

ENTREPRENEURIAL ETHICS – TOPICS

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TOPIC 3

CONSCIOUS CAPITALISM

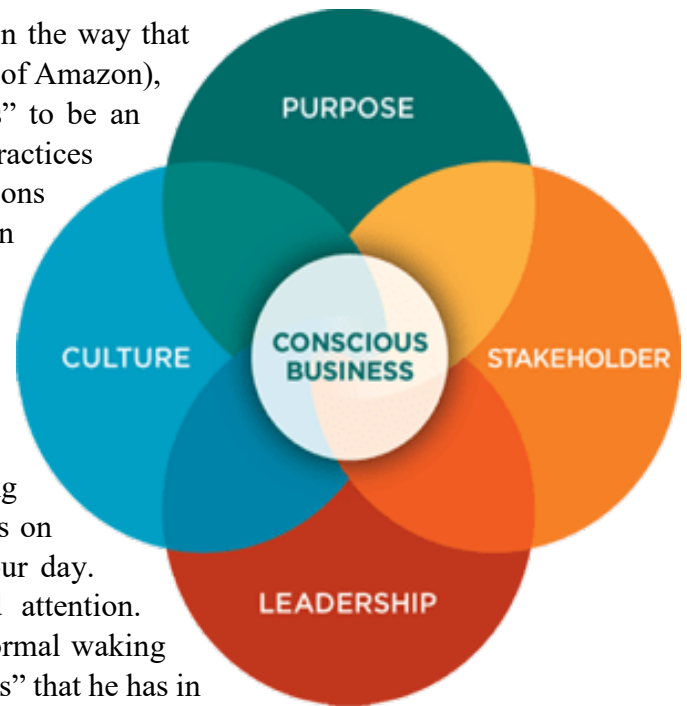
Introduction: Re-purposing the Corporation

A business could only become a “conscious” business in the way that [John Mackey](#), CEO of Whole Foods (now a subsidiary of Amazon), uses this term, if you understand the term “business” to be an organically ‘structured’ and interwoven set of practices engaged in by an inter-dependent community of persons oriented to a common goal or goals, rather than envisioning it as a legal instrument or profit machine. Only *persons* can properly be said to have subjective consciousness and, thus, moral power and moral responsibility.

To become "conscious," in an enlightened sense, means more than achieving the normal waking consciousness that is necessary for putting your shoes on and getting through the practical requirements of your day. That is merely a baseline type of awareness and attention. But Mackey certainly means something more than normal waking half-conscious awareness by the idea of “consciousness” that he has in mind behind his idea of Conscious Capitalism.

One of the things we learned from Social Psychology in previous chapters is that untrained, everyday conventional consciousness has a lot of situational and contextual holes or blind spots in it in the form of biases, prejudices, misconceptions, misinformed ideas and beliefs, and other unconscious, non-rational influences on the perception of yourself and the world around you. All of which, especially if you are unaware of it, can impede you on your path to success. But you can avoid these traps by ‘expanding’ your consciousness, thus increasing your chances of success in all areas of your life.

The kind of turned-on "consciousness" Mackey is talking about is something beyond a merely practical or useful consciousness. It is an enlightened entrepreneurial business consciousness that is geared to some Higher Purpose rather than merely profit, with an ecologically organic or interdependent view of *stakeholder* mutuality. He seems to have in mind a higher or deeper enlightened personal consciousness; a broader perspective about possibilities in any given situation; a greater insightfulness overall; an enlightened attitude in general; a more inclusive,



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responsive and responsible, flexible, expansive, resourceful, resilient, and success-oriented way of understanding the purpose of business in a capitalist framework--the kind of consciousness the study of Entrepreneurial Ethics should produce for you; a broader "reflectivity horizon," as Anders Poulsen put it at the very beginning of our course of studies. This would be a self-actualizing kind of consciousness that is pushing toward what Abraham Maslow means by self-transcendence at the top of the need pyramid ... and over the top!

The profit motive as the sole motive of business looks a little value-anemic from the perspective of the passionate, "follow your bliss" motivation of an enlightened consciousness aiming at a higher purpose such as Mackey is proposing.

What Mackey is talking about also sounds curiously like the goal of the Stoic wise person or Sage. Epictetus certainly intended to raise the consciousness of his students in order to be successful at discerning what is under your control and focusing on that, while becoming indifferent to and letting go of what is not under your control. I suspect Epictetus would applaud Mackey's consciousness-raising approach. What would business look like if it were driven by an enlightened consciousness? Listen to Mackey's vision in the following video.



John Mackey on Conscious Capitalism (7:30)

John Mackey's vision

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Conscious Capitalism (CC) is an approach to doing business that is built around four basic principles, but the most important of these would seem to be the first: having a higher purpose. According to Mackey, business persons should be motivated by a *higher purpose* than merely earning profit. Profit is definitely a good thing, of course, but it should flow in a secondary manner from the pursuit of a higher purpose. According to CC, while making money is essential for the vitality and sustainability of a business, it is not the only or even the most important reason a business exists. Conscious Businesses focus on their *higher purpose* beyond profit.

