, when the main assets of a company were physical objects and resources. In these times, Charles Handy (1996:107) argues, the whole concept of owning a company is misplaced. "Buildings one can own, or land, or materials, but companies today are much more than these physical things - they are quintessentially collections of people adding value to material things. It is not appropriate to 'own' collections of people. Particularly it is inappropriate for anonymous outsiders to own these far from anonymous people. It is inappropriate, it is distorting, it may even be immoral." de Geus (1997:20) says that:

> *The economic company is an abstraction with little to do with the reality of corporate life. Not only does labour not equate with people, but the emphasis on profits and on the maximisa-*

tion of shareholder value ignores the two most significant forces acting on companies today: the shift to knowledge as the critical production factor and the changing world around the companies.

In an article in Resurgence magazine, Robert Hinkley (2002), formerly a corporate securities lawyer, points to law itself as the key problem. He argues that the many social ills created by corporations stem directly from corporate law, and that the law, in its current form, actually inhibits executives and corporations from behaving in a socially responsible way:

Many activists cast the fundamental issue as one of "corporate greed", but that's off the mark. Corporations are incapable of a human emotion like greed. They are artificial beings created by law. The real question is why corporations behave as if they are greedy. The answer lies in the design of corporate law.

We can change that design. We can make corporations more responsible to the public good by amending the law that says the pursuit of profit takes precedence over the public interest. I believe this can best be achieved by changing corporate law to make directors personally responsible for harms done.

The specific change I suggest is simple: add twenty-six words to corporate law and thus create what I call the 'Code for Corporate Citizenship'. Directors and officers would still have a duty to make money for shareholders, ..."but not at the expense of the environment, the public safety, the communities in which the corporation operates or the dignity of its employees."

Different law leads to different expectations. Companies in Britain and America currently look for a financial return on investment of 24% in new projects, German companies expect about 15% and Japanese ones 8%. "Guess which countries invest most in long-term manufacturing plant and which go for the less capital-intensive service industries?" asks Charles Handy (1990:64-5). "It is not due to stupid or short sighted management. It is the pressure of the auction ring."

New legislation in Germany has forced thousands of large corporations to become more creative not just in pursuing higher dividends but in meeting standards to deal with wastes and toxins. If they don't, the law and consumer watchdogs will drive them from the market. The national law "freezes" multinationals in one place and time, giving them an identity that can be affected by local laws, something that such corporations usually don't have to deal with. "Businesses, no matter how large, no matter where they're headquartered, can be held liable for their own products, both in terms of the production process and in terms of product use." (Suzuki & Dressel 2002:36) These laws have now been operating for several years and seem to be one of the main reasons why Germany has a much better handle on food purity, toxic waste and environmental pollution than almost every other country.

In other countries, the law needs to change. As Handy (1990:76) says, "asking our managers to behave better than the rule book is unfair and unrealistic, so let us change the rule book." In Britain at least, the law is changing. Company directors there are now required to take into account the concerns of future shareholders as well as present ones. (Devitt 2002a) Whatever happens to the law, though, new leadership will be needed to make "tomorrow's company" sustainable.

The New Leadership - Vision, Values, Purpose

The old "command and control" approach no longer works for large corporations. Peter Drucker describes trying to do so as impossible. In America, many of the CEOs of such corporations appointed in the past decade were fired within a year or two. All were fired as "failures"; yet each of these people had been picked for their proven competence, and each had been highly successful in previous jobs. Drucker suggests that the jobs they took on had become undoable, as the conceptual model they were operating from was no longer effective - not human failure, but systems failure. The conceptual framework of "scientific management", the system of management from outside the work

itself, was developed by Frederick Taylor and others around the beginning of the 20th century. It reached perhaps its last gasp with "business process reengineering", promoted by Dr Michael Hammer in the 1980s and 1990s. Processes were redesigned and people lost out, "restructured" and "downsized". But today, as Doris Pozzi reports, Dr Hammer admits that he has had second thoughts. "I was reflecting my engineering background and was insufficiently appreciative of the human dimension. I've learned that this is critical." Just how critical is illustrated by a survey conducted by the American Management Association: it found that fewer than half of the companies that had downsized since 1990 had recorded higher profits in the following years, and even fewer companies reported improvements in productivity. (Pozzi 2000) As Drucker (2001:18) puts it, simply, "Top management in big organisations needs a new concept."

