



AN ANALYSIS OF CONSCIOUS CAPITALISM

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Introduction

This research paper will examine the features, validity and efficacy of the Conscious Capitalism model as elaborated by John Mackey and Raj Sisodia in their 2014 treatise *Conscious Capitalism: Liberating the Heroic Spirit of Business*. The principles and philosophy behind the Conscious Capitalism movement will be compared with other economic theories of the role of corporations in society. Lastly, this study will examine the real world stock market performance of conscious corporations and companies versus traditional nonconscious companies.

Thesis

The premise of this paper is that the Conscious Capitalism model holds real economic and social value for all companies. Companies should consider adopting its long-range focus, practices and philosophy. It is within their power for all companies to adopt a values or mission centered focus and to engage and enhance the relationships they have with all stakeholders. Adopting a conscious practice of capitalism not only benefits society but provides companies with a competitive advantage over nonconscious entities.

Background

Capitalism, in various forms, has been practiced throughout much of human history. As societies and civilizations began to rise and as mankind began to gain knowledge in different areas and specialize in different trades, man began to practice commerce. The establishment of currencies and the buying and selling of goods has been an essential feature of societies for thousands of years. In ancient times, spices such as salt were valued as highly as gold.

Modern society and the practice of capitalism has evolved considerably since ancient times. In today's society, corporations play a large role in every aspect of life – from the food that we purchase in our grocery stores to the entertainment that we digest each night in our living rooms. While corporations have come to play an indispensable role in society, society's relationship with corporations has oftentimes been a troubled one. Accompanying the increase in the world's population have been increased demands upon the earth for food, energy and other resources. Contrary to what may have been believed in the past, we now understand that earth's resources are in fact limited. As companies have looked to meet the demands of society, a host of problems or side effects have been created along the way. Pollution, in many forms, has threatened the health and well-being of humans, animals and the entire ecosystem. Also, a majority of scientists concur that the planet is undergoing a warming process that has at least in part been caused by man's consumption of fossil fuels (Jenkins, 2011). This global warming process threatens to disrupt life as we now know it, wipe out many of the planet's plant and animal species and pit nation against nation in a struggle for ever dwindling resources.

Repudiation of Shareholder Primacy View

Traditionally, corporations, like many human beings, have been solely concerned with amassing as much [profits] as they could get with little regard to the effect their operations were having on society. This view of corporate purpose was supported and espoused by such prominent economists as Nobel Prize winner Milton Friedman who stated in his 1970 treatise in the New York Times that “the social responsibility of business is to increase its profits.” In fact, “Friedman excoriated business leaders who were concerned about their employees, communities and the environment: ‘Businessmen that take seriously their responsibilities for providing

employment, eliminating discrimination, avoiding pollution... are preaching pure and unadulterated socialism.” (Mackey & Sisodia, 2014)

Mackey and Sisodia utterly reject Friedman’s Stakeholder Primacy theory that corporations have no responsibility to society other than to self-servingly amass profits. During a 2005 debate between Friedman and Mackey, Mackey explains that he is not against corporate profits but instead places an importance on corporations employing a mission or values-centered focus as the motivation for the attainment of profits.

While Friedman believes that taking care of customers, employees and business philanthropy are means to the end of increasing investor profits, I take the opposite view: Making high profits is the means to the end of fulfilling Whole Foods’ core business mission. We want to increase the health and well being of everyone on the planet through higher quality food and nutrition, and we can’t fulfill this mission unless we are highly profitable. Just as people cannot live without eating, so a business cannot live without profits. But, most people don’t live to eat, and neither must businesses live just to make profits. (Mackey & Sisodia, 2014)

Current Problems with Capitalism

It is no secret that Americans distrust the corporations. The news is replete with stories of toxic wastes being dumped into rivers or being disposed of secretly in communities. There is a general feeling that corporations are only concerned with profits and are only concerned with society to the extent that they can exploit it. There is plenty of reason for this skepticism on the part of society. In 2008, the stock market experienced one of the largest crashes in recent history

brought about by a grossly inflated industry wide housing price stock bubble that eventually burst. In response, the US government bailed out financial giants like Citicorp and JP Morgan, insurance giant AIG in addition to industrial giants such as the Big Four auto manufacturers. In response to saving these massive corporate giants from extinction, the corporations turned around and gave huge bonuses to their leadership and did little in terms of new hiring, issuing loans or investing in communities. Rightly so, organizers and average citizens took to the streets by participating in the Occupy Wall Street movement.