We all need meaning and purpose in our lives. It is one of the things that separates us from other animals. Purpose activates us and motivates us. It moves us to get up in the morning, sustains us when times get tough and serves as a guiding star when we stray off course. Conscious Businesses provide us with this sense of meaning and purpose.

By focusing on its *deeper purpose*, a conscious business inspires, engages and energizes its stakeholders. Employees, customers and others trust and even love companies that have an inspiring purpose.

Mackey goes on to distinguish three other characteristics of the "conscious" business person in the areas of leadership, company culture, and stakeholder interdependence. How does he understand these characteristics?

Regarding *leadership* values, Mackey asserts that conscious leaders focus on "we," rather than "me." They inspire, foster transformation and bring out the best in those around them. They understand that their role is to serve the purpose of the organization, to support the people within the organization and to create value for all of the organization's stakeholders. They recognize the integral role of culture and purposefully cultivate a conscious culture of trust and care.

Regarding *company culture*, Mackey is in agreement with management guru Peter Drucker who famously declared: "Culture eats strategy for lunch." Company culture is the embodied values, principles and practices underlying the social fabric of a business, which permeate its actions and connects the stakeholders to each other and to the company's purpose, people and processes. A conscious culture fosters love and care and builds trust between a company's team members and its other stakeholders. Conscious culture is an energizing and unifying force that truly brings a conscious business to life.

Regarding *stakeholder interdependence* within a Conscious Capitalism framework, Mackey argues that unlike some businesses that believe they only exist to maximize return on investment for their shareholders, Conscious Capitalist businesses focus on their whole business ecosystem, creating and optimizing value for all of their stakeholders, understanding that strong and engaged stakeholders lead to a healthy, sustainable, resilient business. They recognize that, without employees, customers, suppliers, funders, supportive communities and a life-sustaining ecosystem, there is no business. Conscious Business is a win-win-win proposition, *which includes a healthy return to shareholders.*

A critical response

In response to Mackey, [James O'toole](#) and [David Vogel](#), in their article “Two and a Half Cheers for Conscious Capitalism,” think there are a lot of good things to be said about Conscious Capitalism, but it is not going to be a business model that solves every business organizational problem. There is no one-size-fits-all solution when it comes to business models, O'toole and Vogel argue, and therefore they are only willing to give CC “two and a half cheers.” Mackey is creating false expectations for business, they assert, and thus diverting attention away from the need for government to solve most social problems.

Mackey's retort to O'toole and Vogel is that they have misunderstood CC entirely. They are interpreting it as a kind of Corporate Social Responsibility which, Mackey claims, is not what CC is about at all. O'toole and Vogel completely miss the mark, according to Mackey.

According to Mackey, it is not a matter of doing well (profit) and also doing good (CSR) separately, but rather of infusing your whole understanding of the purpose and enterprise of business with a higher, more sensitive, more enlightened, more *entrepreneurial* consciousness—something O'toole and Vogel apparently have not achieved in Mackey's estimation, although their criticism of CC brings up some good points. For example, can an open-pit coal mining company really operate according to the principles of CC? O'toole and Vogel don't think so. What do you think?

In Mackey's rejoinder to O'toole and Vogel, he makes the somewhat astounding yet interesting claim that all business transactions are fundamentally free, fair by agreement, and, thus, *virtuous in that value is produced for both parties!* I wonder what you think of that idea. Is it an enlightened idea from a conscious mind or just another cool way of talking about business-as-usual?

Overall, it sounds a lot like the two value propositions (profit and social responsibility) that merely share a single origin in Porter and Kramer's "shared value" model, get thoroughly fused into a single metaphysical mass of enlightened managerial consciousness in the CC approach. No wonder O'toole and Vogel refer to it tongue-in-cheek as "getting religion." Yet, maybe this kind of consciousness-raising and moral value awareness at the heart of the profit function is just what business needs.

What might have been different at Wells Fargo Bank, for example, if ex-CEO John Stumpf had been someone who embraced the principles of Conscious Capitalism? It staggers the mind. Wells Fargo certainly would not be in the fiscal and reputational mess in which it currently finds itself, don't you think?

First watch the above video where Mackey explains what CC is all about, if you haven't already done so. Then read the critical article by O'toole and Vogel below, and then Mackey's rejoinder to O'toole and Vogel which follows. If you want to see what I think a conscious capitalist looks like, check out the two videos below—“Employing the full spectrum” and “Mary Kay Ash.”

A critique of Conscious Capitalism

Two and a Half Cheers for Conscious Capitalism ¹

James O'Toole and David Vogel



David Vogel

In recent years, the idea of conscious capitalism has emerged as an important alternative approach to the problems confronting American capitalism. Embraced by a number of corporations and prominent business leaders, it represents a new strategy for reconciling business and social and environmental objectives. While this movement is an inspiring one and worthy of admiration, we believe the assumptions that underlie it suffer from a number of important limitations that make it unlikely for the movement to achieve the ambitious promises of its proponents. In fact, it is often difficult to do well by doing good and few firms have been able to sustain superior social performance over the long run. Moreover, reconciling the interests of all the firm's stakeholders is often hard to achieve in practice. Most importantly, the adherents of conscious capitalism overlook the critical role that governments must play in reconciling corporate interests with broader public objectives....



