Business Worth Doing
A New Balanced Stakeholder System for the 21st Century

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The world’s economy is struggling, with the exception of a few countries. The proliferation of bad business practices in the western world has finally caught up with society. How to unravel and rebuild is difficult and complex. It requires a new construct, a new language and a new way of committing to a future that benefits all stakeholders. Join us in a new business system conversation and follow a path of renewed commitment to Business Worth Doing that works for all.

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Abstract

At time of writing, the after-effects of the Global Economic Crisis of 2008-2009 are still being felt by the majority of western nations. The developing and poorer nations are affected also, but to a lesser degree. The speed, scale, voracity and global nature of the downturn and the near collapse of the financial system provided ample evidence that the Global Interdependent and connected world economy has arrived. The world changed and most of the economists never saw the downturn coming. As a result, the economics profession is in a little disarray. Adam Smith (1703-1790) the famed father of the field of economics may still have some of the answers. He was a huge advocate of the free enterprise system and of open economies. He understood an individual’s pursuit of one’s self interest as being central to human motivation but suggested that it needed to be virtuous in nature so as to contribute to the sustainable and equitable trade balances of nations.

What has led to this downturn would likely have profoundly disappointed Adam Smith. If he were alive in the 21st century he would surely have predicted it. But he too, may have been powerless to prevent it due to its velocity and the degree to which massive imbalances and excessive leverage occurred. In the US it led to “the top 1% of the population possessing a greater net worth than the bottom 90%” and the fact that the financial services industry pre-crisis accounted for 40% of all US Corporate profits, without the creation of much if any value. The result is a massively imbalanced economic system that is contributing to the significant destruction of the fabric of its society. In the US, the situation threatens the famed American Dream that an individual, even one who has a humble beginning, through hard work and prudent behavior can advance and prosper. The US is not alone in this predicament. The majority of western countries are facing significant austerity measures. Mountains of public and private debt are setting the next generation up to be one of the first where people will be less well off than their parents and grandparents.

What is equally disturbing is that these western nations and all stakeholders within the various economic systems are struggling to find solutions to what amounts to highly interactive, systemic, economic and political dysfunction. The Problem: The current business systems sustain only the few at the expense of the many plus the political systems are broken. Ironically in China and other developing worlds, while they are prospering, they are trying to learn the lessons from the west as with inflation and other factors there is increasing discontent with the growing gap between the rich and the poor there also. Our view is that there needs to be a systemic reset in the business systems of the world. These solutions while focused on the business must rest on the bedrock of strong societal values – values that have been the foundation of many socio-economic systems for many generations and which must be re-established once again.

The solution rests in what we call a “Balanced Stakeholder System” approach for all business enterprises. The architectural elements of that system are outlined in this paper. Taken collectively, businesses are where the greatest power to turn this ship, resides.

Government, civil society, media, education all must play an enabling role and if/when everyone is aligned in an open virtuous system, then we can do big things. This paper builds on prior great work by many and is intended to provide an actionable and systemic solution that can begin a new conversation in the Global Business community. Together people can create an environment that results in having Business Worth Doing that provides benefit to all stakeholders, not just the few that have often managed to extract disproportionate levels of wealth at the unsustainable expense of other stakeholders.

1 Nicholas D. Kristof, THE NEW YORK TIMES, January 2, 2011
The Need and The Scope

There is an urgent need to rebalance our business systems/models as a result of the recent acceleration of the indebtedness of the western world, the ballooning of large imbalances in global trade and the growing gap between rich and poor. The imbalances have contributed to the shrinking of the population of the middle class in most countries of the western world and particularly in the USA. This inequality has been growing over the past two to three decades and it is rooted in the evolution of excessive greed, selfishness, massive leverage and short-term thinking. Very few (if any) individuals, organizations, economists or political leaders can absolve themselves of their contribution to this current mess. As history tends to repeat itself, this same situation looks like it is beginning to occur now in the developing world also, as places like China are facing some civil discontent or unrest due to apparent inequitable distribution of wealth during their current period of massive economic expansion. This paper however is not about apportioning blame; it is about helping us move forward.

The deep recession centered in the western world actually began in 2007 and it has resulted in the imposition of huge financial burdens on future generations. Working class tax payers now begin to face up to the prospect of paying for the greed and excesses of the few that gained the most. This is particularly noticeable in places such as the US, Greece, Portugal, Ireland, UK and Spain. In the US in particular, this has the potential of destabilizing the fabric of its society and killing the so-called American Dream. An in depth insight into the US story in particular, is provided in Arianna Huffington’s book Third World America. (Huffington, 2010) It puts a very personal face to the massive sell-out of the middle and working class by the wealthy and touches a chord with the widespread discontent and anger that prevails around the US.

