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Business of business is more than business: Managing during the Covid crisis

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ABSTRACT

The economic impact of the lock down and social distancing policy of the governments has been devastating on business. Should business look out for its own interest or deploy its resources and capabilities to fight the coronavirus even at the expense of short-term losses? This paper suggests that business and society are two peas in a pod and are mutually interdependent. One cannot survive without the other. The purpose of business is more than business. It is to nurture all of its stakeholders (employees, customers, suppliers, and community) and not just the investors. This is still common in many small-town manufacturing companies whose families, and their families, live in the community. The paper suggests several implications for B to B companies including developing a stakeholder scorecard, becoming a better customer to suppliers, and redefine the purpose of business.

1. Introduction

The coronavirus pandemic in 2020 has once again raised the question of how industrial companies with global manufacturing and supply chain can survive the impact of lockdowns and social distancing. Should business look for its own interest and survival or step up and offer its resources and knowhow to save humanity even if it means not delivering quarterly earnings and guidance? What is the role of business in society? Is the business of business only business or is it more than that?

Business of business has been more than business since the industrial revolution in the UK, Germany, and the United States. As their economies shifted from agricultural sectors to industrial sectors, many inventors and entrepreneurs started to manufacture products in small towns usually on the riverbanks and canals in order to have access to water and industrial raw materials.

Business and community were two peas in a pod, mutually coexisting and nurturing each other. Businesses invested in and supported the local communities, and the local communities protected businesses and committed public resources. This symbiotic relationship enabled the company and its owners to expand all over the country and the world. Examples include General Electric in Schenectady, IBM in Armonk, Whirlpool in Benton Harbor, U.S. Steel in Pittsburgh, Caterpillar in Peoria, and Kohler in Kohler, Wisconsin, just to name a few. These were often company towns or industry towns. There are similar examples of Coventry, Birmingham, and New Castle in England, and Stuttgart, Dresden, and Munich in Germany. Western Europe was replete with similar examples in Italy, France, the Netherlands, and Scandinavian countries.

Capital was provided by the family who owned the company and the community provided support systems such as schools, libraries, security, roads, and train stations for cargo. Many companies also diversified into other businesses and became large conglomerates, making things all over the world but still headquartered in the small town where they started. Phillips in Eindhoven is a classic example in the Netherlands.

The owners and their families lived in the same town, went to the same church, attended all the same community events including funeral services. Their employees (managers) were their neighbors also, whose children went to the same school as the founders' children or grandchildren. And finally, their suppliers were also in town or nearby. All the stakeholders (communities, employees, suppliers, and customers) were in frequent social contact, almost on a daily basis. Since the family provided the capital, there was a conspicuous absence of institutional investors. Indeed, people in the community often owned company's shares. The shares were neither traded nor sold. They were passed on from one generation to the other.

2. Managerial implications

The management implication is that doing well by doing good is especially critical in global crises such as the COVID pandemic. Businesses know how to make products and offer services at both global as well as local levels; reach the most remote parts of the world and especially in rural markets, and they are masters at developing awareness campaigns and persuading customers to purchase the product or service. These capabilities are articulated by Vargo and Lusch (2004) in their service dominant logic (SDL). In general businesses are...
more efficient and effective compared to the capabilities of the government or non-profit organizations.

It was, therefore, heartening, to learn that both General Motors and Ford Motor Company decided to divert their manufacturing capabilities from making automobiles to making plastic shields and ventilators. More importantly, they communicated publicly that they will not deliver the financial expectations of the analysts and the investors for the next one or more quarters. Also, they announced that they will defer their share buyback plans sometime in the future.

3. Rise of the shareholder value obsession

In other words, business of business was more than business. It was a social contract. It is only in the sixties and the seventies that companies relocated their corporate headquarters to capital cities in search of additional capital to invest in unrelated businesses. The senior management relocated themselves to financial capitals such as London, New York, Tokyo, and Mumbai to attract institutional investors including those who managed large pension plans. In the process, shareholders and traders became the focal stakeholders.

This was compounded by the economic shock created by the energy crisis of 1972–74. The stock markets collapsed, the debt to equity ratio became too high, and companies became targets of private equity firms such as KKR and Berkshire Hathaway. The stock prices were very low compared to breakup values. This shareholder obsession was also influenced by well-known free market economists such as Milton Friedman, who advocated that the only business of business was to make a profit. Corporations had no social responsibility.

Since the eighties, companies have been forced to divest unrelated businesses. Theodore Levitt’s classical paper on marketing myopia (1960) asking whether you are in the railroad business or in the transportation business was ignored. Companies like Coca-Cola divested the wine and the water business as well as Columbia Pictures and focused back to carbonated beverage with their flagship brand Coke. United Airlines divested the hotel business (Hilton), the rental car business (Hertz), and other travel related businesses to focus back on flying. Beatrice Foods in Chicago had more than 100 companies including Rusty Jones (rustproofing) to Samsonite (luggage) to Le Choy Chow Mein (noodles) and Dannon Yogurt. It collapsed financially and had to divest highly diversified businesses.