James O'Toole

Why Not Three Cheers?

In 1979, Irving Kristol published a volume of essays entitled *Two Cheers for Capitalism*. Even as fervent a champion of economic freedom as Kristol could not give capitalism a third hip-hooray because, as he admitted, *the system is, by nature, imperfect*. He thus implicitly acknowledged the obvious: despite all its advantages over a centrally planned economy, an unregulated market is prone to boom and bust cycles, rewards short-termism, does not internalize environmental costs nor provide for public goods, and can lead to grossly uneven distributions of wealth both between nations and, internally, among the populations of capitalist countries.

...It is claimed that the business practices associated with Conscious Capitalism promise to address such shortcomings of corporate capitalism as currently practiced. Hence, it is not surprising that Conscious Capitalism has been widely embraced by many business leaders, academics, and MBA students who have become

¹ O'Toole, James and Vogel, David. "Two and a half cheers for Conscious Capitalism." *California Management Review*, Vol. 53 No. 3, Spring 2011; (pp. 60-76).

enticed by the prospect of integrating greater social responsibility into mainstream business practices. Unfortunately, however, we only can give Conscious Capitalism two and a half cheers.

We applaud the pioneering efforts of many business leaders to create a new model for business behavior and admire what their firms have accomplished; hence our two and a half cheers. Yet, we also are skeptical of their claims that their practices will, or can, be more widely adopted, let alone bring about the kind of social and environmental transformation of American business (and world society) that its advocates and adherents envision. Just because some business firms can survive, and even prosper, by behaving more virtuously does not mean that most, or even many, other firms can or will do likewise. We also can't give the movement three cheers because we are concerned that the Conscious Capitalism movement is creating unrealistic expectations for corporate performance that could serve to undermine other strategies that are needed to reconcile corporate practices and social needs.

Doing Well by Doing Good

While the term Conscious Capitalism is new, its underlying claim that firms can do well, or even better, by doing good is not. Between 1992 and 2003, Howard Rothman and Mary Scott published three editions of *Companies with a Conscience*, each of which featured profiles of a dozen profitable companies that exemplified the values of “caring capitalism.” A steady stream of recently published books have advised managers how to: make “doing good an integral part of doing well,” “deliver value with values,” “build value through values,” and “profit from passion and purpose.”

The claim that virtue pays has recently been given even wider currency under the rubric of “sustainability.” Many advocates of corporate “greening” claim that, according to the title of a recent article published in the *Harvard Business Review*, “sustainability is now the key driver of innovation.” This theme is echoed in a steady stream of recently published books on sustainability.... These books extol the imperative for firms to incorporate sustainability into their core business practices and strategies and to demonstrate the business benefits of doing so....

The Promises of Conscious Capitalism

The Conscious Capitalism movement goes a step further. For example, a recently published book of essays is titled *Be the Solution: How Entrepreneurs and Conscious Capitalists Can Solve All the World's Problems*. It contains an essay by John Mackey, the CEO of highly successful Whole Foods Market, who has become the leading business advocate of Conscious Capitalism. Mackey argues that Conscious Capitalism represents a “new paradigm” for business:

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Business needs to become holistic and integral with deeper comprehensive purposes. Corporations must rethink why they exist. If business owners/entrepreneurs begin to view business as a complex and evolving interdependent system and manage their business more consciously for the well-being of all their major stakeholders, while fulfilling their highest business purposes, then I believe that we would begin to see the hostility towards capitalism and business disappear.

According to two other business proponents of Conscious Capitalism, “the profit motive, not government or charity, will create the kind of socially responsible world we want our kids and grandkids to grow up in.” They add that “creating a win-win business model—with the wins being what benefits the company, its stakeholders, and the environment/society in general—is *the only way to optimize value.*”

Competing Business Models

... Another source of our skepticism is the limited applicability of the business model that underlines Conscious Capitalism to many other firms and industries. The problem is not that Conscious Capitalism isn't a viable business model; it clearly is. Rather, it is *not* the *only* viable business model. Scores of business books claim to have discovered *the* key to business success, but none has actually discovered this holy grail for the simple reason that no one business strategy or model is always, or continually, superior to every other one. The same holds true for Conscious Capitalism's business models. As the experience of American financial institutions demonstrates, firms may prosper by offering highly inflated compensation to their senior managers. Many industrial firms in the United States have delivered high returns to their shareholders precisely by laying off large numbers of employees. Firms may also flourish by marketing highly attractive products or services—for example, Apple, E-Bay, Microsoft, Facebook, Verizon, and H&M—without practicing any of the tenets of Conscious Capitalism.