We have given witness to another Boom Bust Cycle and this one is undeniably the largest since the great depression. It is being coined the Great Recession by Joseph Stiglitz, Professor of Economics at Columbia University, New York. Unfortunately economic Boom Bust Cycles are not uncommon. However they usually do not have the type of systemic and massive level of impact that this recent near financial collapse has had. While a lot of the bubble was linked indirectly to housing, many western countries leveraged excessively and pursued consumption (financed by varying kinds of debt), with little appreciation for, or awareness of, the decline in production in their economies and the danger of those strategies. Most of the institutions that are in place to help keep things in balance were either asleep at the wheel or colluded with a flawed system. This includes politicians in most countries. The result was that the negative situations accelerated out of control.

Lest more evidence is needed of the scale of the effects of this unbalanced way of working, and the pressure that is now on the political and business leaders of today, the conversations at the G20 meetings of 2010 bear taking note of. In Nov 2010 in Seoul, South Korea, state leaders at that G 20 summit engaged in widespread International debates about the un-sustainability of the current trade imbalances and the levels of debt that exist within these large trading partners. The experts studying and offering commentary, suggest that there are significant concerns about the selfish and short term behavior that is driving it and which is causing untold damage to the fabric of the global society. They assert that it could ultimately lead to greater protectionist trade practices, which some suggest already exists in many countries. This serves as a reminder of how interdependent, interconnected and convergent our global economy is. It partly explains that what we are now trying to deal with is a shift from nationalism to globalism. We are struggling greatly with that shift.

Many people are beginning to have a new and committed recognition of the instability of the global business system over time and the growing gap between the haves and the have-nots. Many also have become conscious and aware of the unjust and unsustainable nature of the
leadership practices and business systems that contribute to where we find ourselves today. There is also a growing consensus that there is increasing social pressure to transform capitalism as we know it. In the book Firms of Endearment the authors provide very compelling data that suggests that due to the shift in the demographic profile of the population of the western world where the majority of the adult population is now over 40, “that it is not overarching to suggest that an historical social transformation of capitalism is underway” (Sisodia, B.Wolfe, & Sheth, 2007). This was what they observed even before this recession and suggests that this current crisis may provide a greater catalyst to drive change. For some help in determining a new path, we suggest a return to some of the basics that the business enterprise was historically founded upon.

Economics, Capitalism and Free Enterprise:

Arguably the greatest vehicle that supported the expansion of capitalism is the public corporation. A vehicle of shared ownership that can allow greater levels of capital to be raised for business expansion along with enabling distributed risk. The well touted success of the large multinationals of today has resulted in them becoming symbolic of a new globalized world. Their reputed efficacy as a vehicle of commerce has resulted in the fact that some now have revenues greater than the GDP of many countries. While there are regulations in existence to ensure that companies follow ethical and moral standards or codes, there has also been a huge almost competing drive since the 1980’s towards less regulation or deregulation. One of the main arguments in support of that deregulation move has been a metaphor that famed economist Adam Smith (1723-1790) used called The Invisible Hand. Most economists agree that Smith is the father of economics and capitalism and many have leveraged off his work for years. However there is now a growing belief that this key concept of the invisible hand has been woefully misinterpreted and that this has significantly contributed over time to the economic problems currently being experienced by many nations.

Joseph E. Stiglitz the Nobel Prize winning economist, former chairman of the World Bank and former economic advisor to Bill Clinton had this to say. “Adam Smith, the father of modern economics, is often cited as arguing for the "invisible hand" and free markets: firms, in the pursuit of profits, are led, as if by an invisible hand, to do what is best for the world. But unlike his followers, Adam Smith was aware of some of the limitations of free markets, and research since then has further clarified why free markets, by themselves, often do not lead to what is best”. (Stiglitz, 2006)

Very few economists saw the recent financial system problems coming. Many had views of markets being rational. They expected that along with self regulation, that the greater business/financial system could self correct. This was particularly true in the US as people felt that monetary policy (money supply) and fiscal policy (sources and uses of money) of the Federal Reserve and the Treasury respectively could correct or event prevent another great depression. The E.U., essentially modeling their financial policies on those of the US, followed suit.

