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Harvard Business Review
NOVEMBER 2011
REPRINT R1111C

SPOTLIGHT ON THE GOOD COMPANY

How Great Companies Think Differently

Instead of being mere money-generating machines, they combine financial and social logic to build enduring success. *by Rosabeth Moss Kanter*

Spotlight

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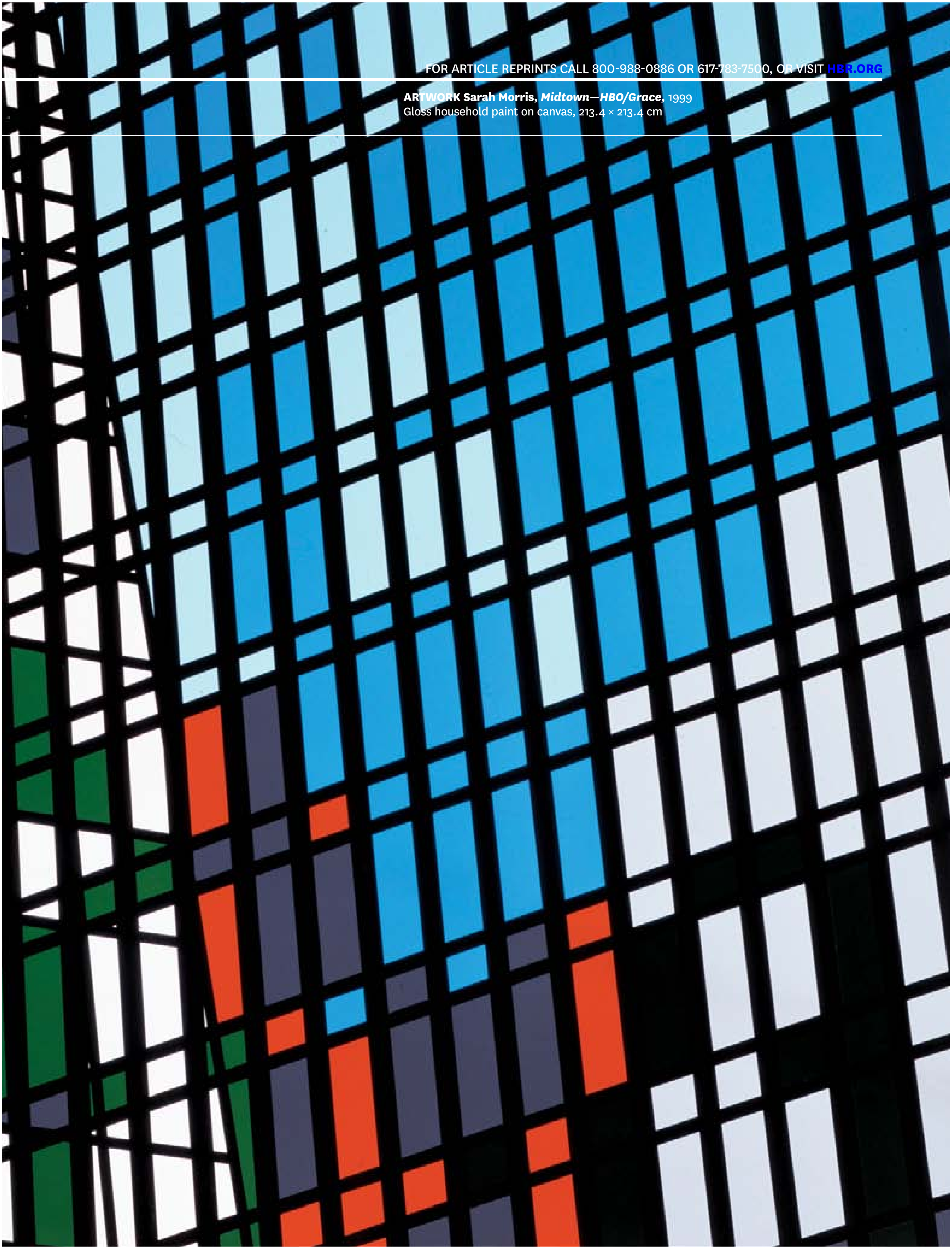

ARTWORK Sarah Morris, *Midtown—HBO/Grace*, 1999
Gloss household paint on canvas, 213.4 × 213.4 cm

IT'S TIME THAT BELIEFS and theories about business catch up with the way great companies operate and how they see their role in the world today. Traditionally, economists and financiers have argued that the sole purpose of business is to make money—the more the better. That conveniently narrow image, deeply embedded in the American capitalist system, molds the actions of most corporations, constraining them to focus on maximizing short-term profits and delivering returns to shareholders. Their decisions are expressed in financial terms.