Because the number of successful business strategies and models is infinite, no one is, or can always be, superior to all the others. The business world is highly complex and the sources of business success are diverse and constantly changing. Why, then, should we expect all, or even most, firms to follow the Conscious Capitalist route when there are so many others readily available that are at least, if not even more, profitable? The reality is that many firms have and will continue to prosper that do not subscribe to the principles and practices of Conscious Capitalism. That is why we are not convinced that Mackey and others will be any more successful than Owen was two hundred years ago in convincing other executives to “get religion” and change the way they conduct their businesses....

The Shortcomings of Stakeholder Management

We also are skeptical of the commitment of Conscious Capitalism firms to treat all their stakeholders equally and fairly. This goal is laudable, but often difficult to realize in practice. Without doubt, there are some—even many—business decisions that benefit multiple stakeholders, and Conscious Capitalists make an important contribution by developing and implementing those. Nonetheless, it strains credulity to believe that *all* business decisions fall into this category. At publicly traded corporations, in particular, meeting investor expectations is critical, and managers have no choice but to put the interests of shareholders first. While Conscious Capitalists are correct in claiming that meeting the interests of other stakeholders is ideally the best strategy for creating profits for owners, it is also the case that the interests of stakeholders can and often do diverge.

The Limited Potential of Firms to Do Good

The Conscious Capitalism movement also exaggerates the potential of business firms to “do good.” An important insight and contribution of Conscious Capitalism, and the corporate social responsibility and sustainability movements in general, has been to show that firms have more potential to make positive social and environmental contributions than many managers and owners, as well as critics of corporate capitalism, have recognized. Most companies, for example, have found profitable ways to treat their employees better or to reduce their environmental footprints. In addition, some companies have discovered profitable ways to address the needs of the world's poorest citizens. The list of such activities is large, and growing...

The number of such “win-win” business opportunities is also limited. It is unrealistic to suggest that even the most socially conscious and committed business managers can “solve the world's problems.” Many of those problems are simply beyond the scale, scope, and competencies of business firms to address. Some of those problems may require governmental action, while others are better addressed by non-profits or by social enterprises not required to deliver a market rate of return. Capitalism, as Kristol noted, is a wonderful system whose ability to improve public welfare is indeed extraordinary—but there are many laudable goals that the market is simply incapable of accomplishing—however commendable the intentions and actions of Conscious Capitalists.

Ethics and Profits

A useful way of thinking about the complex relationship between virtue and profits is to view business activities as falling into one of four categories:

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Cell One Profitable/Virtuous	Cell Two Not Profitable/Virtuous
Cell Three Profitable/Not Virtuous	Cell Four Not Profitable/Not Virtuous

Categories of Business Activities

Cell One represents the “zone of opportunity” for Conscious Capitalism, corporate social responsibility, and sustainable business practices. Many of the businesses created by the new, so-called “social entrepreneurs” fall into this category. These entrepreneurs (profiled regularly in *Business Week* and *Fast Company*) have developed business models that make money by doing good—for example, by creating an inexpensive product for sale in the developing world that simply and quickly purifies water, or by marketing healthy, environmentally friendly products domestically. There are, literally, thousands of examples of business activities that fall into this first category. Indeed, almost all of virtuous activities typically associated with the policies and practices heralded by Conscious Capitalists are found in Cell One. Such activities—running the gamut from recyclable shopping bags to employee stock ownership programs—are desirable economically, socially, environmentally, and ethically....

Indeed, if all business activities were to potentially fit into Cell One, then advocates of Conscious Capitalism would have a strong, even compelling, case. Unfortunately, most do not. In fact, Cells Two and Three are now, and are likely to remain, much larger....

The extent to which American businesses can be said to have become “more sustainable” over the last decade is due largely to their increasing adoption of Cell One environmental practices that are both profitable and virtuous. Unlike some critics, we do not question the motives of those who make money from their good deeds. Instead, our concern is that business students, corporate managers, entrepreneurs, and the general public are confusing those profitable activities with the unprofitable ones found in Cell Two.

To be sure, the distinction between which virtuous practices fall into Cell One and which belong in Cell Two is not always obvious. As we note above, one of the contributions of Conscious Capitalism has been to broaden the scope of Cell One by encouraging many managers to recognize that the number of virtuous activities that are, in fact, financially viable is both large and growing. Moreover, the economic benefits of many business programs or policies associated with corporate social responsibility can be difficult to quantify and, thus, managers enjoy a considerable degree of discretion in deciding which responsible activities make business sense.

The Need for Government

... In the business press, the halls of Congress, the classroom and, ironically, even in the writings of the harshest critics of corporations, publicly stated expectations concerning the social and environmental benefits of marketplace behavior are becoming wildly inflated. Thus, for example, we now hear that the market can “solve” the problem of making economic growth sustainable and also eradicate global poverty.