Capitalism Under Attack

While the economy has rebounded from its historic low in 2007-8, many Americans remain skeptical of corporations. Mackey and Sisodia place the blame for the current state of mistrust at the feet of crony capitalism. In other words, the bad actors have caused the whole of capitalism to be mistrusted.

We believe that capitalism has long been under attack for several reasons:

Businesspeople have allowed the ethical basis of free-enterprise capitalism to be hijacked intellectually by economists and critics who have foisted on it a narrow, self-serving, and inaccurate identity devoid of its inherent ethical justification. Capitalism needs both a new narrative and a new ethical foundation, one that accurately reflects its intrinsic goodness and virtue. In recent years, the myth that business is and must be about maximization of profits has taken root in academia as well as among business leaders.

This has robbed most businesses of the ability to engage and connect with people at their deepest levels. (Mackey & Sisodia, 2014)

Conscious Companies and Government

Yes, conscious companies should self-regulate and set an example for others. On the other hand, conscious companies should advocate for regulations and governmental intervention to codify needed changes. Brookings Institute scholar Ann Florini writes, “Responsible firms also need to support public policies that establish minimum standards for their less virtuous competitors – not just to level the playing field, but because such requirements are frequently necessary to accomplish the underlying goals of CSR.” (Vogel, 2005)

The Father of Modern Capitalism and Its Current Intellectual Distortion

Early intellectual analyses of capitalism focus almost exclusively on persons and businesses acting in their self-interest to the exclusion of any altruistic tendencies on the part of man. “Economists, social critics, and business leaders largely disregarded the second and often more powerful aspect of human nature: the desire and need to care for others and for ideals and causes that transcend one’s self-interest. The founding father of modern capitalism, Adam Smith, recognized both of these powerful human motivations.”

The authors go on to point out that seventeen years prior to writing *The Wealth of Nations*, Smith had authored *The Theory of Moral Sentiments* in which he outlined an ethics based on our ability to empathize with others and to care about their opinions. It is to this moral, beneficent aspect of humanity to which the authors appeal. They reason that because Smith’s views on ethics have largely been ignored, this has resulted in capitalism developing in a malformed or stunted way, “missing the more human half of its identity.”

Achievements of Capitalism

While the practice of capitalism often invites criticism, a caring altruist practice of it is seldom advanced. The achievements of the free-enterprise capitalist system are rarely discussed in the media. The world of mergers and acquisitions seems so far removed from the realities of daily life for the majority of people. It is as if we occupy two different worlds. What relevance or significance if any does Wall Street have to do with Main Street? The only time most citizens encounter the effects of the stock market is when their employer decides to downsize or relocate to another country, hence, the massive distrust by middle America that was utilized by the Republicans to gain control of the White House in 2016.

The authors have done a wonderful job of delineating the many ways that free capitalism has benefitted modern society, everything from reducing poverty and hunger to increasing the standard of living around the world.

The success of free-enterprise capitalism in improving the quality of our lives in countless ways is the most extraordinary but poorly understood story of the past two hundred years. It has enabled humankind to progress at a rate unprecedented in all of history. Consider these facts:

- Just 200 years ago, 85 percent of the world's population lived in extreme poverty (defined as less than \$1 a day); that number is now only about 16 percent. Free-enterprise capitalism has created prosperity not just for a few, but for billions of people everywhere.
- Average income per capita globally has increased 1,000 percent since 1800.² It has increased 1,600 percent in developed countries. Japan's income per capita has

increased by 3,500 percent since 1700. Adjusting for affordability and quality improvements, the standard of living of ordinary Americans has increased 10,000 percent since 1800!

- In the past two hundred years, average life expectancy across the world has increased to sixty-eight years, from its long historical average of thirty years or less. In just the past forty years, the percentage of undernourished people in the world has dropped from 26 percent to 13 percent. If current trends continue, we should see hunger virtually eliminated in the twenty-first century. (Mackey & Sisodia, 2014)

Conscious Capitalism Credo

This is what we know to be true: business is good because it creates value, it is ethical because it is based on voluntary exchange, it is noble because it can elevate our existence, and it is heroic because it lifts people out of poverty and creates prosperity. Free-enterprise capitalism is the most powerful system for social cooperation and human progress ever conceived. It is one of the most compelling ideas we humans have ever had. But we can aspire to something even greater.

(Retrieved from www.consciouscapitalism.org)

Conscious Capitalism Tenets

The conscious capitalism philosophy is built on four core tenets:

1. Each company should identify a higher purpose or core mission which guides its governance and actions.
2. Companies should engage and attempt to develop a relationship and understanding with the full range of stakeholders.