I say convenient because this lopsided logic forces companies to blank out the fact that they command enormous resources that influence the world for better or worse and that their strategies shape the lives of the employees, partners, and consumers on whom they depend. Above all, the traditional view of business doesn't capture the way great companies think their way to success. Those firms believe that business is an intrinsic part of society, and they acknowledge that, like family, government, and religion, it has been one of society's pillars since the dawn of the industrial era. Great companies work to make money, of course, but in their choices of how to do so, they think about building enduring institutions. They invest in the future while being aware of the need to build people and society.

In this article, I turn the spotlight on this very different logic—a social or institutional logic—which lies behind the practices of many widely admired, high-performing, and enduring companies. In those firms, society and people are not afterthoughts or inputs to be used and discarded but are core to their purpose. My continuing field research on admired and financially successful companies in more than 20 countries on four continents is the basis for my thinking about the role of institutional logic in business.

Institutional logic holds that companies are more than instruments for generating money; they are also vehicles for accomplishing societal purposes and for providing meaningful livelihoods for those who work in them. According to this school of thought, the value that a company creates should be measured not just in terms of short-term profits or paychecks but also in terms of how it sustains the conditions that allow it to flourish over time. These corporate leaders deliver more than just financial returns; they also build enduring institutions.

Rather than viewing organizational processes as ways of extracting more economic value, great companies create frameworks that use societal value and human values as decision-making criteria. They believe that corporations have a purpose and meet stakeholders' needs in many ways: by producing goods and services that improve the lives of users; by providing jobs and enhancing workers' quality of life; by developing a strong network of suppliers and business partners; and by ensuring financial viability, which provides resources for improvements, innovations, and returns to investors.

In developing an institutional perspective, corporate leaders internalize what economists have usually regarded as externalities and define a firm around its purpose and values. They undertake actions that produce societal value—whether or not those actions are tied to the core functions of making and selling goods and services. Whereas the aim of financial logic is to maximize the returns on capital, be it shareholder or owner value, the thrust of institutional logic is to balance public interest with financial returns.

Institutional logic should be aligned with economic logic but need not be subordinate to it. For example, all companies require capital to carry out business activities and sustain themselves. However, at great companies profit is not the sole end; rather, it is a way of ensuring that returns will continue. The institutional view of the firm is thus no more idealized than is the profit-maximizing view. Well-established practices, such as R&D and marketing, cannot be tied to profits in the short or long runs, yet analysts applaud them. If companies are to serve a purpose beyond their business portfolios, CEOs must expand their investments to include employee empowerment, emotional engagement, values-based leadership, and related societal contributions.

Business history provides numerous examples of industrialists who developed enduring corporations that also created social institutions. The Houghton family established Corning Glass and the town of Corning, New York, for instance. The Tata family established one of India's leading conglomerates and the steel city of Jamshedpur, Jharkhand. That style of corporate responsibility for society fell out of fashion as economic logic and shareholder capitalism came to dominate assumptions about business and corporations became detached from particular places. In today's global world, however, companies must think differently.

Globalization increases the speed of change; more competitors from more places produce surprises and shocks. An intensely competitive global econ-

Idea in Brief

Traditional theories of the firm are dominated by the notion of opposition between capital and labor, disconnecting business from society and posing conflicts between them. According to this view, companies are nothing more than money-generating machines.

By contrast, great companies use a different operating logic. They believe that business is an intrinsic part of society, and like the family, government, and religion, has been one of its pillars for centuries.

Great companies work to make money, but in their choices of how to do so, they consider whether they are building enduring institutions. As a result, they invest in the future while being aware of the needs of people and society.