Drucker points to a new view of "leader as educator and visionary", rather than "hero rescuer". To use Richard Slaughter's term, there is a need to develop a "wise culture", one in which "the keys to real cultural progress have more to do with human development, the integration of different aspects of the individual and a more spiritualised outlook - than it does with purely 'external' developments in science and technology. "The term is often contrasted with mainstream 'industrial' culture." However, says Slaughter (2000), "the 'real' future will need to achieve a balance between these 'inner' and 'outer' perspectives."

Inclusive companies, the Centre for Tomorrow's Company suggests, have a corporate vision in two distinct parts: a clear and inspiring purpose related to enduring values, and an envisaged future which is subject to change. Peter Drucker (2001:18) says that the biggest challenge for any large organisation may be its social legitimacy: its vision, its value, its purpose. Charles Handy (1996:7-9) agrees: The softer words of leadership and vision and common purpose will replace the tougher words of control and authority because the tough words won't bite any more.

Organisations will have to become communities rather than properties, with members not employees, because few will be content to be owned by others. Time and talent will become the commodities in most demand, and they will be the property of each individual, not of the corporation, changing the balance of power quite radically. Education will once again become a prized and precious thing. Leadership, therefore, becomes more important than ever in this new world, and philosophy, or the search for meaning, becomes the driving force of economics.

Corporations will need to manage a very different relationship between themselves and individuals, says Handy. Organisations will need to reduce their dependence on "control", giving more freedom to individuals so as to retain their commitment and creativity - "the beneficial compromise between the corporate need for control and the individual pressure for autonomy."

Individually each of us will need to be more responsible of our own destiny with no organisations there to run our lives for us, and that will force us to be clear about our own priorities in life. The Meaning of Life comes to the top of the agenda again, even if organisations want to call their bit of it a Vision Statement. (Handy 1996:20-1)

What keeps the members of what de Geus calls a 'river company' in tune with each other? The key requirement, suggests de Geus, is that they subscribe to a set of common values. From this, supporting the company's goals will help them achieve their own individual goals.

This basic "egoistic" principle is often misunderstood in corporate governance, It means that anyone running a large, complex institution - such as a group of subsidiary companies, a set of joint ventures, or a company composed of business units - cannot simply dominate individual self-interest through the exercise of power. (de Geus 1997:106-7)

The same applies at every scale within the company. From the subsidiaries to the business units to the departments to the individuals, each entity needs to be understood as a "persona" in its own right. Each of these personae, says de Geus, exists in constant exchange and

dialogue with the world around it. This means that each is continually testing its own values against those of the larger group. Governance changes from "command and control" to a new leadership, ensuring that the goals of the subsidiary companies and of each employee are harmonious with the goals of the larger whole - and vice versa.

The Human Factor Counts

According to Capra, being a leader means creating a vision, about going where nobody has gone before, and enabling the community as a whole to create something new. "Facilitating emergence means facilitating creativity." (Capra 2002:106) The current business environment, exposed to turbulent change and dependent on knowledge and learning, in turn depends on the flexibility, creativity and learning capability that flourish when the organisation "comes alive". Like Handy and de Geus, Capra notes that this is now being recognised by a growing number of visionary business leaders who are shifting their priorities toward developing the creative potential of their employees. They focus on enhancing the quality of the company's internal communities and integrating the challenges of ecological sustainability into their strategies. The "learning organisations" managed by this new generation of business leaders are often very successful in spite of present economic constraints. (Capra 2002:111)

Other business researchers seem to support Capra's point. Writing in the Hewitt Associates report "Leading in the 21st Century", Geoffrey Colvin and Robert Gandossy (2003) commented that "It has been proven that organisations that value human capital have higher margins than those that do not." They derived this assessment in part from the regular "Best Employer" studies carried out by Hewitt Associates. Reviewing the results of the company's 2003 Australian study, published by Australian Financial Review, Catherine Fox noted that "A strong culture tends to go hand-in-hand with strong financial performance. Best Employers experienced 13 per cent revenue growth between 2000 and 2002 compared with 7 per cent for other companies, and average profit growth to 21 per cent for the same period compared with minus 44 per cent for others." (Fox, 2003)

