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CONSCIOUS CAPITALISM

Four Tenets to Fix Capitalism & Unlock Your Business's Potential

By RAJ SISODIA

Imagine a business built on love and care, one that sees its customers not as faceless profit generators but as flesh-and-blood human beings whom it feels privileged to serve. A business that shows its suppliers the same love and care, working to draw them into its family circle. A business that takes such great care in whom it hires, and treats them so well, that team members don't want to leave the organization after they join. A business that delivers superior financial results year after year, decade after decade, by generating a virtuous

circle of value creation based on wealth and well-being understood in social, intellectual, emotional, spiritual, cultural, physical and ecological terms.

If I told you this was the essence of capitalism, would you be surprised? Yet that is exactly the conception of capitalism that I have discovered through my research, which has led me to become a leading figure in the growing Conscious Capitalism movement. The idea of free-market enterprise as something excellent, egalitarian, trustworthy and transparent is not

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some fictional utopia. Such enterprises exist in the real world, and we need to admire, emulate and learn from them.

In this article, I will show business leaders how to build strong, visionary, ethical enterprises, and advance the cause of building a more cooperative, humane and positive future. By pursuing a higher purpose, integrating a wide variety of stakeholders and being conscious of your own leadership and corporate culture, capitalism can indeed realize its true potential and get back to its purest roots.

Rethinking Capitalism

For some, the vision of capitalism that I present in this article may come as something new. For too long, business has been portrayed as a cold, heartless machine or a zero-sum game with winners (who take all) and losers (who lose all). Business has also been performed like a math problem, with complex formulas used to yield less than desirable results. The exotic derivatives cooked up by Wall Street "quants," precipitating the biggest financial crisis of a generation, are a case in point. Worst of all, business has been waged as a form of warfare, characterized by ruthlessness, aggression and domination, leading to the exploitation and cheating of workers, growing inequality and homogenization of societies, fragmentation of communities and destruction of the environment. Business people are accused, sometimes rightly, of being

driven by naked greed, whose only concerns are money and profit maximization. Little wonder, then, that capitalism gets a bad rap these days.

Without denying the excesses we have seen associated with capitalism, especially lately, I would insist that, in the long arc of history, no human invention has had a greater positive impact on more people more rapidly than free-market capitalism. Over the past 200 years, the extraordinary innovations that capitalism has given rise to have shrunk time and distance while freeing many people from much of the mindless drudgery that prevailed for millennia.

Think about it: just 200 years ago, 85 percent of the world's population lived in extreme poverty (defined as less than \$1 a day); today that number is around 16 percent. Since 1800, the average income per capita has grown 1,500 percent globally, and much more so in developed countries.

Despite the fact that this is what free-market capitalism is ultimately about – improving the lot of people and societies – this *raison d'être* has gotten hijacked by those who labor under a narrow, self-serving conception devoid of any noble pursuits. Far too many managers still think that all that matters is the bottom line.

Nothing could be further from the truth. Rare is the entrepreneur who says his or her sole motivation to start a business is simply to maximize profits or crush opponents. Of course entrepreneurs want to make money, which is a necessary condition for any business to sustain itself over the long haul, but that is not what drives most of them. More often than not, they are inspired to do something they sincerely believe needs doing.

Business, at its core, is about the real lives of real people. Or as the former CEO of Southwest Airlines, Herb Kelleher, puts it, "The business of people is people." That is what too many have lost sight of. To regain that understanding, we need a richer, more ethically compelling narrative to demonstrate to a skeptical world the truth, beauty and goodness of free-market capitalism. And that's where Conscious Capitalism comes in.

EXECUTIVE SUMMARY

Free-market capitalism is under fire. Yet, according to the author, it is still the best system for social cooperation and human progress – if done properly. Drawing on his research, the author casts his vision of Conscious Capitalism, based on four interconnected, mutually reinforcing tenets: a

higher purpose; stakeholder integration; conscious leadership; and a conscious culture. He refutes those who say Wall Street will never buy it. Instead, he shows leaders how they can indeed build strong, ethical, cooperative and sustainable businesses – reclaiming the good part of capitalism in the process.