There are six facets of *institutional logic,* which radically alters leadership and corporate behavior: a common purpose; a long-term view; emotional engagement; community building; innovation; and self-organization.

omy places a high premium on innovation, which depends on human imagination, motivation, and collaboration. Global mergers and acquisitions add further complexity, with their success resting on how effectively the organizations are integrated. Moreover, seeking legitimacy or public approval by aligning corporate objectives with social values has become a business imperative. Corporations that cross borders face questions of cultural fit and local appropriateness; they must gain approval from governmental authorities, opinion leaders, and members of the public wherever they operate. Their employees are both internal actors and the company's representatives in the external community.

Only if leaders think of themselves as builders of social institutions can they master today's changes and challenges. I believe that institutional logic should take its place alongside economic or financial logic as a guiding principle in research, analysis, education, policy, and managerial decision making. In the following pages, I will describe six ways in which great companies use institutional logic, how it gives them an advantage, and how the perspective can radically change leadership and corporate behavior.

A Common Purpose

Conceiving of the firm as a social institution serves as a buffer against uncertainty and change by providing corporations with a coherent identity.

As companies grow, acquire, and divest, the business mix changes frequently and job roles often vary across countries. So what exactly gives a company a coherent identity? Where are the sources of certainty that permit people to take action in an uncertain world? Purpose and values—not the widgets made—are at the core of an organization's identity, and they can guide people in their efforts to find new widgets that serve society.

Consider the Mahindra Group, an $11 billion multibusiness company based in Mumbai that employs 117,000 people in 100 countries. Like many emerging-market enterprises, the Mahindra Group operates in many industries, including automobiles, finance, IT, and several dozen others. And like the great companies, it invests in creating a culture based on a common purpose to provide coherence amidst diversity, proclaiming that it is "many companies united by a common purpose—to enable people to rise."

Globalization detaches organizations from one specific society but at the same time requires that companies internalize the needs of many societies. Establishing clear institutional values can help resolve this complex issue. For example, PepsiCo has made health a big part of its aspiration to achieve Performance with Purpose. Nutrition, environmental responsibility, and talent retention are pillars supporting the slogan. Performance with Purpose provides strategic direction and motivation for diverse lines of business in many countries. It requires a gradual shift of resources from "fun for you" to "better for you" to "good for you," in PepsiCo parlance. It provides a rationale for acquisitions and investments. It is the logic behind the creation of a new organizational unit, the Global Nutrition Group, and new corporate roles, such as chief global health officer. It guides a quest to reduce or eliminate sugar and sodium in foods and beverages. Above all, it provides an identity for the people who work for PepsiCo all over the world.

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

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

Successful mergers are noteworthy for their emphasis on values and culture. When the merger of two Swiss pharmaceutical companies formed Novartis in 1996, CEO Daniel Vasella wanted the new company's mission to be globally meaningful and central to the integration and growth strategy. The question was how to provide employees with a tangible experience that reflected those values. When I floated the idea of a global day of community service—unheard of in Europe at that time—Novartis agreed. The company allowed each country organization to determine how it wanted to serve local communities, based on its interpretation of what the two histories and one future would suggest. The day of service has become an annual Novartis event, held on the merger's anniversary.

Affirming purpose and values through service is a regular part of how great companies express their identities. In June 2011, IBM celebrated its 100th anniversary by offering service to the world. Over 300,000 IBMers signed up to perform 2.6 million hours of service on a global service day. They contributed training and access to software tools, many of them developed specially for the occasion, to schools, governmental agencies, and NGOs. Projects included training on privacy and antibullying in 100 schools in Germany; a new website developed in India for the visually impaired, with a launch at 50 locations; and access to small-business resources for women entrepreneurs in the United States. The company gave the tools away, even in cases where the software could form the basis for commercial products, to demonstrate IBM's commitment to being a contributor to society.

A Long-Term Focus

Thinking of the firm as a social institution generates a long-term perspective that can justify any short-term financial sacrifices required to achieve the corporate purpose and to endure over time.

Keeping a company alive requires resources, so financial logic demands attention to the numbers. However, great companies are willing to sacrifice short-term financial opportunities if they are incompatible with institutional values. Those values guide matters central to the company's identity and reputation such as product quality, the nature of the customers served, and by-products of the manufacturing process. Banco Real, for instance, created a screening process to assess potential customers' societal standards as well as their financial standing. The bank was willing to walk away from those that did not meet its tests of environmental and social responsibility. This short-term sacrifice was prudent risk management for the longer term.

