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## A CASE FOR CONSCIOUS CAPITALISM: CONSCIOUS LEADERSHIP THROUGH THE LENS OF BRAIN SCIENCE

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*Conscious capitalism is more practical and comprehensive than other corporate philosophies that are based on virtuous behaviour and philanthropy. This is especially so when Conscious Capitalism is viewed through the lens of brain science. Even risk management, for example, can be understood – and practiced – better when Conscious Capitalism becomes the foundation of a company's operating philosophy. Readers will learn how Conscious Capitalism can affect their company, including its bottom line.*

Conscious Capitalism is a philosophy of doing business that incorporates the principles of higher purpose (beyond profit maximization), stakeholder interdependence (rather than shareholder centrality), conscious leadership (instead of command-and-control or "carrots and sticks") and conscious culture (in place of bottom-line obsession).<sup>1</sup> The pragmatic value of Conscious Capitalism is underscored by the fact that companies that adhere to these principles outperformed the market by a 9-to-1 ratio over a ten-year period (1,111 percent versus 123 percent for the S&P 500).<sup>2</sup>

This philosophy is distinct from others such as corporate social responsibility, Shared Value Capitalism, Creative Capitalism and Capitalism 3.0. In particular, this way of doing business goes beyond the ideas of philanthropic thinking or virtue in that it is meant to create an entirely new structure for businesses whose financial integrity rests upon the following: the thought processes inherent in purpose-driven leaders; creating multi-faceted value for all stakeholders; leading through mentoring, motivating and developing people rather than through diktat or simple reward and punishment incentives; aligning leadership style with organizational purpose, and creating a culture of trust, authenticity, caring, transparency, integrity, learning and empowerment.

In this paper, we present another view of the pragmatic underpinnings of Conscious Capitalism by examining the implications of four variables inherent in this way of thinking about business. We examine the implications through the lens of recent findings in brain science. The four variables are:

1. The consequences of running a fear- vs. trust-based organization
2. The implications of understanding the neural basis of prejudice in the workplace
3. The impact of nepotism or the exclusion of stakeholders in the workplace, and,
4. Why optimism in the workplace should be viewed as a choice rather than depend on an objective assessment of reality.

### THE PREFRONTAL CORTEX AND BUSINESS PERFORMANCE

There is substantial evidence extending far beyond the studies quoted here that business performance is strongly influenced by proper risk management. In addition, sound decision-making is considered central to achieving and maintaining adequate profits and the sustained of all stakeholders.

While there are a number of brain regions that work together to assess and manage risks, multiple studies show that accurately assessing financial risks requires adequate functioning of the prefrontal brain regions (the regions at the very front of the brain). In fact, when the prefrontal cortex is damaged, research shows that people tend to make irrational financial decisions. It is evident, therefore, that any factors that adversely impact prefrontal cortex functioning would affect both financial risk-management and the overall quality of managerial decision-making, which in turn would impact profits and overall business performance.

### FEAR VS. TRUST IN CORPORATE CULTURE

While at first glance, fear and trust may not seem like direct opposites, in the human brain, they are. According to the Yerkes-Dodson law, mental tasks have an inverted U-shaped relationship with anxiety. That is, higher arousal or anxiety improve performance up to a point, but after the peak effect, there are declining returns. Numerous studies have demonstrated that fear and anxiety activate the brain's emotional processor, the amygdala. Remarkably, this fear or anxiety does not have to be conscious (i.e. you do not have to be thinking about it) for it to activate the amygdala. In fact, unconscious fear appears to activate the amygdala even more powerfully than conscious fear. In the work environment, this means that a leader who leads with an iron fist, a manager who uses intimidation, and a corporate culture that is infused with threat and punishment all activate the amygdala, regardless of how much an employee pushes this out of conscious awareness.

So, why does this matter? It matters because many studies have shown that the amygdala is connected to prefrontal pathways. Excessive amygdala activation disrupts prefrontal pathways, thereby impacting economic decision-making (as discussed above).<sup>3</sup> A high level of trust, on the other hand, decreases amygdala activation, thus offsetting the adverse impact of fear on decision-making and risk-assessment. When a corporate culture is trust-based (even implicitly), it makes things easier on the amygdala, especially during stressful economic times. Thus high-trust corporations are preferable to high-fear corporations. Add to this the fact that high-trust organizations have been shown to outperform low-trust organizations by 286 percent in total return to the shareholders. Thus, the case for activating the trust-brain rather than the conscious or unconscious fear-brain becomes even stronger, especially in these stressful economic times.