Purpose must come before formulating a strategy. It should go without saying that the purpose of your business should not be to maximize profit and shareholder value, relegating all other considerations.

Conscious Capitalism has four interconnected, mutually reinforcing tenets: a higher purpose; stakeholder integration; conscious leadership; and a conscious culture. I say “tenets” because these are not mere tactics or strategies, but rather foundational elements that must be understood holistically in order to become fully integrated parts of the core business philosophy.

Such businesses are not pie in the sky: they exist in the real world, as I discovered in researching my book *Conscious Capitalism: Liberating the Heroic Spirit of Business*. I co-authored the book with John Mackey, co-founder of Whole Foods Market, one of the better business examples out there. Others include the aforementioned Southwest Airlines along with Patagonia, Costco, Unilever and the Tata Group. Although they may be in the minority today, they will soon number by the thousands, as more and more companies rediscover their purpose and develop a new appreciation of their stakeholders. Let's consider what it takes to become a conscious capitalist enterprise.

1 A HIGHER PURPOSE

Every conscious business has a higher sense of purpose, which addresses fundamental questions such as: Why do we exist? Why do we need to exist? What is the contribution we make? Why is the world better because we are here? Would we be missed if we disappeared?

A firm's purpose is the glue that holds it together, the amniotic fluid that nourishes the life-force of the organization. In their book *It's Not What You Sell, It's What You Stand For*, Roy Spence and Haley Rushing, co-founders of the Purpose Institute, define purpose as the definitive statement about the difference you are trying to make. If you have a purpose and can articulate it with clarity and passion, everything makes sense. You feel good about what you are doing and how to get there.

Purpose is most powerful when it taps into a universal human truth; in other words, when it is fully aligned with the higher aspects of what it

means to be human or with “the better angels of our nature,” as Abraham Lincoln so eloquently put it.

Purpose must come before formulating a strategy. It should go without saying that the purpose of your business should not be to maximize profit and shareholder value, relegating all other considerations to secondary status.

Southwest Airline's animating purpose from day one was to democratize the skies. Many larger companies, such as Unilever and Procter & Gamble, are rediscovering their sense of purpose, with Unilever CEO Paul Polman insisting that having a deeper purpose behind what they do “makes our lives more complete, which is a tremendous force and motivator.”

Purpose gives energy and relevance to a company and its brand, which can, in turn, drive superior financial performance, as I wrote about in *Firms of Endearment: How World-Class Companies Profit From Passion and Purpose*. For that book, my co-authors and I selected companies on the basis of their “humanistic” profiles, including their sense of purpose, and compared their financial performance. Remarkably, we discovered that “conscious” companies – those that did not state their goal as “maximizing shareholder returns,” that gave their people generous benefits, that paid more taxes than others and that did not squeeze suppliers to get the lowest possible prices – outperformed the market by a ratio of 9:1 over 10 years (from 1996 to 2006). However, it is key to note the order in which this happens: purpose drives performance, not the other way around.

2 STAKEHOLDER INTEGRATION

Besides having a greater sense of purpose, conscious enterprises adopt a more holistic perspective of business in general. They don't just settle for making trade-offs but look for synergies across all of the company's stakeholders, understanding that it is the synergies, not the trade-offs, that create real, lasting value.

In his book *An Inquiry Into the Nature and Causes of the Wealth of Nations* (1776), the

Transform Your Stakeholder Relations

EXHIBIT 1

CHANGING THE NATURE OF YOUR STAKEHOLDER RELATIONSHIPS IS A KEY TENET OF CONSCIOUS CAPITALISM.