Companies using institutional logic are often willing to invest in the human side of the organization—investments that cannot be justified by immediate financial returns but that help create sustainable institutions. In South Korea, after the Asian financial crisis of the late 1990s, Shinhan Bank set out to acquire Chohung Bank, a larger and older bank that the government had bailed out. The moment the acquisition was announced, 3,500 male employees of a Chohung Bank union, whose ranks extended to management levels, shaved their heads in protest and piled the hair in front of Shinhan's headquarters in downtown Seoul. The acquirer then had to decide whether to go ahead with the acquisition and, if it did so, what it ought to do about Chohung's employees.

Shinhan's leaders applied institutional logic. They negotiated an agreement with the Chohung union, deferring formal integration for three years, giving equal representation to both Shinhan and Chohung managers on a new management committee, and increasing the salary of Chohung employees to match the higher wages of Shinhan employees. The acquirer also handed out 3,500 caps to cover the heads of the protestors. Shinhan invested heavily in what it called "emotional integration," holding a series of retreats and conferences intended not only to spread strategic and operational information but also to foster social bonding and a feeling of being "one bank." According to financial logic, the acquirer was wasting money. In terms of Shinhan's institutional logic, the investments were an essential part of securing the future.

The result: Within 18 months, Shinhan had grown both banks' customer bases, and the Chohung union was having a hard time fomenting discontent against the benign acquirer. Although a formal merger wouldn't occur for another year and a half, Shinhan and Chohung employees were working together on task forces and discussing best practices, and ideas were spreading that began to make the branches look more similar. Employees were, in essence, self-organizing. By the third year, when formal integration took place, Shinhan was outperforming not only the banking industry but also the South Korean stock market.

Emotional Engagement

The transmission of institutional values can evoke positive emotions, stimulate motivation, and propel self-regulation or peer regulation.

Utilitarian rationality is not the only force governing corporate performance and behavior inside organizations; emotions play a major role, too. Moods are contagious, and they can affect such issues as absenteeism, health, and levels of effort and energy. People influence one another, and in doing so they either increase or decrease others' performance levels, as my study of teams and organizations on winning and losing streaks reveals (see my book *Confidence*, Crown, 2004). Well-understood values and principles can be a source of emotional appeal, which can increase employee engagement. Having a statement of values has become common, so the issue is not whether a set of words called "values" exists somewhere in the company. Adhering to institutional logic makes the regular articulation of values core to the company's work. The CEOs of companies I studied, whether headquartered in the U.S., Mexico, the UK, India, or Japan, allocated considerable resources and their own time to breathing new life into long-standing values statements, engaging managers at many levels in the institutional task of communicating values. The point was not the words themselves but the process of nurturing a dialogue that would keep social purpose at the forefront of everyone's mind and ensure that employees use the organizational values as a guide for business decisions.

Great companies identify something larger than transactions to provide purpose and meaning.

As a Procter & Gamble executive, Robert McDonald had long believed that the company's Purpose, Values, and Principles was a cornerstone of its culture, evoking strong emotions in employees and giving meaning to the company's brands. Within a month of becoming CEO in 2010, he elevated the purpose—improving the lives of the world's consumers—into a business strategy: improving more lives in more places more completely.

In P&G West Africa, for instance, every employee has a quantitatively measurable purpose-driven goal: How have I touched this year? So P&G West Africa's Baby Care Group set up Pampers mobile clinics to reduce high rates of infant mortality and help babies thrive. A physician and two nurses travel the region in a van, teaching postnatal care, examining babies, and referring mothers to hospitals for follow-ups or immunization shots. They also register mothers for mVillage, a text-message service (many of the poor in West Africa have cell phones) that offers health tips and the chance to ask questions of health care professionals. At the end of each mobile clinic visit, everyone gets two Pampers diapers. The emotional tugs for P&G employees are strong; they feel inspired by the fact that their product is at the center of a mission to save lives. They also feel proud that Pampers' sales have soared and that West Africa is among P&G's fastest-growing markets.

