

Conscious Capitalism

Unleashing human energy and creativity for the greater good



John Mackey is the co-CEO of Whole Foods Market, which he co-founded in 1980. The company aims to stand for a purpose deeper than maximising its own financial performance and is consciously managed for the benefit of all of its stakeholders. A founding member of the Conscious Capitalism movement, Raj Sisodia is Professor of Marketing at Bentley University and co-founder and chairman of the Conscious Capitalism Institute. He has consulted for numerous companies, including LG, Nokia, Volvo and Walmart.

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Capitalism has become a synonym for self-interest and greed. But are we seeing the whole picture? ‘Conscious’ capitalism is motivated by an awareness that a higher purpose – such as providing service to others or furthering knowledge – sits well with profit. And companies that treat their suppliers and employees well often achieve higher net margins than rivals who are obsessed with gross margins. Here, the authors present the case for a new ‘operating system’ for business.

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It has long been an unchallenged maxim that the purpose of any business is to maximise profits for its owners. The result has too often been unhappy and stressed employees, degraded natural environments and decisions not made in customers’ best interests. Corporations are undoubtedly the most influential institutions in the world today, but are widely distrusted and seen as greedy, selfish, exploitative and uncaring. Nor are they always able to deliver superior financial results.

Modern free-market capitalism has brought extraordinary benefits but at a cost that we are only now starting to recognise. We have created working conditions that are stressful and unfulfilling for many, and fostered and fed unhealthy appetites for billions of customers. An estimated 3 billion people still live on less than \$2 a day, lacking access to basic necessities. Our natural resources are being depleted at an accelerating rate as more nations become prosperous and consume more energy and goods. There is huge pressure on our forests, arable land, water resources and natural species. Human population growth has slowed but is still expected to reach a peak of somewhere around 9 billion later this century. Our health challenges are growing as obesity, diabetes, heart disease, and cancer become more prevalent.

Other changes abound. Collectively, humankind is ageing rapidly, a consequence of plummeting birth rates and rising life expectancy. This means more people than ever are in midlife and beyond, a time when most start to think about meaning, purpose and legacy. We are better educated, far better informed (due to the web) and hugely better connected. Lastly, our

consciousness is evolving rapidly; we are more mindful and awake, have a fuller appreciation of reality, better understand the consequences of our actions and have a finer sense of right and wrong. Think of how far we have come in just the last 150 years with regard to fundamental issues of humaneness such as slavery, women’s rights, working conditions, colonialisation, child labour, environmental awareness, gay rights and so on.

All these changes are also business opportunities, but they cannot be addressed using the mental models we have been operating with so far. As Abraham Lincoln said in a different time and context, “The dogmas of the quiet past are inadequate to the stormy present”. We know that ‘business as usual’ won’t work any more. What we urgently need is a new paradigm for business.

We call our proposed new ‘operating system’ Conscious Capitalism. This is not just about being virtuous or ‘doing good’ – rather, it reflects a deeper consciousness about why businesses exist and how they should be organised and led. It has four essential elements: higher purpose, stakeholder alignment, conscious leadership and conscious culture.

Higher purpose

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Apple products are functional and elegant

Purposeful companies ask questions such as: Why does our business exist? What is it trying to accomplish? What core values animate the enterprise and create greater trust and commitment on the part of our stakeholders? All the professions have purposes besides maximising profits – for instance, doctors heal the sick and teachers help educate people – and likewise entrepreneurs who create great businesses do so for reasons that go beyond just trying to make money. Of course, there is nothing wrong with making money; indeed, it is absolutely necessary for an enterprise to flourish. However, it is not by itself an inspiring purpose.

There are potentially as many different purposes as there are enterprises. The highest ideals that humans aspire to should also be those held by our organisations. They include:

- **The Good:** Service to others, by improving health, education, communication and quality of life. The Container Store, a storage solutions retail chain, provides excellent service and quality products that help people organise their lives better. It shows real commitment to supporting both local communities and employees, its key stakeholders.
- **The True:** Discovery and furthering human knowledge. Google allows employees great freedom in pursuing their passion for discovery, setting aside a day a week for just that purpose. And for decades Intel has fuelled the advancement of our information economy by continuously offering greater computing power at low cost.

- **The Beautiful:** Excellence and the creation of beauty. Apple embodies this ideal, creating products that are works of art: simple, functional and elegant. And BMW produces cars that combine aesthetics with a great driving experience.
- **The Heroic:** The courage to do what is right to change and improve the world. Whole Foods Market, the leading retailer of natural and organic grocery products, is now extending its purpose to include improving the health and wellness of the population as a whole, including greatly enhancing the nutritional quality of school lunch programmes.