3. In order for a conscious company to succeed, it must be led by a conscious leader(s).
4. Companies should embed conscious principles throughout the company culture and employ them in its management.

The first tenet concerns the identification of a higher purpose or mission for the corporation. With the myriad social problems confronting our world, it should not be difficult to identify a mission beyond amassing profits. Corporations seeking a higher purpose can consult the seventeen Sustainable Development Goals established by the United Nations. It is not enough for a business to say that it is in the food preparation business. A conscious corporation should be able to readily identify its mission, and this should be known throughout the corporation from the executive suite to the mailroom. As mentioned earlier, Mackey was able to define Whole Food's mission as increasing the health and well being of everyone on the planet through higher quality food and nutrition.

Sisodia and Mackey are calling for corporate leaders to lead from a humanistic, values-centered approach. This will in turn guide and inform the company culture and even how the company measures its success.

Reevaluating the Measures of Success

Businesses should judge their performance with a broad set of criteria, not solely on financial results.

Businesses can create or destroy many types of wealth: financial, intellectual, social, cultural, emotional, spiritual, physical and environmental. A business can generate

financial wealth but destroy other forms of wealth. If it destroys enough other wealth, the business has a net negative impact on the world and could be described as a parasite on society. (Mackey & Sisodia, 2014)

One of the key question that conscious companies must ask themselves is, is the company having a net positive or negative impact on the world. Yes, a company may be financially profitable, but what impact is it having on the environment? Are the employees happy and excited to be a part of the team? Do the workers feel that they have any real impact or purpose? What is the state of relations with your suppliers or with the community? These are all valid measures of success for a conscious company. “Being conscious means taking responsibility for all of the consequences of our actions, not just the ones that reflect well on us.” (Mackey & Sisodia, 2014)

Firms of Endearment, Conscious Capitalism in the Real World

It is one thing to discuss the virtues of practicing capitalism in a humane way that benefits society and the planet as a whole, the operative question is how do these principles hold up in the actual workplace? Are conscious companies actually able to compete and hold their own against traditional firms? To obtain the answer to these questions, a study comprised of 18 publicly traded companies and 10 private held companies was conducted and the results compiled in *Firms of Endearment: How World Class Companies Profit from Passion and Purpose*. (Sisodia & Sheth, 2007)

Criteria of the Firms of Endearment - (Mackey & Sisodia, 2014)

1. The companies did not state their goal as “maximizing shareholder returns.

2. Most of these companies pay their team members well and provide generous benefits. (At the time, for example, Costco paid its team members double what Walmart did and covered 98 percent of its team members' health-care costs)
3. These companies paid taxes at a much higher rate than that paid by most other companies.
4. The selected companies did not squeeze their suppliers to secure the lowest possible price, and their suppliers were innovative and profitable.
5. The “firms of endearment” invested a lot in their communities and in reducing the company's impact on the environment.
6. Finally, they provided great customer value and outstanding customer service.

Advantages of Conscious Businesses - (Mackey & Sisodia, 2014)

1. Conscious companies are better aligned with the tangible and intangible needs of their customers.
2. Their spending priorities are clear. invest money where it makes a difference (team member, customer experience, and high-quality products), and save money in non-value-adding areas (such as frequent sales promotions, high team member turnover, large bureaucracies).
3. Conscious businesses tend to grow much faster than their competitors. By expanding the overall market (e.g. Southwest Airlines or Starbucks) as well as by taking market share away from their less conscious competitors.

4. Of course, conscious businesses sometimes create entirely new markets such as Amazon.com through online book retailing or Apple through its iPods, iTunes, and iPad innovations.

Findings

The Firms of Endearment study found against all expectations that when compared with the S&P 500 that the conscious firms outperformed the traditional firms by a factor of 10 over a ten year period from 1996-2006.

Explanation of Findings

By focusing on long range development as opposed to short term profits, by understanding and developing relationships with the full spectrum of stakeholders, and operating in an efficient manner, the firms were able to create a great customer experience and engender loyalty, all while amassing an impressive return on investment. There appears indeed to be a market or reward for virtuous actions on the part of corporations.

Conclusions

The authors concluded that more than simply producing satisfied customers, the conscious companies actually spawn advocates, fans if you will, resulting in superior sales. A virtuous circle ensues.

When a company generates more revenues on a comparable asset base than its competitors, it can afford to pay its team members better wages and still be cost competitive. It operates in a virtuous cycle: well-paid team members with true passion

for their work and for serving customers help create a superior customer experience.

(Mackey & Sisodia, 2014)

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