Of course, the most famous example is General Electric, which under Jack Welch, reduced hundreds of subsidiaries to twelve businesses and increased the shareholder value from $5 billion to $100 billion. Most of it came at the expense of closing factories or selling to competitors. In other words, what mattered most were the investors and not employees or suppliers or communities. Reengineering the corporation through downsizing and outsourcing manufacturing as well as support services became the norm. This shareholder value obsession still continues today through the great recession of 2008–09 and today by the coronavirus.

The day of reckoning is approaching fast as multinationals from emerging markets such as China and India are buying out world class companies or their product divisions. For example, IBM’s Think Pad PC business is owned by Lenovo and several General Electric’s electronic appliance business is sold to Haier. Both Jaguar and Land Rover brands are now owned by Tata Motors from India and the largest steel producer is ArcelorMittal, an Indian enterprise based in London.

4. Managerial implications

The key managerial implication of shareholder value obsession is that it may result in a boomerang effect. The investors will abandon the company management and allow the company to go for chapter eleven protection or force it to sell to a private equity company such as Berkshire Hathaway, Blackstone, KKR, or Bain Capital.

Recently, we have witnessed this with activist investors in such world class companies as Dow Chemicals, DuPont, Kraft Foods, and several retailers including Sears, J.C. Penney, Macy’s, and Neiman Marcus.

5. B to B is relationship business

Most industrial companies are anchored to long term and sometimes multigenerational relationships between the company, its customers, and suppliers (Sheth & Parvatiyar, 2000). What is not well researched is similar long term and multigenerational relationships with the community and the employees. Relationships matter in business. In fact, relationships reduce transaction costs. Transaction Cost Economics (TCE) as suggested by Coase (1937), Williamson (1985), North (1992), and Commons (1931), articulated that if the internal costs of managing the business are less than market transactions, it generates enough cash flow for growth of the company. Whereas if the internal costs are higher than market transaction costs, it is better to outsource the activity such as manufacturing or corporate support functions including IT services and payroll services.

In my view, TCE has not taken into account the possibility where both internal and external costs are reduced because of long term multigenerational relationships between the company and its suppliers and customers. This is well illustrated in recent times by Apple and Foxconn (contract manufacturer) in making Apple products. Similarly, Whirlpool and Sears relationship for the Kenmore brand of appliances resembles more like a joint venture. It has lasted for more than 75 years and no competitor has been able to break into their relationship.

More recently, Procter & Gamble and Walmart’s relationship across all brands and product divisions which grew from $500 million to $8 billion dollars in a decade also resembles a non-contractual joint venture whose mission is to create value for the ultimate consumers by reducing transaction costs in each company.

The two constructs of enduring B to B relationships are trust and commitment (Hunt & Morgan, 1994). The economic returns of relationship anchored to trust, and commitment have shown to be positive mostly by reducing or eliminating duplication and governance of long-term contracts. For example, if Walmart pays to P&G instantly as P&G products are paid at Walmart checkout counters, then it eliminates market transaction costs of issuing purchase orders, invoices for the payment, and collection of accounts receivables.

Indeed, TCE probably did not realize that with digital linkage of suppliers with their customers as well as automation of transactions can reduce or eliminate the costs of governance altogether. In other words, it is not a tradeoff between internal versus external costs. It is the elimination of costs through IT integration of the supply chain. Furthermore, this digital connectivity has high experience curve over time with rapid cycle time, TQM, just in time and end customer satisfaction and value creation. In other words, automation of transactions reduces the friction in the supply chain and product delivery of service or product. A good example is the degree of friction reduced in ordering taxi (ridesharing) on the online platforms of Uber, Lyft, and others.

6. Managerial implications

The key implication is that business to business relationship between the company and all of its stakeholders (employees, suppliers, customers, community and investors) results in cost elimination or cost reduction for the company. This is especially the case when the company is a large multidivisional conglomerate with significant overheads. It also means that a win-win between the company and each of its stakeholder must exist for the relationship to continue.

During the coronavirus crisis we have witnessed the use of technology, such as Zoom, between the doctor and the patient. The doctor or the healthcare provider is able to see many more patients by telehealth and the patients don’t have the cost of traveling and waiting at
the clinic.

7. Coronavirus and B to B marketing

Coronavirus (COVID-19) is a great wake up call. It has clearly demonstrated how fragile business is. It has created disruption in the supply chain both domestically and globally, especially with respect to food and energy. It is hard to imagine how business could run today without smart phones, the internet, eCommercce, and Zoom meetings.

COVID-19 has also pointed out the interdependence between the government, the business, and the local community. It has also demonstrated that environmental sustainability (carbon footprint) is directly related to business activities. The air is cleaner in all major metro areas of the world. It clearly demonstrates that the air pollution is managed and therefore reversible. In short, business, nature, and society are interdependent for mutual survival during the present threat of the COVID-19 pandemic. And in all crisis situations, interdependence between business and society must be anchored to serving others which is good for self-interest.