Enterprises that place higher purpose at the very core of their business model inspire trust from all their major stakeholders: customers, employees, investors, suppliers and the larger communities in which they exist. Shared core values unify the enterprise and improve both performance and ethical commitment.

Stakeholder integration

Businesses should be consciously managed for the simultaneous benefit of all of their stakeholders. Conscious businesses understand that their stakeholders are interdependent and that the business should be managed in such a way as to optimise value creation for all of them. This enables the whole system to flourish. While there can sometimes be conflicts and trade-offs between the major stakeholders, these situations are relatively rare. Conscious businesses harness the limitless power of human creativity to create win-win-win solutions to eliminate conflicts and ensure a 'harmony of interests' between the interdependent stakeholders.

Conscious leadership

Next to the power of higher purpose, nothing is more important for creating high levels of organisational trust and performance than the quality and commitment of the leadership at all levels. It doesn't matter if a company has a higher purpose if those at the top fail to understand and serve it. Conscious leaders are driven primarily by service to the firm's purpose and are focused on creating value for all stakeholders. They reject a zero-sum, trade-off oriented view of business and look for creative, and synergistic approaches that deliver multiple value simultaneously to all stakeholders. They mentor, motivate, develop and inspire people, rather than leading through a fear-based command-and-control approach, or through the use of carrots and sticks. As Daniel H. Pink points out in his book *Drive: The Surprising Truth About What Motivates Us*, such extrinsic motivators do not work any more, and destroy intrinsic motivation over time.

Leaders of conscious businesses are skilled in 'systems thinking' and understand the relationships that exist between all the interdependent stakeholders. This is fundamentally a more sophisticated and complex way of thinking about business that transcends the limitations of the analytical mind, which focuses on differences, conflicts and trade-offs.

The various stakeholders of an organisation, especially employees, expect leaders to lead by example – to 'walk the talk'. It is especially important that the CEO and other senior leadership embody the higher purpose of the organisation, rather than seeking to maximise their own personal power and compensation. At too many companies today, leaders try to take as much from the business as possible. But conscious leaders are good stewards of the resources that have been entrusted to them by the stakeholders of the business.

Conscious culture

Conscious businesses create workplaces that are communities of people who are flourishing and self-actualising. Conscious cultures naturally evolve from the enterprise's commitments to higher purpose, stakeholder interdependence and conscious leadership. While conscious cultures can vary tremendously, they tend to have many similar qualities, such as trust, authenticity, transparency, integrity, learning, empowerment, self-managing teams, fairness, personal growth, and love and care.

The culture of Whole Foods Market evolved from its starting point, when the founders asked the question, "Can you build a business on love and not fear?" They have done just that, creating an extremely high-performing system that is characterised by high degrees of empowerment, innovation and collaboration. The employees are now stewards of the culture, taking the lead years ago to draft a document titled *The Declaration of Interdependence*, codifying the company's culture of seeking win-win outcomes for all.

The paradox of profits

Corporations pursue profits the way human beings pursue happiness. However, as Austrian neurologist and psychiatrist Viktor Frankl said, "happiness cannot be pursued; it ensues". People obsessed with finding their own happiness tend to be self-absorbed narcissists. Happiness is the by-product of other things, such as living a life of meaning and purpose, service to others, striving for excellence, growing as an individual, friendship, love and generosity. Similarly, profits are best realised when they are not made the primary goal of the business. They are the by-product of deeper purpose, great products and services, customer satisfaction, employee happiness and social and environmental responsibility.



The four tenets of conscious capitalism.

Profits are essential in order to better fulfil your purpose. If you're only making enough money to cover your costs, then your impact is going to be very limited. Whole Foods Market has a much greater impact today than we did 30, 20 or ten years ago, because we've been highly profitable. This has enabled us to grow and to realise our purpose more deeply. We've been able to reach and help millions of people instead of just a few thousand. Creating profits provides the capital that our world needs to innovate and progress – no profits, no progress.

In addition to creating social, cultural, intellectual, physical, ecological, emotional and spiritual value for all stakeholders, conscious businesses also excel at creating financial wealth. Our research has found that a representative sample of conscious firms outperformed the overall stock market by a ratio of 10.5-to-1 over a 15-year period, delivering over 1,600% total returns when the market was up just over 150%.