TYPE OF STAKEHOLDER	THE PROBLEM OF "BUSINESS AS USUAL"	TOWARD HAPPIER, MORE INTEGRATED & SUPPORTIVE STAKEHOLDERS
Customers	<ul style="list-style-type: none"> Customers may be regarded as means to an end (profit) rather than ends in and of themselves. 	<ul style="list-style-type: none"> Deal with your customers with authenticity, transparency, integrity, respect and love. Try not only to influence your customers but also to educate them on matters of vital importance, such as their health and lifestyle choices. Offer your customers innovative, creative products that competitors have not yet thought of or cannot easily duplicate.
Team Members	<ul style="list-style-type: none"> Fear and stress are prevalent in many workplaces, as evidenced by heart attack rates going up dramatically on Monday mornings. 	<ul style="list-style-type: none"> Less use of the carrot-and-stick, more emphasis on intrinsic motivators. Conscious hiring and retention: hire talented, capable people who are committed both to their work and to your company's purpose, mission and values. Promote teamwork: the team culture is fundamental not only for fulfilling basic human needs, but for achieving excellence.
Investors	<ul style="list-style-type: none"> The caricature that business is all about greed, money and profit arises from an overemphasis on one aspect of capitalism: the bottom line and quarterly returns. 	<ul style="list-style-type: none"> Treat your investors with respect, honesty and trust, and select those best suited for your company's needs. If you work for a publicly traded company, consistently communicate who you are - your purpose, mission and values - which will attract those investors aligned with your business philosophy and vision. You should feel and exercise a higher level of obligation to long-term investors, rather than pandering to short-term speculators.
Suppliers	<ul style="list-style-type: none"> Suppliers can be the most neglected of the major stakeholders. 	<ul style="list-style-type: none"> Aspire to become your suppliers' favorite customer. Deal with them in "relationship mode" rather than "transaction mode." Ask yourself: Which of these suppliers is giving us competitive advantage? Which relationships are most critical to our success? How can we partner with them better? How can we create more trust?
Local Community / Environment	<ul style="list-style-type: none"> Businesses may consider the local communities and environments in which they operate as outside concerns, with any negative impacts written off as "externalities" to be paid for by others. 	<ul style="list-style-type: none"> Go beyond the basics: in addition to creating useful, valuable products that provide meaningful, well-paid jobs and healthy, sustainable returns, engage in philanthropic activities that improve the general well-being of local communities. When the environment is incorporated as a major stakeholder, we start to see win-win solutions. For example, as a business becomes more efficient, it saves money. And as it reduces waste, it spends less money on packaging and disposable products. Both are good for the business, the environment and all other stakeholders.
"Outer Circle" Stakeholders: competitors, activists, critics, unions, governments, media	<ul style="list-style-type: none"> Even though these stakeholders may not engage in regular, voluntary exchanges with your company, they can nonetheless influence your "inner circle" stakeholders, which can have a big impact on the organization. 	<ul style="list-style-type: none"> Respond creatively and constructively whenever conflicts with "outer circle" stakeholders arise. View your competitors not as enemies to be crushed but as teachers to learn from. If your workers belong to a union, engage with it as a partner, not as an adversary. Listen to activists and critics: they may offer golden opportunities to learn and grow. Forge close working relationships with local governments and civil society. Avoid corrupt activities at all costs.

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economist Adam Smith described how a self-interested individual who intended only his own gain may in some cases be led by “an invisible hand to promote an end which was no part of his intention,” that is, promoting the interest of society. But, Smith added, “I have never known much good done by those who affected to trade for the public good.” In other words, there may be benefits for social stakeholders but they arise as an unintentional by-product of doing business, not that the individual “intends to promote the public interest, nor knows how much he is promoting it.”

I do not believe it is enough to leave it to “the invisible hand.” We need “the conscious mind” of management to systematically align all major stakeholders – the institutions and people who impact and are impacted by your business – with the purpose of the organization and with each other. All should function as organs of a single body. Indeed, the word “corporate” comes from “corpus” or “body.” Each stakeholder should be respected, valued and integrated into the functioning of your enterprise.

When he was the CEO of Patagonia, Casey Sheahan told me in an interview that he made little distinction between each of his company's stakeholders: “We try to make all our stakeholders feel like they're part of the tribe. Transparency, great customer service, highest quality, environmental activism – all of those things matter to employees and customers and all of our other stakeholders. We really don't see any difference across our stakeholders and (we) treat them all as one.”