Although Fox says that "There's no rule book for how to become a Best Employer," some common characteristics include quality leadership, learning and development provisions, employee recognition, and an overall understanding of the link between people practices and business performance. At the Australian travel company Flight Centre, one of the joint winners of the Best Employer 2003 study, senior management believes in giving employees the freedom to manage themselves, and maintaining a vision of a "brightness of future" which empowers and inspires staff to work towards fulfilling company goals. The other joint winner, network equipment manufacturer Cisco, has "a unique workplace culture characterised by strong leadership and open communication between employees and senior management." The company is committed, it says, to providing "people friendly" practices that support an appropriate balance between work and personal life. (Hewitt 2003)

In Australia, the banks have begun to follow suit, in search of the same "bottom line" benefits arising from focusing on the human side of business. All of the "Big Four" major banks - ANZ, Westpac, Commonwealth and National Australia Bank - are running cultural transformation programs aimed at cultivating an environment of trust and openness and developing a strong sense of purpose and engagement. These programs for "liberating the corporate soul" are based on the work of Richard Barrett, formerly of the World Bank. (Barrett 1998) Although it is still early days about the long term sustainability and effectiveness of these initiatives, the results so far have been significant: in the case of ANZ, they claim in the three years since they embarked on their transformation program, the intangible component of the share price has increased by 68%. (Galacho 2003)

But perhaps too much of this is still the old model in a new guise, just "business-as-usual with a human face." The reason, as Handy says,

is that at present companies are still crippled by the "rule-book", the structures of company law. In the long run, says Capra (2002:111-2), organisations that are truly alive will be able to flourish only when we change the "rule-book" of our entire economic system, so that instead of being life-destroying, as at present, it becomes sustainable and life-enhancing.

From Surviving to Thriving

Following the theme of "the healing organisation", Sohail Inayatullah asks what steps we need to take to create a healthier self, organisation and world. Collins and Porras' research shows that visionary companies return over time 15 times as much in shareholder value as traditional companies. Part of this is because they are treated not as machines defined in terms of structures and functions, but as living organisations, biological organisms developing their innate potential, and focused on survival and "thrival". Moving from survival to thrival, says Inayatullah, depends on creating a healthy organisation - one in which both social and cultural capital increase, creating enhanced economic productivity.

I am willing to bet that healthy companies will provide far better value to shareholders (by having happier, inner and outer, productive managers and employees) and citizens (by being more transparent, proactive and responsible) than traditional organizations. And, overtime, they may even redefine value. (Inayatullah 2002:142)

On the same theme, de Geus asks what a healthy company of the future would look like. How would we recognize when we are on the right track towards that state? And if a company does not look very healthy - what could the concerned manager do to restore it? Once again, he argues that the key criterion is a set of common values, which the organisation's stakeholders all subscribe to and uphold.

Both the company and its constituent members have basic driving forces: they want to survive, and once the conditions for survival exist, they want to reach and expand their potential. The underlying contract between the company and its members (both individual and institutional, is that the members will be helped to reach their potential. It is understood that this, at the same time, is in the company's self-interest. The self-interest of the company stems from its understanding that the members' potential helps create the corporate potential. (de Geus 1997:200-2)

Concluding their study on "21st Century Corporations", Colvin and Gandossy (2003) suggest that an organisation that wants to move forward successfully in the future 21st century will need to focus on inspiring innovation and speed, sharing knowledge and information, and providing better, continuous learning and education. It will need to manage a remote and diverse workforce, and explore flexible staffing models. And it will need to develop a strong brand and identity, build loyalty among employees and customers, and build a flexible and nimble organisation.

The organisation thrives when the culture is healthy, and both the company and its members are mutually responsible for each others' best interests. Only then can everyone win.

Summary

In summary, sustainable companies have the following attributes:

- defines, develops, maintains and communicates its identity, purpose and values
- develops a unique success model and applies it through matching measurements
- places a positive value on each of its relationships
- works in partnerships with stakeholders both within and outside of itself
- maintains a healthy reputation
- uses foresight to keep aware of its environment
- is conservative in its use of financial and other resources

The living company is used as a metaphor, contrasted with the machine-like "economic" company. To regard a company as a living entity is a first step, de Geus (1997:11) suggests, toward increasing its life expectancy. Like all organisms, the living company exists primarily

for its own survival and improvement: to fulfil its potential and to become as great as it can be.

The world is in the midst of a transition. We are beginning to question everything as we know it as we move from certainty to an uncertain world. It has reached a time where the old comfort zone of the machine-like model of "business as usual" is no longer viable. It is in the interest of companies if they are to survive and thrive in the global economy and move forward, they need to assist individuals to realise their greatest potential in order to fulfil their own potential. It is also a time where, as Charles Handy (1996:20) puts it, there is a need for "a necessary compromise between 'I' and 'They' to make 'We' in every aspect of life."