The tyranny of gross margins

How do conscious businesses deliver superior financial results while creating many other forms of wealth and well-being for all of their stakeholders, including society? It boils down to something quite simple: *these companies knowingly operate with lower gross margins than they could achieve, but are still able to achieve higher net margins than their traditional competitors.* Over time, conscious businesses develop sterling reputations and grow faster, attracting more customers, committed employees, higher-quality suppliers and greater community goodwill.

Most companies try to maximise their gross margin by looking for the cheapest suppliers they can find, and then using whatever bargaining power they have to squeeze those

suppliers as much as they can, to get ever-lower prices. As a result, they end up with low-quality suppliers that struggle to stay profitable and can ill afford to invest in new technologies or anything else that will improve quality or make their products more innovative.

Most companies also try very hard to keep their payrolls down, especially in terms of what they pay their rank-and-file employees, and being stingy with critical benefits such as health insurance. They try to use part-time employees as much as possible, keeping them under the threshold where they would qualify for any kind of benefits. They provide minimal training to their employees, and accept high employee turnover as inevitable.

Conscious businesses, by contrast, are very selective about their suppliers, looking for innovative, quality-focused companies that also operate in a conscious manner. They enter into mutually beneficial long-term partnerships with them. Suppliers are well paid, and in turn pay their own suppliers and employees well. Conscious businesses also pay their rank-and-file employees very well, significantly above the industry norm, and are generous with benefits. Since their direct costs are higher than they could be by choice, the gross margin of a conscious business is typically lower than it could be.

The next line item on the income statement is SG&A (sales, general and administration), and this is where the investments that conscious businesses make in people, quality inputs and purposeful cultures really pay off. Traditional businesses squander their hard-won high gross margins by spending heavily on marketing, managerial overhead, legal fees and high levels of executive compensation. They incur high recruiting and training costs due to high employee turnover. Their employees are disengaged and unproductive. Their product quality is suspect, leading to low customer loyalty and high levels of product returns.

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Whole Foods Market is consciously managed for the benefit of all its stakeholders.

By contrast, conscious businesses typically have to spend very little on marketing. This is because they have legions of satisfied customers who are loyal advocates for the company. Many invest as little as 10–25% of the industry average spending on marketing. This is an enormous saving, at a time when marketing costs have been growing rapidly for most companies. Whole Foods Market only spends about 10% of the industry average on marketing. Of this, 90% is spent at store level rather than at headquarters, and most of it relates to the company's community service activities.

And conscious businesses typically operate with extremely low levels of employee turnover, thus saving significantly on new employee hiring and training. Turnover at The Container Store, a perennial on 'best places to work' lists, is in the low single digits, in an industry where turnover often exceeds 100% every year. It offers employees 263 hours of training in their first year – the industry average is just eight. Employees at such companies are loyal, experienced, and extraordinarily productive. Conscious businesses take great care to hire people whose personal passions are aligned with the corporate purpose. For example, the purpose of outdoor gear retailer REI is to reconnect people with nature, and it makes sure that all its employees are outdoor enthusiasts, for whom every day at work is deeply fulfilling.

Conscious businesses have lower administrative costs because they continuously strive to eliminate non-value-adding expenses, gathering ideas from their employees and suppliers about how to do so. They also look to control essential expenses such as healthcare costs, not through across the board cuts, but by devising creative ways to achieve beneficial outcomes for everyone. Whole Foods Market is combating rising healthcare

costs through a range of employee wellness initiatives that go way beyond those found at a typical company. They are not only lowering costs; they are transforming lives in the process.

We also find much leaner management structures in conscious companies than in traditional businesses. They have created systems in which the right people are doing the right jobs and are given a great deal of autonomy. Most employees are engaged in actively creating real value for customers rather than 'managing' each other. These companies are designed to be largely self-organising, self-motivating and self-managing.

The notion of pay equity at conscious companies is driven more by internal rather than external considerations. Senior executives at such companies are modestly paid relative to their peers at other companies. For example, Whole Foods Market has adopted a policy that no one can be paid more than 19 times the company's average salary, including via bonuses (the typical ratio at large publicly traded companies is 450–500 times). The only way for executives to earn more at such companies is to raise the average salary of all employees.

Conclusion

Conscious capitalism is a philosophy about how to lead and manage a business in the 21st century that leads to more value creation for all of the major stakeholders – customers, employees, suppliers, investors, society and the environment. It is a more inclusive and holistic approach to business. We believe conscious capitalism will eventually become the dominant business paradigm – it just works better, and over the long term it will out-compete other business philosophies. It is simply a better way to win. ■