Patagonia is by no means unique: all

conscious businesses honor their stakeholders as people first before treating them according to the role they happen to be playing. In doing so, they share in the distribution of the value they are collectively creating. Not only is it a matter of being fair and morally right: stakeholder integration creates powerful linkages between groups of people that can make or break your business.

How best to integrate stakeholders' disparate needs, contributions and interests? **Exhibit 1** outlines some ways that companies can transform their stakeholder relations by creating value for all of their stakeholders, from the most central to the most peripheral.

3 CONSCIOUS LEADERSHIP

History is littered with examples of strong, high-performing companies that lost their way or were destroyed as a result of hiring or promoting the wrong kind of leaders. As such, “conscious leadership” is probably the most important element, as without it, little can be accomplished.

Thankfully, the world today has a growing number of conscious leaders – people who display exemplary qualities, who derive great joy from serving others and shaping a better world for future generations. They are self-aware and have the courage of their convictions. Put simply, they don't try to be someone they are not.

Bill George, the former CEO of Medtronic, once described this kind of leadership in terms of authenticity: “Authenticity is not a characteristic, it is who you are. It means knowing who you are and what your purpose is. Your True North is what you believe at the deepest level, what truly defines you – your beliefs, your values, your passions and the principles you live by.”

With authenticity as your starting point, here are six other qualities that people need to have in abundance in order to become conscious leaders.

EMOTIONAL INTELLIGENCE. Most conscious leaders have high levels of analytical intelligence (the kind measured by IQ tests). But having a

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A high level of systems intelligence and awareness can help you to anticipate the long-term as well as the immediate consequences of an action – a vital skill for anyone leading a complex organization.

high IQ is not enough. Given the amount of influence and interaction they have with others, conscious leaders also need generous helpings of emotional intelligence (EQ), which combines intrapersonal (understanding oneself) and interpersonal (understanding others) intelligence. Empathy – the ability to feel and understand what others are feeling – is a key pillar.

SPIRITUAL INTELLIGENCE. Conscious leaders also tend to have elevated levels of spiritual intelligence, which Danah Zohar and Ian Marshall define in their book *Spiritual Capital* as “the intelligence with which we access our deepest meanings, purposes and higher motivations. It is ... our moral intelligence, giving us an innate ability to distinguish between right and wrong.”

SYSTEMS INTELLIGENCE. This enables leaders not only to see the bigger picture of what they do but to understand how the different components of the overall system interconnect and behave over time. A high level of systems intelligence and awareness can help you to anticipate the long-term as well as the immediate consequences of an action – a vital skill for anyone leading a complex organization.

SERVANT LEADERSHIP. Conscious leaders are acutely aware of the importance of service. They know that helping others invariably leads to greater personal happiness. As the Nobel Peace Prize winner Albert Schweitzer once said, “I don’t know what your destiny will be, but one thing I know: the only ones among you who will be really happy are those who will have sought and found how to serve.”

INTEGRITY. The most important virtue of conscious leaders is integrity, which encompasses a whole host of other qualities including honesty, fairness, trustworthiness and moral courage. Famous leaders with high levels of integrity include Gandhi, Martin Luther King, Jr. and Nelson Mandela.

CAPACITY FOR LOVE AND CARE. Again using Martin

Luther King, Jr. as an example, King noted that, “Power at its best is love implementing the demands of justice, and justice at its best is power correcting everything that stands against love.” Conscious leaders wield power couched in this understanding, not in the sense of instilling fear. A fear-filled organization is less capable of creativity and innovation, and fearful people will be defensive and more likely to act in the interest of self-preservation.

All of the above qualities can be developed and honed. Here are some specific things you can do to improve your conscious leadership skills.

GET TO KNOW YOURSELF BETTER. A time-tested way to learn and grow is to “know thyself,” as the ancient sages taught. Though easier said than done, raising your self-awareness is key to enhancing your emotional intelligence, which is a prerequisite for becoming a conscious leader. It’s useful to ask, “Why does this make me angry? Why am I excited about that? Why am I envious of that person? Why do I feel joyful about this? Why am I experiencing love?” Each of our emotional responses to a given situation opens a window into who we are and what we truly care about.