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## THE NEURAL BASIS OF PREJUDICE IN THE WORKPLACE

Most people are neither overtly prejudiced nor desirous of being prejudiced. In fact, people often try hard to eliminate their own prejudices when making decisions. Why, then, do we still have so many inequities in corporate cultures? And, does this matter? For example, studies show that employees have better outcomes when they are of the same race as their managers; there are still significant pay gaps between men and women in the workplace; and there are multiple other decision-making biases (such as the status-quo bias).

It is useful to examine the brain regions involved in prejudice, and to see what we can learn from this.

Early studies showed that explicit racial prejudice (when we know that we are prejudiced) has no correlation with amygdala activation, whereas implicit prejudice (when we genuinely believe we are not prejudiced but nevertheless act in prejudicial ways) has a direct correlation with amygdala activation.<sup>4</sup> Since the amygdala processes fear, it appears that unconscious prejudices may be fear-based, but are entirely outside of our awareness. The problem with this is that when the amygdala is activated, people are also likely to misjudge neutral stimuli as negative. Therefore, in businesses, a person whose brain is overtaken by fear will act with excessive prudence and defensiveness. Furthermore, studies have shown that when people judge stigmatized individuals in a negative way (with obesity, facial piercings, transsexuality, and unattractiveness), there is increased amygdala activation and increased prefrontal activation as well, thereby jeopardizing the quality of decision-making and risk-assessment. Implicit gender bias is also correlated with amygdala activation, suggesting that our hidden gender biases may also be based on fear.

Thus, we can see that much like fear, prejudice may be an unconscious phenomenon that affects business outcomes, since affected employees are not able to make decisions or assess risk optimally due to the disruptive effects of amygdala activation.

## THE BIOLOGICAL IMPORTANCE OF STAKEHOLDER INCLUSION

Conscious capitalism stresses the importance of viewing stakeholders as interconnected and interdependent. All stakeholders – employees, customers, suppliers, investors, and community members – are regarded as important in their own right (not just as a means to better business results). Ensuring they're continued is a key managerial responsibility. When this not achieved, people in the excluded groups feel more isolated. This concern has more than humane roots – it has business implications as well, and brain science provides part of the explanation for this.

Loneliness increases vigilance for threat and creates the negative amygdala-related consequences described above. In addition, the brains of people who feel socially isolated do not feel rewarded by even pleasant interactions. Their brains (the visual cortex when they see a stimulus) also become more sensitive to threat.<sup>5</sup> Individuals whose reward centers are not activated through positive feedback are less likely to feel motivated to produce the results that they need to produce.

When financial resources are constrained, businesses would benefit from providing social rewards (such as peer recognition and special privileges), as the brain regions for social and monetary rewards significantly overlap. This overlap is especially significant for women. For stakeholders who feel excluded, however, no amount of social reward results in a positive impact on the brain. Another critical element is fairness. Our brains are wired (the striatum) to have a reward response to fairness. Without fairness, there is no registration of reward and as a result, there is far less motivation and drive to achieve company goals.

The evidence is thus quite powerful that the brain impact of loneliness is significant. This understanding challenges routine company attitudes of "Who cares?" or "Get over it." Such responses simply do not work. Every successful company needs highly motivated employees and must therefore do everything it can to prevent feelings of isolation and loneliness among its stakeholders.

## THE CHOICE OF OPTIMISM IN CORPORATE CULTURE

In the face of the current economic environment, how can you be optimistic? In fact if you were simply reflecting what is happening, pessimism would be the logical response. But what if you are looking for a way out of the dismal forecasts? Can optimism help you sculpt a path to greater success?

Several studies point to the value of optimism in business. In financially constrained firms, optimistic managers are able to save more cash out of cash inflows than non-optimistic managers.<sup>6</sup> Furthermore, optimism is associated with transformational leadership, which in turn is associated with superior firm performance (especially for new ventures).

From a brain science perspective, it is important to understand how optimism contributes to the practice of Conscious Capitalism. As pointed out earlier, productivity depends on having the brain resources that you need available when you need them. These resources include a healthy and functioning frontal lobe of the brain. However, when pessimism prevails, the brain is preoccupied with looking for threats. Under these conditions, several threat-related brain activations in different brain regions end up disrupting the action brain, which is responsible for carrying out plans. Rather than paying attention to solving problems at hand, the brain goes on the defensive, looking to protect us from threats. This disrupts attention in the prefrontal cortex as well, and the brain is less able to inhibit distracting influences.