In companies that think of themselves as social institutions, work is emotionally compelling and meaning resides in the organization as a whole rather than in a less sustainable cult of personality. Top leaders exemplify and communicate the company's purpose and values, but everyone owns them, and the values become embedded in tasks, goals, and performance standards. Rather than depending on charismatic figures, great companies

The Benefits of Institutional Logic

Companies that operate using institutional logic reap substantive benefits.

INSTITUTIONAL LOGIC is built on a foundation of purpose and values, which serve as a buffer against uncertainty and change.

CONCEIVING OF THE FIRM as a social institution generates a long-term perspective. Short-term financial sacrifice becomes permissible in the interest of positioning the firm for sustainable success.

STRONG INSTITUTIONAL VALUES can evoke positive emotions, stimulate intrinsic motivation, and propel self- or peer regulation.

"routinize" charisma so that it spreads throughout the organization.

Partnering with the Public

The need to cross borders and sectors to tap new business opportunities must be accompanied by concern for public issues beyond the boundaries of the firm, requiring the formation of public-private partnerships in which executives consider societal interests along with their business interests.

One paradox of globalization is that it can increase the need for local connections. To thrive in diverse geographies and political jurisdictions, companies must build a base of relationships in each country with government officials and public intermediaries as well as suppliers and customers. Only by doing so can companies ensure that agendas are aligned even as circumstances—and public officials—keep changing. Those external stakeholders are interested as much in the corporations' contributions to the local community as they are in their transactional capabilities. At the same time, great companies want both an extended family of enduring relationships and a seat at the table on policy matters affecting their business.

Public-private partnerships to address societal needs are growing in number and importance, and are especially prevalent among enterprises that think institutionally. Partnerships can take many forms: International activities, conducted in collaboration with the United Nations and other global organizations (such as Procter & Gamble's Children's Safe Drinking Water program with UNICEF and several NGOs); large domestic projects, undertaken in collaboration with government ministries and development agencies (PepsiCo's agricultural projects in Mexico with the Inter-American Development Bank, for example); product or service development to address unmet societal needs (for instance, P&G's linkages with public hospitals in West Africa); or short-term volunteer efforts (IBM's work following the Asian tsunami, Hurricane Katrina, and earthquakes in China and Japan to provide software to track relief supplies and reunite families).

In companies that adhere to an institutional logic, executives cultivate relationships with public officials neither as a quid pro quo nor to push through particular deals. Rather, they seek to understand and contribute to the public agenda even as they influence it. For example, PepsiCo's chief global health officer, who came from the World Health Organization, is planning a cross-sector project to reduce childhood obesity. IBM's CEO, Samuel Palmisano, circumnavigates the globe six or seven times a year to meet with national and regional officials, discussing how IBM can help their countries achieve their goals. This is not sales or marketing; it's a high-level conversation to demonstrate the company's commitment to furthering the development of the countries it operates in. Such engagement at the top helps other IBM leaders get a seat at the table when discussions about the country's future take place.

Institution building requires the efforts of many people. The more interested that top leaders are in external relations, the more likely they are to involve others and to reward them for building relationships with the nation and community. Although relatively few people might hold formal responsibility for these external interfaces, a great many might perform institutional work by volunteering, attending public meetings, and participating in community service. Such activity projects a sense of authentic motivation. Community building is not a hard sell for people native to an area or for long-term residents; there is an emotional pull of place that makes such work desirable. For others whose careers take them across geographies, this work is a way to connect their organizational roles with the places they now live, making them feel more rooted.

GREAT COMPANIES SEE BUSINESS as a primary pillar of society. This focus facilitates the kind of cross-border and cross-sector engagement needed to tap global opportunities. Through the formation of public-private partnerships, firms consider the public interest along with business priorities.

THE ATTENTION PLACED ON social conditions often generates experiences and ideas that lead to learning for innovation in products, services, and business models.

IN A FIRM STEERED BY INSTITUTIONAL logic, employees can be treated as self-determining professionals, coordinating and integrating activities and producing innovation through self-organization in addition to formal assignments.