However according to another Nobel Prize winning economist Paul Krugman who is currently professor of economics at Princeton University: “They (Economists) turned a blind eye to the limitations of human rationality that often leads to bubbles and busts; to problems of institutions that run amok; to the imperfections of markets –especially financial markets – that can cause the economy’s operating system to undergo sudden, unpredictable crashes; and to the dangers created when regulators don’t believe in regulation.” (Krugman, 2009)

Today the economics profession is scrambling to bring some cohesive order to the field of economics and provide agreed upon direction on a way forward. Given that most economists can trace much of their beliefs and ideologies to that of Smith; it might be worth taking another but closer look at some of his ideologies.
Mr. Gavin Kennedy is a retired Professor of Strathclyde University in Glasgow, the 2nd oldest University in Scotland and an outgrowth from the Alma Mater of Adam Smith. Mr. Kennedy has dedicated much of his life to the interpretation of Adam Smith’s work. He has written extensively about the famed invisible hand and has a web site and Blog dedicated to the dialogue about the subject. (Kennedy, Adam Smith Lost Legacy, 2011) Below is an extract of an article he wrote in 2009 for a Journal of the American Institute for Economic Research where he expresses his view that Smith was misinterpreted.

“Modern economists took an isolated metaphor, used rarely by Adam Smith, and in his name invented a wholly misleading belief of how commercial markets function and how people in them necessarily and unintentionally work for public benefit, independent of the consequences of their actions. And they introduced a self contradictory concept into economics, described as an ‘invisible hand explanation’, yet it does not explain anything close to the explanatory value offered by economics as a science, even where Smith left it.” (Kennedy, Adam Smith and the Invisible Hand: From Metaphor to Myth, 2009) Professor Kennedy has also published a new work in October 2010 called Adam Smith: A Moral Philosopher and His Political Economy (Great Thinkers in Economics) to provide further deep evidence that can aid the interpretation of Adam Smith’s work.

In relation to the Invisible Hand, it seems we have been duped.

To rectify our economic thinking, let’s consider three of the capitalistic articles of faith that need to be at the center of the understanding and operation of a viable global economy. They are as follows:

- The entire system MUST be kept in balance. There needs to be a visible hand i.e. sensible regulation, but individuals also must exercise their own personal judgment with a moral compass. Regulation alone is insufficient as it is not scalable and often interferes too much.

These understandings are foundation stones of our free enterprise system and serve as a major source of energy for economic vitality.

Ego and Soul

As we talk of business systems (sustainable or unsustainable), the term ego invariably comes up. Given that this is the case, it must be stated that the free and full pursuit of one’s self interest is undoubtedly critically important for the vitality, energy and progress of any business system and society in general. Additionally, one must also take note that as long as there are humans on earth, greed, fear, ambition and a desire for power and control will always play a large part in the way businesses and societies behave. Let’s call this EGO. The field of behavioral economics and behavioral finance has expanded greatly in recent years and provides great warnings of some of the irrational downsides or dark-sides of what is known as inflated Ego. We need to be more aware of this dark side and the damage it can cause.

Conversely and almost paradoxically, humans also have ideals and values and the majority of the population seeks to live by them. They harshly judge others who violate these ideals and as a result, societal norms get established. The majority of people also seek such things as security, inclusion, control, fairness, acceptance, continuity, fulfillment, hope and trust in their personal as well as in their business relationships. And perhaps even more intimately, they respond to love, kindness, compassion and sympathy. How people convene, engage, interact and build relationships—and do business with one another—contributes to our overall personal fulfillment, sense of accomplishment and our happiness. We can call this SOUL.
From a human or behavioral perspective it is important to realize that the solution going forward for sustainable business systems is NOT either or. Ego and Soul are both equally important and form part of an integrated whole person. From a business context, if only one exists at the expense of the other, trouble will surely follow. For the past thirty years, Ego or more to the point inflated ego has been far too dominant in the western world. That coupled with a financial system which was operating with little regulation and massive leverage i.e.—in other words, no invisible hand—it’s easy to see parts of the how and why the overall economic imbalances occurred.

In his work both in the Wealth of Nations (Smith, 1776) and in The Theory of Moral Sentiments (Smith,1759) Smith speaks of the need for “natural balance of an industry”. That balance is seriously at threat in this 21st century. It can be corrected, but the big question is by whom and in what manner?

“He [Smith] did not consider it appropriate for society to be run by or for ‘merchants and manufacturers’, and nor did he accept that the rich and powerful, including kings, had the right to oppress with punitive laws”. (Kennedy, 2011) It is time for us to do something and get back to some of the basics that Smith had suggested in the first place.