In addition, in people who are depressed, being pessimistic and expecting neutral events have been shown to activate the same brain regions. When times are difficult in business, people tend to feel "down" and depressed. In this state, they are likely to misinterpret neutral events because their brains activate as if the neutral events are negative. However, when people are optimistic, the amygdala activates to optimism, but in this case, rather than being disruptive, the ACC (anterior cingulate cortex) that connects to the amygdala activates to motivate behavior toward a future outcome.<sup>7</sup> When you tell your brain that something is not possible, it does not even try to do it. However, when you tell it that something is possible, it stays online. That is why, for example, when girls are told to expect to do badly on quantitative tests, they do. When you expect the worst you often get it. So why not expect the best?

## WHY UNDERSTANDING THE BRAIN SCIENCE BEHIND CONSCIOUS CAPITALISM IS IMPORTANT

When companies are looking to achieve sustained profits and growth, they need their employees to be highly engaged so they can execute strategies as efficiently and effectively as possible. Even though trust, social inclusion, stakeholder sharing and optimism have been shown to improve outcomes, many employees see them as "soft" variables that they can ignore. Brain science can be used to educate managers and employees about why the thinking and action parts of the brain become compromised when Conscious Capitalism principles are not used. Thus, brain science is a useful way to re-package information and enhance our understanding of these important principles.



Brain science can also help improve the retention of the information once it is more deeply understood. The company's strategy can then be executed more effectively, because the key brain science principles are remembered throughout the process. Lastly, brain science allows us to develop alternative interventions to coach managers.

In the general case of disruptive amygdala activation that also disrupts the prefrontal cortex, we can use interventions that target each of these areas.<sup>8</sup> Brain science also helps us reframe challenges that employees face in a more positive way. By doing so, we can decrease amygdala activation and increase functioning of the prefrontal cortex or thinking brain. Thus, brain science has three main implications for encouraging conscious business practices:

1. It improves the understanding of the factors that lead to high levels of stakeholder motivation and engagement;
2. It improves deep learning and memory to allow for smoother execution of strategy;
3. It provides a template for brain-based interventions that work in the business environment.

### THE WHOLE FOODS EXAMPLE OF CONSCIOUS CAPITALISM

One company that embodies an implicit understanding of brain science in its practice of Conscious Capitalism is Whole Foods Market. When John Mackey and his co-founders started the company in 1978, they consciously set out to build a company on love and trust rather than on fear and stress. They observed that most businesses operate with a great deal of stress, internal competition and lack of caring. This reality is reflected in the startling but not surprising finding that heart attack rates spike significantly on Monday morning.

Whole Foods operates with a higher purpose: to educate people that what they put into their bodies makes a difference to their health, the health of the food system and the health of the planet. This sense of higher purpose creates an extraordinarily high level of employee engagement; every employee who comes to work for Whole Foods passionately believes in this purpose. This in turn creates a positive and optimistic work environment in which employees have a strong sense of meaning in their work.

Whole Foods also explicitly operates according to what it terms the "Declaration of Interdependence." This is an employee-generated statement that recognizes the interconnectedness and interdependence of all of the company's stakeholders. The company's management rejects the idea of making any decisions that are based upon trading off the interests of one stakeholder versus those of another. They always look to find synergistic or win-win-win-win-win solutions that simultaneously create value for all their stakeholders. All stakeholders feel like they are part of the Whole Foods family. The company is remarkably open, with a highly diverse set of employees and other stakeholders, and there is a conscious effort to avoid prejudice.

Whole Foods also exemplifies the ideals of conscious leadership. All of its leaders care passionately about the purpose of the business, instead of being driven by profit or power. The company operates in a highly decentralized manner, and all of its employees are empowered to make decisions without fear of failure. The company has worked hard to create an environment in which there is an extremely high level of trust within the company as well as with all of its stakeholders. The culture of Whole Foods embodies all of the positive attributes of a conscious business: trust, authenticity, caring, transparency, integrity, learning and empowerment.

Based on our growing understanding of brain science, it is evident that the extraordinary and sustained business success of Whole Foods is strongly related to the fact that it has created an environment in which all stakeholders are operating with high levels of healthy brain functioning, in addition to enjoying the benefits of eating natural and organic food.

While the science of brain imaging is still evolving, there is already plenty of existing evidence that supports the pragmatism of various tenets of conscious capitalism. This provides important neurophysiological justification for the adoption of the tenets of Conscious Capitalism as the foundation of every company's philosophy.

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