When leaders come to see themselves as having societal purpose, they can choose to get involved at local, national, and even global levels. A few years ago, the head of IBM Greater China organized a personal diplomatic mission to Washington, meeting with White House officials and U.S. politicians to discuss the impact of China's emergence as an economic superpower. He had a desire to see both nations thrive and believed that his role in a global company afforded him a unique perspective. After retiring in 2009, he remained an IBM "super alum," in company parlance, and was supported by IBM in attending a major U.S. university for a year, with the company's support, to learn about health care. At the end of 2010, he returned to China and launched an initiative with a Chinese government institute to develop an IT-enabled evidence base for traditional Chinese medicine that will build on IBM ties.

Innovation

Articulating a purpose broader than making money can guide strategies and actions, open new sources for innovation, and help people express corporate and personal values in their everyday work.

Companies' claims that they serve society become credible when leaders allocate time, talent, and resources to national or community projects without seeking immediate returns and when they encourage people from one country to serve another. IBM's Corporate Service Corp, for instance, develops future leaders by sending diverse teams of the company's best talent on monthlong projects around the world. The attention placed on social needs often generates ideas that lead to innovations. For Cemex, operating by institutional logic and considering unmet societal needs produced innovations such as antibacterial concrete, which is particularly important for hospitals and farms; water-resistant concrete, useful in flood-prone areas; and road surface material derived from old tires, desirable in countries that are building roads rapidly. An idea from Egypt for saltwater-resistant concrete, helpful for harbor and marine applications, became a product launched in the Philippines.

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

Creating opportunities for individuals to use company resources to serve society furthers institution-building goals. Novartis employees serve in hospitals, where they see firsthand the challenges of disease and how their drugs are used. In 2011, P&G employees set out in Tide Loads of Hope vans to visit communities in the southern U.S. ravaged by floods. In the mobile Laundromats, managers and other professionals washed and folded clothes for local people, getting to know them and their circumstances. These kinds of interactions express corporate values and produce valuable learning, too.

Companies' claims that they serve society gain credence when they allocate resources to community projects without seeking immediate returns.

Self-Organization

Great companies assume they can trust people and can rely on relationships, not just rules and structures. They are more likely to treat employees as self-determining professionals who coordinate and integrate activities by self-organizing and generating new ideas.

Institutional logic holds that people are not paycheck-hungry shirkers who want to do the bare minimum, nor are they robots that can be ordered to produce high performance. Instead, employees make their own choices about which ideas to surface, how much effort to put into them, and where they might contribute beyond their day jobs. Resource allocation is thus determined not only by formal strategies and budgetary processes but also by the informal relationships, spontaneous actions, and preferences of people at all levels.

Fully understanding a company requires knowledge of its social structure and informal networks, and optimizing performance requires social investments. At Shinhan Bank, the two banks self-integrated through social bonds and relationships well in advance of the three-year mark when official integration was to take place. The new connections manifested in such actions as each bank's voluntarily hanging the other's banner in its headquarters. At Procter & Gamble, managers in Brazil turned strategic and organizational traditions on their head to develop low-cost, high-quality alternatives to premium products. They undertook this risky initiative on their own and self-organized to ensure closer cross-functional teamwork and partnerships with customers. They felt that they had an obligation to improve the lives of consumers who could not afford premium products. Similar institutional logic led the P&G Himalaya team, a global cross-functional group, to find ways to make Gillette razors affordable and desirable to men often bloodied by barbers using rusty or worn-out blades.

Managers in great companies understand that formal structures can be too general or too rigid to accommodate multidirectional pathways for resource and idea flows. Rigidity stifles innovation. Informal, self-organizing, shape-changing, and temporary networks are more flexible and can make connections between people or connect bundles of resources more quickly. Employees' formal roles come to resemble the home base from which they are continuously mobile as they carry out daily tasks and projects, develop work relationships, and participate in team or group activities. Matrix organizations—in which individuals report to two or more bosses depending on the different dimensions of their tasks—become what I dub a matrix on steroids. People are accountable along many dimensions simultaneously, attending to multiple projects and using their networks to assemble resources for all those projects, often without going through a decision-making hierarchy.