Correspondence

Elizabeth Hagiefremidis
PO Box 308, South Melbourne, VIC 3205, Australia
elizabeth@soul-dynamics.com

References

Barrett, Richard. 1998. *Liberating The Corporate Soul: Building A Visionary Organization*. Butterworth Heinemann.

BOC plc, London Business School (BOC/LBS). 1994. Building Global Excellence.

Capra, Fritjof. 2002. *The Hidden Connections*. HarperCollins.

Collins, James and Jerry Porras. 1994. *Built To Last: Successful Habits Of Visionary Companies*. HarperCollins.

Colvin, Geoffrey and Robert Gandossy. 2003. *Leading In The 21st Century Seminar - Executive Summary*. Hewitt Associates.

Condon, Linda. 2002. Melbourne Learning Set One: The Shared Learning Path To Sustainable Success. Personal communication as document "Melbourne Flyer2002.doc"

de Geus, Arie. 1997. *The Living Company*. Longview Publishing.

Department of Trade and Industry/ Confederation of British Industry (DTI/CBI), 1994. Competitiveness - How The Best UK Companies Are Winning: A Study Of Over 100 Best Companies. DTI/CBI.

Devitt, Russell. 2002. Powerpoint 'tomorrowscompany Swinburne March 2002.ppt'. Swinburne Centre for Sustainability.

_____.2002a. Response to audience question during 9 May Swinburne lecture.

Doyle, Peter. 1994. "Setting Business Objectives and Measuring Performance." *Journal of General Management*, 20(2).

Drucker, Peter. 2001. "The Next Society: A Survey Of The Near Future." Insert-section in *The Economist*, 361(8246).

Fishman, Charles. 1998. "Sustainable Growth - Interface Inc.". in Fast Company Issue 14:136-140.

Fox, Catherine. 2003. "Best Employers 2003." *Australian Financial Review*. http://www.afrboss.com/print-magazine.asp?doc_id=21489

Galacho, Olga. 2003. "More Tapping the Inner Self." *Herald Sun*. http://heraldsun.news.com.au/printpage/0,5481,8173633,00.html

Handy, Charles. 1990. "What is a company for?" (Michael Shanks Memorial Lecture, for the Royal Society for the Encouragement of the Arts, Manufactures and Commerce [RSA], London). Pp 57-85 in Charles Handy, Beyond Certainty.

____.1996. *Beyond Certainty*. Arrow Books.

Hewitt Associates. 2003. Flight Centre and Cisco Systems Named Australia's Overall "Best Employers" in 2003 Study. Hewitt Associates. http://www.hewittasia.com/hewitt/ap/resource/newsroom/pressrel/2003/03-14-03aus.htm

Hinkley, Robert. 2002. "Redesigning Corporate Law: Twenty-Six Words To Save The Planet." in *Resurgence*, No.213:25-6.

Inayatullah, Sohail. 2002. *Questioning The Future: Futures Studies, Action Learning and Organizational Transformation*. Tamkang University, Taiwan.

Investors In People (IIP). http://www.investorsinpeople.co.uk.

Levine, Rick, et al. [1999] 2002. *The Cluetrain Manifesto: The End Of Business As Usual*. Perseus Books.
Pozzi, Doris. 2000. "Business Can Have Soul." Australian Living Now Online. http://www.livingnow.com.au/soul/s1soulstories3.htm
Reputation Qest (RQ). http://www.reputation.com.au/ourphilosophy.htm .
RSA Inquiry Committee. 1993. *Tomorrow's Company: The Role Of Business In A Changing World*. London:RSA.
Sengé, Peter. 1997. "Foreword" in Arie de Geus, The Living Company.
Sérieyx, Hervé and Georges Archier. 1987. *The Type 3 Company*. Gower Publishing Company.
Slaughter, Richard. 2000. "Glossary of Futures Terms". In *Knowledge Base for Future Studies* CD-ROM. Futures Study Centre, Indooroopilly, QLD.
Suzuki, David and Holly Dressel. 2002. *Good News For A Change: Hope For A Troubled Planet*. Allen & Unwin.
Wylie, Ian. 2003. "Calling For A Renewable Future". in *Fast Company* 70:46-50.