Sisodia, Wolfe, and Sheth (2007) clearly documented that companies that take care of employees, suppliers, customers, and community financially outperform as compared to companies that are only shareholder driven. They found that over fifteen years, the annual return of shareholder driven companies was 40% over sixteen years as compared to shareholder driven companies which was 20% in Collins’ Good to Great book (2001). The S&P 500 benchmark index averaged only 9% over the same fifteen years. In short, business vs. society is not a zero-sum game. In fact, it is and can be a positive sum game (win-win) especially with respect to top line revenue growth and bottom-line cost reduction.

This symbiotic relationship will become increasingly important as social media, pandemic threats, and populism create greater uncertainty for businesses to operate and survive financially. The government bailout of businesses across the world is one indicator of the need and relevance of the symbiotic relationship.

8. Managerial implications and actions

Great businesses fail when they are either unable or unwilling to adapt to the changing ecosystem in which they exist (Sheth, 2007). The most recent examples in industrial markets are General Electric, Lucent, and several steel giants such as Bethlehem Steel. Recent megamergers of DuPont and Dow Chemicals or Monsanto and Bayer are good indicators of the struggle companies are experiencing to deliver shareholder value due to globalization of competition especially from the emerging markets such as China and India. Global events like the COVID-19 pandemic often push good companies into the ditch because they are unwilling to change and adapt.

Below are several ways good industrial companies can survive and even thrive in most difficult circumstances:

1. Stakeholder orientation. The leadership of the company must embrace and advocate stakeholder orientation and broaden the purpose of business. Business of business is more than business and the investor is just one of the stakeholders and not the only stakeholder. This will require top leadership to transform from a win-lose mindset to a win-win mindset. And many business to business companies have shown that it can be done. Examples include Patagonia, Costco, the Tata Group in India, UPS, Toyota, and several Silicon Valley technology companies.

2. Stakeholder score card. In business, what gets measured, gets done. While balanced score card is a great way to measure the performance of the organization, it needs to be replaced with measuring satisfaction and wellbeing of the community, the suppliers, the customers, and the employees. Similarly, the more recent and popular measure of Net Promoter Score (NPS) can be broadened to also measure NPS of all the stakeholders and not just the customers.

3. Become a better customer. Most well-known companies are good marketers. They believe in customer centricity and measure customer satisfaction religiously. At the same time, however, many of them have corrupt and abusive supplier relationships.

In our research, we have found that the real value creators are your suppliers. This is because value add in your own factory is less than 30%. Nearly 70% of the cost of making any product is the procurement of industrial raw materials and components. In the personal computing business, for example, the value add of the factory at HP or Dell is only 11% today worldwide. Nearly 89% is sourcing from the vendors. Out of this 89%, two companies, Microsoft and Intel, are 79% of all procurement costs in manufacturing the P.C. Investment in suppliers and nurturing them seems a much better approach to create value at a lower cost. This is what Japanese industrial organizations do to compete globally. It is what Apple and Cisco Systems do with their contractors.

4. Account managers become trusted advisors. Unfortunately, most sales executives and key account managers are trained and rewarded for selling the company’s products. This is nowadays also expanded to cross selling, upselling, and product migration from the old to the new equipment or raw material. Instead, true customer centricity requires that the account managers become trusted advisors (Sheth & Sobel, 2000).

A trusted advisor listens rather than sells. He or she is a deep generalist and, therefore, can link with different functions of the customer organization. In a crisis situation like the coronavirus pandemic, offering advice and assistance by accessing all the competencies in the selling organization above and beyond the products and services is a key differentiator. Of course, customers are also looking for emotional support and empathy.

5. Modernize IT technology. Most organizations lag in switching or leapfrogging to new technologies. For example, switching from buying mainframe computers to buying cloud services. Similarly, integrating scattered data through CRM into an integrated database of customers, suppliers, community and employees will become key to the future.

This will be especially true as customers switch to smart phones and other mobile devices. In a crisis such as the corona pandemic, real time connectivity and mission driven mindset to serve all stakeholders will be key to survival. We witnessed this during the great recession of 2008–09 in the bailout of the financial institutions and the bank deposits of consumers. Without integrated information technology, it will not be possible to do well crisis management.

6. Add purpose to business. It is becoming increasingly necessary to inject purpose of business which transcends the profit motive. Social media, populism movements, and retention of young talent demand that business should consciously strive to deliver triple bottom line (profit, people, and planet). While this will be challenging, it will be very rewarding. A win-win-win between the company, society, and nature will give a different emotional feeling to factory workers and front-line health care providers. They will take pride in what they do and the society, in return, expresses its appreciation and gratitude as witnessed during the current crisis.

9. Concluding remarks

The economic crisis generated by the lockdown and social distancing mandates to combat the coronavirus has been a good wake up call for businesses in general and industrial businesses in particular. The best way to survive is to learn from the past where business of business
was more than the business across factory towns in the U.S. and other industrialized nations. The multigenerational relationship with the community, suppliers, and employees often saved the company.

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