Business students are particularly susceptible to such hyperbole: caught up in the rhetoric of Conscious Capitalism, one enthusiastic team of MBA students competing in a global case competition recently claimed that the progressive policies of India's Tata Corporation would “solve the problem of poverty in the developing world.” Now, Tata may be one of the world's most socially conscious global companies, but its business decisions are highly unlikely to end, or even significantly ameliorate, third-world poverty. The fact is that some problems are so large, or systemic, that they cannot be solved solely by the actions of individual businesses—even if all or most of those actions somehow could be “voluntarily” channeled in the same direction. That is why, for example, many corporate executives and entrepreneurs understand that government support is needed to fund high-risk activities for which there is no short-term payoff, such as research and development grants for renewable and clean energy as well as pharmaceuticals for which there is a very small market,

The Limits of Conscious Capitalism

Conscious Capitalists neither discovered the business benefits of corporate virtue, nor were they the first to practice enlightened business behavior. The singular fresh contribution of Conscious Capitalism is its philosophical squaring of free-market principles with progressive business practices by stressing the profit-making potential of responsible, ethical, and sustainable corporate behavior. Since no corporate managers want to be accused of taking advantage of shareholders, this re-branding is significant because it legitimates a wide range of more responsible corporate practices. The creation of a common ground for progressives and libertarians is no mean feat (although it is easier to do at the micro, firm level, than the macro, national level). Indeed, we believe this creative squaring of the circle is why the movement is increasingly seen as so attractive.

Yet, at the same time we need to recognize that because markets have limits, various kinds of government intervention, along with the activities of non-profit organizations, remain essential to address many world problems. Clearly, Conscious Capitalism can inspire the improvement of many corporate practices, which is an objective we applaud and wish to encourage. However, its adherents need to develop a more realistic understanding of what even the most socially conscious capitalists can and cannot accomplish. By promising more than it can deliver, the Conscious Capitalism

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movement is in danger of impeding rather than promoting the kinds of social and environmental goals it seeks to achieve, most notably by ignoring the necessary role for government....



"Employing the Full Spectrum" -- This short video from Starbucks' awesome Upstanders series is a good illustration of a Conscious Capitalist in action. What is his 'higher purpose'? (6:18)

Mackey responds to O’toole and Vogel

What Conscious Capitalism Really Is

John Mackey

A Response to O'Toole and Vogel's “Two and a Half Cheers for Conscious Capitalism”²

James O'Toole and David Vogel have written a critique of Conscious Capitalism (CC) titled “Two and a Half Cheers for Conscious Capitalism.” While they offer interesting insights in their critique I believe that overall their critique falls short for several reasons. Their primary mistake is to fail to understand what CC really is. In so far as their critique is valid, it is not actually referring to Conscious Capitalism, but rather to Corporate Social Responsibility (CSR). As I will explain, these are not synonyms, but represent distinct philosophies of business.

Unfortunately, I don't have the space here to give a detailed explanation of Conscious Capitalism. I have done so numerous times in other places, however. However, I believe it is important to summarize here the four key principles of Conscious Business in order to provide just a bit of context for the discussion

Higher Purpose

Just as all other professions in our society have purposes besides maximizing profits—doctors heal the sick, teachers help educate people, architects design buildings, and lawyers promote justice—so too should business. In my experience, most entrepreneurs who create businesses do so for reasons beyond just trying to make money. While there is nothing wrong with making money, indeed it is absolutely necessary for the enterprise to flourish; it is not by itself a very inspiring purpose for the enterprise. The single most important requirement for the creation of the highest levels of trust and performance for any enterprise is to discover or rediscover the higher purpose of the enterprise. Why does the business exist? What is it trying to accomplish? What core values will inspire the enterprise and create greater trust and commitment from all of its stakeholders?

While there are potentially as many different purposes as there are enterprises, I believe that great enterprises usually have great purposes. The highest

² Mackey, John. “What Conscious Capitalism really is.” *California Management Review*, Vol. 53 No. 3, Spring 2011; (pp. 83-90).

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ideals that humans aspire to should be the same ideals that our enterprises also have as their highest purposes. These include such timeless ideals as:

- *The Good*: Service to others—improving health, education, communication, and the quality of life.
- *The True*: Discovery and furthering human knowledge.
- *The Beautiful*: Excellence and the creation of beauty.
- *The Heroic*: Courage to do what is right to change and improve the world.

Enterprises that place such higher purposes at the very core of their business model tend to inspire trust from all of their major stakeholders: customers, employees, investors, suppliers, and the larger communities in which they exist. Higher purpose and shared core values tend to unify the enterprise behind their fulfillment and usually act to pull the overall enterprise upwards to a higher degree of ethical commitment as well.



Mary Kay Ash is one of my favorite Conscious Capitalist entrepreneurs. What was her 'higher purpose'? What moral values connected to business practices drove her success? Check out Mary Kay's amazing and heart-warming biography in this brief video. (3:59)

Conscious Capitalism Is Not Primarily About Virtue or “Doing Good”

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I don't believe that O'Toole and Vogel fundamentally understand what CC really is. They seem to believe it is primarily about “doing good” in business. They spend quite a bit of their critique discussing the merits and problems of “virtue in business.” I believe that this interpretation of CC is fundamentally incomplete and flawed. I am not certain which sources they have drawn upon for their interpretation of CC as striving for virtue, but this has never been my belief. While of course many Conscious Businesses are motivated by the higher purpose of seeking to realize “The Good,” this higher purpose is only appropriate for a minority of Conscious Businesses. Many other purposes motivate Conscious Businesses besides the pursuit of virtue or “Doing Good.” The pursuit of excellence, furthering human knowledge, creating beauty, and solving problems and creating various kinds of human value are common with many Conscious Businesses.