LEARN FROM ROLE MODELS. Begin practicing the virtues of the people you most admire. Ask yourself questions like, “What would my father (for example) do in this situation? How would he have handled this?” By asking such questions, we push ourselves to grow as leaders. Along these lines, it helps to enlist a good coach or mentor to provide insight, advice, reference points and accountability.

IMPROVE YOUR SYSTEMS AWARENESS. There are plenty of ways to do this. One good way is to study disciplines that clearly embody systems principles, such as ecology, which is the science of living organisms and the relationships between them and the environment. Another way is to practice thinking in terms of the stakeholder system (refer back to **Exhibit 1** again).

Misconceptions About Conscious Capitalism

EXHIBIT 2

DON'T LET THE CYNICS DEFINE THE FUTURE OF CAPITALISM.

ARGUMENT AGAINST CONSCIOUS CAPITALISM	WHY IT'S WRONG
<ul style="list-style-type: none"> Business is, always was and always will be about generating as much profit as possible. Nothing else comes close. 	<ul style="list-style-type: none"> Just as "happiness cannot be pursued, it must ensue" (Viktor Frankl), profits are best realized when they are not the primary goal of the business. They are a by-product of higher purposes, great products and services, customer delight, team happiness, and social and environmental stewardship.
<ul style="list-style-type: none"> Conscious Capitalism only works during the good times. 	<ul style="list-style-type: none"> Companies that become even more compassionate when they go through hard times emerge with their core values strengthened and their humanity intact.
<ul style="list-style-type: none"> Conscious Capitalism is a luxury very few companies can afford. 	<ul style="list-style-type: none"> Conscious Capitalism works for all kinds of businesses, spawning effectiveness and efficiencies that traditional businesses cannot match.
<ul style="list-style-type: none"> Wall Street will never buy it. 	<ul style="list-style-type: none"> Wall Street is agnostic about the causes of financial success, so long as there is real financial success over time. The more financial markets reward conscious companies, the more Wall Street will evolve its values and philosophies to embrace them.
<ul style="list-style-type: none"> You have to be born a conscious company. You can't become one if your history is different. 	<ul style="list-style-type: none"> It may be challenging to make the transition to a conscious company, but there is nothing to stop you - especially when you remember that business transformation is the nature of "creative destruction."
<ul style="list-style-type: none"> The founder may be a conscious leader, but once he or she leaves, the company will revert to "business as usual." 	<ul style="list-style-type: none"> This is a danger only if the company has failed to embed the other three dimensions of Conscious Capitalism. If the purpose, mission and values are owned by all stakeholders - from the board to management to team members - then the conscious culture will prevail through any leadership changes.
<ul style="list-style-type: none"> Becoming a conscious business requires changing everything, thus rendering it impossible. 	<ul style="list-style-type: none"> Change is challenging but not impossible. And change that is ultimately about liberating the heroic aspects of business is much more likely to gain traction than a shift that goes against people's better instincts.
<ul style="list-style-type: none"> What gets measured gets managed, and being a conscious company involves too many intangibles. 	<ul style="list-style-type: none"> This is one of the great fallacies of modern management. Not everything that matters can be objectively measured. For instance, how do you measure love and authenticity? Yet these things do matter and contribute to positive results.
<ul style="list-style-type: none"> "Optimizing stakeholder interests" is too confusing. "Maximizing shareholder value" is a much simpler goal. 	<ul style="list-style-type: none"> Business is complex, and trying to reduce it to one simple goal is a folly. Indeed, history and experience prove that letting your business become subject to just one stakeholder (investors) is the road to ruin. Now more than ever, we need integrative mindsets capable of seeing the interdependencies of larger business systems.