Although there is a drudgery and confinement component to many jobs—plenty of Cemex employees work in factories, Shinhan's banks have tellers stuck behind counters, and every company has stay-at-desk support staff—trusting people to make choices about where, when, and with whom they should work makes jobs more engaging. For example, on any given day about 40% of IBMers in the U.S. do not go to an IBM office. They work at home or at customer sites, moving between locations and taking vacations at times of their choosing. IBM's work-at-home programs, such as the one started in Japan in 2001, have caught the attention of governments interested in keeping women with technical degrees in the workforce. In some cases, IBM offers allowances to support infrastructure in the home, which has enabled a Harvard graduate working in India to combine project work with child-rearing, for instance, and a software manager from Egypt to move with her husband to Dubai.

Institutional logic assumes that people can be trusted to care about the fate of the whole enterprise—not just about their own jobs or promotions—and to catalyze improvements and innovations without waiting for instructions or sticking to the letter of a job description. Job descriptions nowadays document only part of what people do; performance reviews and salary bands capture only some of the activities through which people might add the most value for the company.

When people self-organize to create networks to share information, new initiatives or innovations are often the result. Organizations must encourage the creation of such networks, of course, and facilitate them through communication platforms or meeting spaces, but the networks usually flourish best if they spring from volunteers who do things that bosses might not have anticipated. What's more, these self-organized networks often keep good ideas alive long after an organization would have abandoned them.

For example, three PepsiCo managers in Latin America had shared a dream for around a decade of developing new kinds of potatoes that were suitable for southern climates, less starchy, and environmentally sustainable. They felt that the initiative should be based in Peru, the potato's birthplace. The troika remained in contact despite their moving to different locations, and even after years of ho-hum response, they presented their ideas wherever they could. They eventually received a boost when a new Peruvian potato chip whose creation they championed became a sensation. The chips, which used multicolored potatoes from small farmers in remote villages in the Andes, combined nutrition, tastiness, and social contribution. Proof of concept turned the dream into reality: In August 2010, CEO Indra Nooyi announced the establishment of a global potato development center in Peru, headed by one of the three champions.

Self-organizing communities can be a potent force for change, propelling companies in directions they might not have taken otherwise. People with no formal orders serve as explorers and entrepreneurs. For example, had it not been for self-forming networks, IBM might have lagged behind or even missed out on two big business ideas: virtualization and green computing. These emerged as among IBM's top strategic priorities after an Innovation Jam in July 2006, a web chat spanning several days to which over 140,000 employees contributed ideas.

The virtualization initiative came together outside of formal structures and, initially, as a voluntary activity. Some 200 early adopters of virtual platforms—such as Linden Labs' Second Life and similar platforms—found each other through the company's chat rooms and created an ad hoc group of people who shared ideas in their free time through avatars and weekly phone calls, with conference lines sometimes open in the virtual world, too. After a year of informal self-organization, the network found an IBM executive sponsor. IBM then designated virtualization an emerging business opportunity and provided funding for it.

MY ARGUMENT has come full circle. A logic that justifies treating employees as self-determining volunteers—in essence, as true professionals who care about high performance because they believe in the company as institution—makes it important to have a motivating purpose and values to provide coherence and common identity. The first enables the last. The six principles I describe in this article are interrelated and share many characteristics. Especially for great global companies, institution building is not the result of carrying out specific activities but a coherent, holistic pursuit in which elements reinforce one another, are inextricably intertwined, and reflect a logic and leadership style that permeate the corporation.

Skeptics abound, of course. Firms that present themselves as institutions concerned with serving society often come under more scrutiny than others do, and they must withstand criticism about the gap between stated aspirations and performance, financially and socially. If they make money while doing good, they will be criticized for manipulation; if they do some good but not enough to solve complex problems, they will be criticized for lack of courage or commitment. Despite a growing number of advocates for a new kind of capitalism that finds win-win opportunities by creating value for both business and society, there is still controversy over the obligations of business.

The great global enterprises are not waiting for grand new theories or perfect answers. Their leaders already use an institutional or social logic to supplement economic or financial logic in guiding and growing their enterprises. Institutional logic cannot be captured by cost-benefit equations or reduced to the language of economics, and yet it turns out to be a powerful driver of financial performance.

Leaders in the great companies can tell a different story about the basis for their decisions. In so doing, they are able to produce new models for action that can restore confidence in business and will change the world in which we live.

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