O'Toole and Vogel create an interesting matrix to classify business activities based on two variables—profitability and virtuous behavior. Pairing these two variables together results in four categories: Profitable/Virtuous, Not Profitable/Virtuous, Profitable/Not Virtuous, Not Profitable/Not Virtuous. While this classification system can be a useful tool for thinking about business, it is also highly misleading. It creates the inaccurate impression that 100% of business activities are roughly divided between the four categories with approximately 25% in each.

O'Toole and Vogel seem to believe that ordinary business exchanges are not inherently “virtuous,” but that something additional needs to be done to make them virtuous. However, I believe that a comprehensive appraisal of business activities would allocate over 99% of them into the first category—Profitable/Virtuous. This is based on the cardinal principle of capitalism expressed as voluntary exchange for mutual benefit. No one is coerced to trade with the firm, and stakeholders do so for mutual benefit. Such exchanges are almost always both profitable for the stakeholder (or they wouldn't be made) and virtuous (since they are beneficial to both the firm and the stakeholder). While it is possible to think of examples of business activities that fall into the other three categories it is important to realize that these other three categories are in no way typical of most business activities.

Business doesn't need to do anything special to be virtuous! It doesn't need to be philanthropic and give large sums of money away to non-profit organizations (although such generosity is certainly a good thing most of the time). It doesn't need to engage in Corporate Social Responsibility (CSR) in order to atone for its “crimes” of being a business and making money. It doesn't need to try to solve social or environmental problems to be virtuous. Ordinary business exchanges are inherently virtuous. Business creates value for all of its major stakeholders that are exchanging with it and these acts of value creation are “good.” Business creates products and services that its customers want and value. It creates employment and provides wages and benefits that its

employees want and value. It trades with numerous suppliers and such exchanges create mutually beneficial value or the exchanges wouldn't be made. The successful business creates profits for its investors and therefore wealth for the larger society through savings and taxes. Many businesses do feel a sense of “social responsibility” and provide donations and support for the not-for-profit sector, and while such philanthropy is certainly commendable it is not the essence of “business virtue.” Instead, I believe the argument can be successfully made that ordinary business exchanges aggregated collectively are the greatest creator of value in the entire world and that this value creation is the source of “business virtue.”

This voluntary exchange for mutual benefit creates the ethical foundation of business and that is why business is ultimately justified to rightfully exist within a society. This ethical foundation of business doesn't necessarily mean that everything any particular business does is always ethical, but only that voluntary exchange for mutual benefit is itself an ethical process. A business is still expected to behave ethically in its voluntary exchanges (not lie, steal, or cheat) and to be responsible for any negative impacts it may create (for example, environmental pollution). The reality that some voluntary exchanges in business may create some negative impacts for the larger society or the environment lessens, but doesn't negate, the overall virtue of business.

Conscious Capitalism versus Corporate Social Responsibility

O'Toole and Vogel see CC as a synonym for Corporate Social Responsibility (CSR). In contrast, I will argue that CC is quite distinct from CSR. I believe that their critique is fairly accurate when applied to CSR, B-Corporations, “caring capitalism,” “virtuous capitalism,” “creative capitalism,” but has been misapplied to Conscious Capitalism. In their critique, O'Toole and Vogel draw no distinctions between any of the above models, but simply equate them all as interchangeable. This is both inaccurate and unfair to Conscious Capitalism, which has a well-articulated philosophy that is both unique and valuable. The emphasis in CC on higher purpose, stakeholder interdependence, conscious leadership, and conscious culture set CC apart from CSR and their “cousins” listed above. CSR and its cousins all attempt to “graft” social and environmental responsibility onto what in many cases is just a traditional corporate business model. Corporate Social Responsibility is not Conscious Capitalism

A Defense of Stakeholder Management

In their section on stakeholder management, O'Toole and Vogel make several claims that I believe are inaccurate. “We also are skeptical of the commitment of Conscious Capitalism firms to treat all their stakeholders equally and fairly.” I am not aware of any claims by the CC movement to treat all stakeholders “equally.” Indeed, such a goal would be difficult to impossible to achieve and I have never advocated this. Most Conscious Businesses tend to put their highest priority on either their customers (Whole Foods Market, for example) or their employees (Southwest Airlines and The

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Container Store, as examples). Conscious Businesses understand the interdependent relationships that exist between stakeholders and seek strategies that can create value for all of them simultaneously. While conflicts may sometimes exist, it is important to realize that a “harmony of interests” is actually the normal state of most business activities. The existence of “tradeoffs” in business is usually the exception, and not the rule.