USE CRISES TO BECOME MORE CONSCIOUS. Often when things go smoothly, there is a tendency to stagnate and become complacent, and it takes a great challenge to shake us out of our comfort zone. Admittedly, going through a serious crisis is not pleasant or enjoyable. But it can present a great opportunity to learn and grow. Given the current state of crisis that many businesses find themselves in, think about how to learn from past mistakes and make improvements to go to the next level and emerge stronger for the future.

4 CONSCIOUS CULTURE

Just as the best purpose-motivated strategy will not go anywhere without conscious leadership, neither will it flourish if the organizational culture is incompatible with that purpose or if, as mentioned before, it is infused with fear, distrust and hostility.

At a conference on Conscious Capitalism, Harvard Business School's James Heskett stressed the decisive role of culture on performance: "Culture can account for up to half of the difference in operating profit between two organizations in the same business. Shaping a culture is one of a leader's most important jobs; it can be ignored, but only for so long and at one's peril."

A conscious culture is not just about creating a great place to work; it is imbuing the work with a deeper sense of meaning. Conscious leaders will make sure that the sense of higher purpose and an orientation toward caring for all stakeholders are embedded within the DNA of the corporate culture - a culture that facilitates the continued growth and development of each and every individual as well as the business itself. This is what sets a conscious business apart.

Conscious cultures share seven core attributes, which are encapsulated in the mnemonic TACTILE.

TRUST. Conscious businesses have high levels of internal and external trust. In the company, there is a high level of trust, both vertically (between the leadership and team members) and horizontally (within the leadership team as well as within and across teams at all levels). Externally, there is a high degree of trust between the company and its many stakeholders.

ACCOUNTABILITY. Team members are accountable to each other and to customers. People stick to their commitments and hold each

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other responsible for performance, efficiency and deliverables.

CARING. The human need to care and be cared for is an extremely powerful motivator – often equal to and sometimes even exceeding the need to pursue one’s self-interest. Conscious cultures are marked by genuine, heartfelt love and care for all stakeholders.

TRANSPARENCY. There are few secrets in a conscious culture because there is little to hide. Financial books are usually left open, salary information is more readily available, and strategic plans are widely discussed and disseminated.

INTEGRITY. A conscious culture is marked by strict adherence to truth-telling and fair dealing. Conscious firms readily forgive lapses in judgment but do not tolerate lapses in integrity.

LOYALTY. Conscious businesses exist in a system of high loyalty. All the stakeholders are loyal to each other and the company, a natural consequence of the relational – not transactional – mindset that permeates such businesses.

EGALITARIANISM. Conscious companies do not have a class system that separates leaders from team members at large. The salary differential between the top and the bottom is smaller than typically found at traditional companies, and senior executives do not enjoy special privileges that are not available to others. To a large extent, all team members have input into how the company is managed and led.

The role of management is to create, sustain and strengthen this culture. This means, first, hiring the right people – those whose personal passions align with the corporate purpose. Second, it means putting people in the right roles to take full advantage of their strengths, and giving them plenty of freedom to operate. Third, it means creating opportunities for people to flourish and grow while helping the organization fulfill its purpose in an effective and efficient way.

Embrace the Change

Conscious Capitalism is certainly a better, more sustainable way of conducting business. However, for some businesses, the transformation and shift of mindset implied by this article may seem too radical, idealistic or impractical. **Exhibit 2** lists some common arguments levied against Conscious Capitalism and rebuts each one.

The fact is, we are standing at the crossroads of history. Not only has it become abundantly clear that the paradigms that have brought us to this juncture do not work, but increasingly people’s minds are open to these ideas and possibilities. In this context, we have an incredible opportunity to effect fundamental changes that will set our course for a brighter future. Let’s not waste it. □

■ TO KNOW MORE

- Raj Sisodia was a guest speaker on the topic of “Conscious Businesses: Making a Positive Impact on the World Through Higher Purposes” as part of the 19th International Symposium on Ethics, Business and Society held at IESE Business School, Barcelona. Watch the video “**The New Capitalism: Looking Beyond Profits to Human Prosperity**” at ieseinsight.com (look under Podcasts).
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