The Competitive Advantage of Conscious Capitalism

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In 1970, Nobel Laureate Milton Friedman famously penned an article titled "The Social Responsibility of Business Is to Increase Profit." Whether you agree with Professor Friedman or not, few have better articulated the "*shareholder* model" of capitalism. Today, however, a new wave of business leaders champions a fresh iteration of free enterprise. These self-styled "Conscious Capitalists" question the efficacy of the shareholder model and boldly proclaim that the path to business success is paved with human values and a purpose beyond profit.

Furthermore, they offer compelling evidence that Conscious Capitalism outperforms the traditional variety at its own game—making money.

THE TRADEMARKS OF CONSCIOUS CAPITALISM

Conscious Capitalism is defined by the following characteristics:

The Stakeholder Model Since all parties with a stake in the enterprise—customers, investors, employees, suppliers, communities—in some way contribute to the success of a business, the interests of each *stakeholder* should be weighed when making business decisions, without acquiescing to the interests of any one of them. This holistic view recognizes, as many CEOs put it: *Our employees take care of the customers and our customers take care of the investors.*

Purpose Business needs strong earnings to reward investors, fuel compensation, and fund the R&D that delights customers. But Conscious Capitalists insist that the business *exists* to fulfill a deeper purpose, such as to "make a difference" or "contribute to life." Sunny Vanderbeck, cofounder of social equity investor Satori Capital, describes purpose as "the non-financial reason a company is in business." Profit is essential, but profit is a business *result.* It is not the purpose of business.

Values Positive values create an inner compass that gives a business direction and focus. Online retailer eBay was built on the value of *trust.* Early on, founder Pierre Omidyar posted this on eBay's website: "We believe people are basically good." Trust became the core of eBay policy and technology later reinforced that trust. Result: Only a fraction of 1% of eBay transactions end in fraud.

Agilent, the world's leading maker of measurement equipment, was compelled to lay off thousands of people, but did so while honoring the value of *truth.* Agilent informed employees about the layoffs before the public or the media. The firm specifically trained managers to relate with honesty and respect for those losing their jobs. As a result, even former employees sang Agilent's praises, thereby solidifying the company's brand and reputation.

At Whole Foods Market, values like "delighting our customers" are posted on store walls and put into practice on the spot. Whole Foods encourages customers to try new products and return what they don't like. When more customers try and like more products, Whole Foods' sales and profit soar.

When leaders consistently affirm human values like trust, truth, and customer delight, they forge those ideals into the foundation of corporate culture, which determines which behaviors a company rewards. Each of these trademarks requires committed and conscious leadership, and each ultimately contributes to sustainable profitability.

CONSCIOUS CAPITALISM BEATS THE COMPETITION

There are clear indications that the stock market value of Conscious Capitalist companies outperforms that of their peers—especially in the long term. Raj Sisodia, marketing professor at Bentley College and coauthor of *Firms of Endearment,* studied 28 companies, including Google, Costco, and Honda, that fostered positive relationships with employees, customers, and investors. Over a 10-year period, the stock of these firms soared 1,025% versus 122% for the S&P 500. A decade-long study, by the Great Places to Work Institute, creator of *Fortune's* "100 Best Companies to Work For," discovered that the list's public firms outperformed the S&P 500 by a factor of 6.

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Whole Foods' CEO John Mackey calls this phenomenon "the paradox of profit," which holds that by managing the enterprise as a whole (rather than focusing only on profit) and according all parties their proper due—including investors—a company can earn greater profits in the long term.

CASE STUDY: WALMART VS. COSTCO Traditional capitalists applaud Walmart's capacity to deliver some of the marketplace's lowest prices. But Walmart is also criticized for its low wages, meager benefits, and cheap imports. So some ask whether *any* retailer can sell quality inexpensive products, pay good salaries, and remunerate investors.

National discounter Costco, with more than 425 U.S. locations, succeeds with just such a formula. Costco takes very good care of its employees.

In 2012, the Simply Hired website estimated the average annual Costco salary at $61,000 versus $30,000 for Costco rival Sam's Club. Costco offers generous health insurance and retirement plans. It also cultivates customer loyalty by refusing to raise prices over a certain profit margin (about 15% vs. 25% for supermarkets). "This is not altruistic," says former Costco CEO Jim Sinegal, "this is just good business."

What about investors?

In spring 2013, Walmart's one-year stock chart beat Costco's. But the five-year chart showed that Costco handily outperformed Walmart, thus exemplifying how Conscious Capitalists consistently deliver value and rewards to multiple stakeholders over the long run.

IS YOUR COMPANY A CONSCIOUS CAPITALIST? Consider the following questions to determine whether your company practices Conscious Capitalism:

- Does your firm treat people fairly and well?
- Do you please and satisfy your customers by delivering excellent value?
- Do your employees typically go out of their way to deliver great customer service?
- Do you generate sustainable shareholder value?
- Do you enjoy great relationships with suppliers?
- How do you "give back" to the communities where you do business?
- Is your commitment to sustainability and the planet something you are proud of?

CONCLUSION While some might argue, "Capitalism is capitalism," that is not the case. Free enterprise was not set in stone during the Industrial Revolution; it's a living, breathing, dynamic philosophy of business that expands over time to reflect the values, awareness, and aspirations of its followers. The reforms of the New Deal sanctioned labor unions (which business opposed) yet built a middle class that could afford automobiles, appliances, and televisions, thus solidifying the success of free enterprise. Similarly, the Securities and Exchange Commission, deemed unfriendly to business, stabilized markets, attracted middle-class investors, and sustained capitalism until the recent crises.

When people change, so does capitalism. Today, business, not government, is reinventing free enterprise and reversing the errors that threaten its future. Furthermore, government intervention alone, however well intentioned, cannot achieve the moral rebirth of capitalism. Regulation can foster a culture of compliance, but it cannot create a culture of commitment; that requires a change of heart in the individual capitalist.

A POSITIVE VISION If shareholder capitalists imprudently celebrate short-term profit as the sole legitimate goal of business, which objective should the wiser, more astute capitalist favor? Clearly, it ought to be the creation of *financially healthy* enterprises that reliably deliver profit over a longer term. This is the positive, life-affirming vision that unites the growing ranks that call themselves Conscious Capitalists. MW

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