Business

BY MARJORIE SCARDINO

The economic crisis of the past couple of years has confused us all. It's had profound effects on not only those who've participated in stock markets, but also on workers and families and communities who've been dependent on companies for their well-being. It's caused business leaders to take stock of what they should have been doing and how they should have been doing it. And it's made most all of us who are interested stop and think about the rules of business today and whether they're responsible or even workable for society as a whole.

The principles of free markets, first laid down by Adam Smith in 1776 when no one else really connected the idea of competition to progress and innovation, have been interpreted in our time as a license for a focus on self-interest, no matter what impact it has on others. But simple common sense tells us that's wrong. Smith thought that the "honest shopkeeper" would exercise his self-interest to the good of the whole community because his interest would be on thrift and honesty and good products. But he knew that there had to be a governor on that self-interest when times were flush and the money or the way he made it was easy, but not in society's long-term interest.

Somehow, we've been without that governor – that interest in moving all of civilization along. We've thought the definition of responsibility included not much more than good risk management, sensible cost control, and no secrets.

Those are reasonable rules, and they might, if we apply them slavishly, help us avoid another downturn. But responsible leadership requires a lot more than just preventing a meltdown. It requires us to move companies along so that society can move along. To do that, following rules slavishly is generally a mistake.

In spite of that, I offer just five rules based on my experience that I think might help us regain our hold on responsibility:

Pursue a purpose

Companies that thrive and succeed in the long run are those that have a social purpose broader than making returns for shareholders. Profits are essential, but they should *sustain* a company, not *define* it. A company with a goal that benefits society gives everyone in it a way to be involved in something larger than themselves – and that's what makes most of us get out of bed every morning and stretch during each day further than we thought we could.

One of the long-running U.S. success stories, the General Electric Co., has over the past half-century always had a series of slogans than encapsulated that purpose – "Progress is our most important product" or "We bring good things to life" or, currently, "Imagination at work." GE's chairman and chief executive, Jeffrey Immelt, has said, "'Imagination at work' is more than a slogan or a tagline. It is a reason for being." That kind of purposeful work is what makes a company great.

Take a long-term perspective

There's no substitution for thinking ahead – not letting short-term setbacks distract you, planning for the medium-term, but all the while thinking into the distance. That's the time scale that governs your investments, and that should help you keep your nerve when times get tough.

My company publishes a newspaper, the *Financial Times*. In common with all newspapers, it ached and bled in the early days of this century when the dot-com bust triggered a big drop in financial and technology advertising, the paper's staples in the late 1990s. So we decided to change it for the long term – to make it into a broader, more digital business information business more reliant on its readers than its advertisers. As a result, it's lasted when many newspapers have failed, and it has proved much more resilient in the latest recession.

Turn the box upside down, even if things fall out the bottom

If you're in charge of an organization for a long time, it's easy to start thinking that everything is brilliant – all strategies right, all operations top-notch and your leadership prescient. But if you start believing any of that, you'll be sorry. Change is a constant.

Innovation was at the heart of Adam Smith's free market concept, and it's still the crucial act in a company. It doesn't just require new ideas; it also requires speed, and quite a bit of recklessness. Sometimes you have to abandon something successful, to reach for the next success.

In 2005, Apple, Inc. decided to discontinue its iPod mini, at that point the best-selling portable music player in the world, in favor of the even-smaller iPod nano. The company saw that competitors were catching up, and only change could pull them ahead. That brave move fired Apple's rise as the market leader, and oiled their creative machine, giving them innovation momentum in the minds of the market that is still roaring.

Err on the side of generosity

This is the single best business rule I've ever found, and I didn't find it in a business book or a business school: If you're not sure what decision to take – should you be tough or lenient, harsh or forgiving, believe a person's story, give someone another chance, excuse an error – take the generous choice. You'll be wrong sometimes – maybe even a lot of the time – but the cost of being wrong on the side of generosity rather than small-mindedness is much less all around.

This is a versatile rule, too. It works if your decisions are about people, and it works if your decisions are about thinking big rather than thinking small. Being open and large-minded is, in any case, a lot more exciting and stimulating.

Don't be afraid to fail

The Japanese company Sony fell flat on its face with an electric rice-cooker in the 1940s – the rice always turned out undercooked or overcooked, and the Japanese market is serious about its rice. But the company learned from that mistake and bounced back to become a global powerhouse in consumer electronics ranging from radios to the iconic Walkman. (And they've shied away from kitchen appliances.)

Radio Corporation of America, or RCA, was devastated by the stock market crash of 1929, but its leaders turned their attention to the new-fangled but promising technology of television, formally introduced at the 1939 World's Fair in New York, and their year of lost fortunes turned into decades of success.

I probably learned my biggest business lesson through a personal failure, too. In the 1970s in Savannah, Georgia, my husband and I started a small weekly newspaper. It was rollicking fun as a newspaper – and a miserable business disaster. My husband, the editor, won a Pulitzer Prize for its editorials.

But I, the publisher, didn't manage to win enough advertisers to keep the paper going. After seven years, we had to close it. But along the way, we played a part in our local community and employed a loyal group of people who saw the newspaper as a calling larger than themselves. And we learned a lesson that has given us more courage than we might otherwise have had: we learned that failure doesn't kill you; it makes you stronger.

Rules are made to be Broken

(But they're handy when you're confused)

LEADERSHIP PERSPECTIVE

BIO

MARJORIE SCARDINO, a 1969 graduate of Baylor University, is the chief executive officer of Pearson PLC, the London-based global education and media company whose companies include Pearson Education – educational materials and services around the world; the Financial Times newspaper, data and online businesses; and Penguin books. Before becoming Pearson CEO in 1997, she was chief executive of The Economist Group and, prior to 1985, a partner in a Savannah, Georgia, law firm. She is a member of several charitable and advisory boards, including The MacArthur Foundation in Chicago, The Carter Center in Atlanta, Oxfam in Britain, and The Victoria & Albert Museum in London.