O'Toole and Vogel go on to say: “Nonetheless, it strains credulity to believe that *all* business decisions fall into this category. At publicly traded corporations, in particular, meeting investor expectations is critical, and managers have no choice but to put the interests of shareholders first. ... For example, when a company lowers its costs by outsourcing production to developing countries, what is good for its customers is not necessarily beneficial for its employees, and when sales decline, firms often have no alternative but to layoff employees to the benefit of shareholders.... Conscious Capitalism provides no guide to help managers recognize, let alone manage, the kinds of painful trade-offs all firms must periodically be prepared to make in order to survive. Moreover, absent that guidance, it is realistic to assume that when making such necessary trade-offs, the interests of investors are likely to be paramount, especially if the firm is publically traded.”

The primary mistake O'Toole and Vogel make here is to assume that when a company makes difficult business decisions that benefit the firm over the long-term that these decisions are benefitting the investors, but not necessarily the other stakeholders. However, once one is able to see the firm through the lens of the interdependent stakeholder model, one sees that this assumption is not necessarily true. All the interdependent stakeholders have a stake in the flourishing of the business, not just the investors.

In the example they use, outsourcing production to developing countries, they see that customers and investors might benefit, but not necessarily the employees who might lose their jobs. It is quite possible that a CB might choose to outsource some of its production, but this is not necessarily a bad thing—even for the employees. It would likely lower prices to customers, increase profits for investors, create new supplier relationships, and create new jobs in the poor developing world (which would help alleviate poverty). Since this would possibly make the firm more successful and sustainable, this is a good strategy for the employees as well, who would all suffer were the firm to become structurally unprofitable and need to resort to massive layoffs. The CB firm would approach outsourcing in a conscious way, valuing their employees and the morale of their organization, and it would seek to manage the transition in such a way as to minimize the loss of jobs through staging the outsourcing over time, while retraining their employees for other jobs with the firm. My company, Whole Foods Market, has undergone such transitions many times through integrating 20+

acquisitions and evolving many of our structures to become more efficient and productive. We have dedicated ourselves to retraining our Team Members for new jobs within the company and giving them a great deal of assistance in finding jobs outside of the company if they wish to leave. Over time, normal attrition of jobs allows a CB to adjust their payrolls, while evolving their structures to become more productive.

Are there special pressures that fall upon the public firm to benefit the investors at the expense of other stakeholders as O'Toole and Vogel indicate? That hasn't been my experience as a CEO of both a CB and a public firm. All stakeholders, not just investors, are seeking more from the firm. In my experience, pressures from customers are the greatest, followed by employees, and then the investors. What is important to understand is that all of the major stakeholders have an interest in the firm flourishing, not just the investors.

Can Conscious Capitalism Solve All the World's Problems?

O'Toole and Vogel mistakenly believe a claim has been made that Conscious Capitalism can “solve all of the world's problems” and then define Conscious Capitalism narrowly to mean only socially conscious business managers. Such a claim has not been made by the Conscious Capitalism movement in such a narrow way. Rather, creative entrepreneurs of all types are essential to create the innovations necessary to solve the world's problems. These include not just business entrepreneurs, but also social entrepreneurs, educational entrepreneurs, medical entrepreneurs, environmental entrepreneurs, and political entrepreneurs. In addition, some problems will likely only be solved through international government cooperation. Nevertheless, I do believe that Conscious Capitalism has the potential to make substantial contributions over time to solving many of the world's problems.

Response to Personal Criticisms

O'Toole and Vogel compare me to the 19th century social reformer, Robert Owen. This is a highly unflattering comparison to me since Owen was a Utopian Socialist who disapproved of capitalism, while I consider myself highly pro-capitalism with strong libertarian convictions. I believe Owen's projects were intrinsically doomed to failure due to a flawed philosophy and strategy. In contrast, Whole Foods Market is now over 30 years old with \$10 billion in sales, millions of customers, 60,000+ team members, and over \$10 billion in market capitalization. We have created tremendous value for our customers, team members, suppliers, investors, and communities; and, unlike Owen, our philosophy and strategy have both proven to be very resilient. The comparison with Robert Owen is both inaccurate and inappropriate.

Conclusion

O'Toole and Vogel have written an excellent critique concerning the limitations of Corporate Social Responsibility. However, their critique has far less applicability to Conscious Capitalism or Conscious Business as I have described them in my writings and talks. Conscious Capitalism won't solve all the world's problems by itself, but I believe it is a better way to do business and it can solve many problems. Both capitalism and corporations have negative brands around the world. They are often seen as greedy, selfish, exploitative, and not trustworthy. By focusing on the higher purpose of business and understanding the importance of creating value for all of the major interdependent stakeholders, Conscious Capitalism has the potential over time to appropriately upgrade and improve the reputation of business around the world. I believe it deserves a full three cheers!

4 key principles of Conscious Capitalism

1. Higher purpose than maximizing profits

- Good, True, Beautiful, Heroic
- [video](#) (2:33)

2. Stakeholder Interdependence

- Customer, employees, suppliers, society, environment
- [video](#) (2:19)

3. Conscious Leadership

- Importance of CEO and senior leadership
- [video](#) (1:51)

4. Conscious culture

- self-managing teams, empowerment, transparency, authenticity, a commitment to fairness, personal growth, and love and care
- [video](#) (1:48)

R. D. Walsh reflection

How to get good grades without trying: *wei wu wei* and a Higher Purpose

The Sage is occupied with the unspoken and acts without effort (*wei wu wei*). Teaching without verbosity, producing without possessing, creating without regard to result, claiming nothing, the Sage has nothing to lose.

From *Tao Te Ching*



All through elementary and high school I was a ‘problem’ student. I didn’t like being told what to do and had a negative attitude toward authority figures. Consequently, it seemed like I was always ‘in trouble’ at school. This rebellious attitude came to a climax in my freshman year at college.

I left home and moved into an off-campus apartment with a couple of high school friends. Much of that first crazy year in college was spent experimenting with newfound freedoms—and cutting a lot of classes to do so! After a bumpy ride, my freshman year ended rather badly. A stormy disagreement erupted with the Dean about the cause of my ultra-low GPA. I was politely but firmly asked to leave school and not come back.

After working in the advertising industry for a year, I was re-accepted and returned to school with a fresh attitude and new determination. There was a different Dean in place and he let me be flexible with the required curriculum. And then a big breakthrough occurred for me in an Introduction to Philosophy course I took.

To my surprise, I felt immediately at home among the ancient philosophers. I could hear their voices as if they were speaking aloud to me. I loved their questioning of authority and exposing of false ideas in a dedicated search for truth, goodness, and beauty. Philosophy helped me to see the joy of pursuing knowledge for the sake of wisdom and living the best possible life. I couldn’t get enough of it. But, in contrast, I disliked feeling forced to study for the sake of exams, even though I helplessly fell into that trap. Everyone did. Like mass hypnosis! Your status as a person seemed to rest on your GPA. From this perspective, the whole reason to study was to get good grades. That is *performance consciousness*.

Exam-taking had always been a source of anxiety for me. If I did well, I thought I was smart and felt good about that. But when I did not do well, I felt inept and stupid. I was a victim of the attribution error. I secretly feared that I was not intelligent enough to be a philosopher,

despite the fact that I loved it. Studying so many brilliant thinkers was intellectually intimidating! Grade consciousness added to performance anxiety on top of intellectual self-esteem challenges only made exam-taking worse.

Meanwhile, I had taken a course in Eastern Philosophy where I learned from the Chinese sages about the Taoist principle called *wei wu wei*, often translated as “doing by not doing” or “acting without effort,” as in this line from the epigraph above:

The Sage is occupied with the unspoken
and acts without effort (*wei wu wei*).

According to this idea, it is best not to focus on trying to produce outcomes directly, especially when they may be out of your control anyway. This could be disastrous, as Epictetus argues. Better to focus on the meaningfulness of the process itself, to let go of trying to control it directly and let it be what it wants to be...going with the flow. If your focus is good and true, you can be certain that outcomes will be beneficial, without having to *make* them happen.

That sounded good to me, maybe too good to be true, so I decided to practice the *wei wu wei* approach to exam-taking and see what happened. What really mattered to me, I thought, was how much I loved learning about philosophy, psychology, history and other subjects. In the final analysis, I didn't care about how someone else judged this love of mine. So I made an effort to stop caring about grades altogether and focus exclusively on what I loved doing just because I loved doing it. I then found myself feeling much better about studying because I was doing it for the sole sake of learning and cultivating my knowledge, and not for the sake of getting a grade. That is *mastery consciousness*.

This is similar to John Mackey's idea that successful business persons will focus on pursuing a “higher purpose” for their business. From this pursuit of a higher purpose profits will naturally follow—more profits than if the business person had focused directly on making profit itself! I found this to be true. Doing good does seem to result in naturally doing well, and, if not, there is always good in that too.

No sooner did I stop caring about the grades I got for studying what I loved than the good grades came rolling in! I became a straight 'A' student virtually overnight and was consistently on the Dean's List after that. It took some effort not to let that success define me or undermine my love of learning. But ... no more test anxiety! Exams worked for me now. They were an opportunity to show off my learning, to see what I could do, to get feedback about where I was at. I learned to enjoy them and have fun with them and see them as desirable and interesting challenges. Now *I* was in charge of the test-taking rather than being victimized by it.

This success as an undergraduate student would stay with me through two masters' degrees and a Ph.D. where I was consistently at the top of my class, without really caring too much about that competitive success. It simply followed organically from the fact that I passionately loved what I was doing. And that love is under my control to some extent, so I can nurture and cultivate it. Thus, *wei wu wei* became a life principle for me that has consistently resulted in success without trying too hard to make success happen.

EE-T - TOPIC 3 – CONSCIOUS CAPITALISM

Doing something because you love doing it, are passionate about it and believe it is worthwhile is focusing on *mastery* rather than *performance*; focusing more on the process itself than the outcome. Being motivated by a higher purpose, such as the mastery of your craft and the good it can accomplish for others in the world, will bring you success more certainly than if you focus on trying to make that success happen directly.

That is the lesson I learned from the idea of *wei wu wei*.