Resolving the Conflict of Inflated Ego

In the case of Ego and Soul we must come face to face with these competing human characteristics and all the other complexities that exist when operating a business. To build a sustainable economic business system, leaders need to be mindful of people’s thoughts and behaviors, such that both Ego and Soul can mutually co-exist alongside the complex aspects of running a business. One must realize first and foremost, that many more factors than a simple arithmetic exchange of money for products or services, (the dominant needs of Ego) govern the motivations and actions of people and thus the outcomes of any business or economic system. Narrow economic thinking must be expanded to include the other human needs and dynamics (the needs of the Soul), but in such a manner as not to be to the detriment of either side.

It is possible for business leaders to think through the complexities of an enterprise’s total set of relationships with its various stakeholders and set a course that is of benefit to all. There is a model being proposed in this paper and it rests on the principle of balancing stakeholder needs within a sustainable business eco system. It outlines among other things how time, the relationship complexities and the varying and diverse needs/desires of all stakeholders affect the balance and long term sustainability of the entire system.

The Term Stakeholder is Not New

During the Industrial age in the 19th and 20th centuries the term stakeholder was not heard of that much if at all. Business conversations were mainly dominated by the term Shareholder. The term first began to get widespread notice after the publication of an internal memorandum at the Stanford Research Institute in 1963. They came up with the following definition of stakeholders. “Those groups without whose support the organization would cease to exist”. These researchers were convinced (as are many business people) that multiple entities contribute to the livelihood of a business enterprise and each stakeholder has just as important a stake in the success of the business as the shareholder does. Thus the Stakeholder Theory was born.

As we can infer from the following quotation, Adam Smith would probably have been a proponent of the Stakeholder Theory. “The proper performance of every service seems to require, that’s its pay or recompense should be, as exactly as possible, proportioned to the nature of the services. If any service is very much underpaid, it is very apt to suffer by the meanness and
incapacity of the greater part of those who are employed in it.” (Smith, 1776) 

There have been multiple advances in the Theory down through the years and some significant increases in popularity occurred since 1995 which may be partly related to the research project named Redefining the Corporation which was supported by the Sloan Foundation. This resulted in the publication of the book *Redefining the Corporation* in 2002. (Post, 2002). Before that R. Edward Freeman wrote a much cited book in 1984 called *Strategic Management: A Stakeholder Approach*. (Freeman R. E., 1984) Donaldson and Preston also provided some great contributions to the topic in their paper in the Academy of Management Review in 1995. One of the main focuses of their paper was the “identification of moral or philosophical guidelines for the operation and management of the corporation”. (Donaldson, Preston 1995)

In recent years Raj Sisodia, Jag Sheth and David B Wolfe conducted some wonderful research that resulted in the publication of the book *Firms of Endearment*. They provide hard evidence on the financial returns over a 10 year period ending in June 2006 for an *FoE qualified* set of 17 companies. They state that these companies which they deemed are truly committed to following the stakeholder principles, financially outperformed the 11 Good to Great companies (Collins, Good to Great, 2001) by a factor of 3 and outperformed the S&P by a factor 8.

The Conscious Capitalism movement too, has mobilized behind Stakeholder Theory trying desperately to capture the mindshare of the business leaders.

There is also a group called B-Lab that certifies Corporations as being socially and environmentally responsible. The certification requires the rewriting of the articles of incorporation such that they reflect the company’s legal obligation to consider the interests and needs of all stakeholders.

John Montgomery, Chairman of a Law Firm in Silicon Valley that supports start ups, has written a book called *Conscious Capitalism for Entrepreneurs*. It talks a lot about the importance of a firm having the right wise (conscious) mentor but also of ensuring that from the first legal formation of the business that it is structured or architected to ensure that there is a stakeholder or conscious capital mindset at the core of the culture.

Dr Klaus Schwab, chairman of the World Economic Forum (W.E.F.) has long been an advocate for and has written about Stakeholder principles. This 30 year old Non-Profit organization convenes the national political and business leaders at Davos Switzerland annually to engage in conversations about how to develop a sustainable economy for all.

Ed Freeman and his team at the Darden School of Business at the University of Virginia provided some fresh new perspectives in their recently published book called *Stakeholder Theory: The State of the Art*. (Freeman, 2010)

Even with all that (and more not referenced here) Stakeholder Theory and practice has a long way to go to have the positive impact that many hope for. It is very slow to take hold but there appears to be some growing momentum now. Part of the reason for the slow uptake is because of the deeply imbedded and supported belief that free markets can self regulate (i.e. the invisible hand principle). This belief has led to the widespread abuse of power by leadership which created huge balance of power shifts to the shareholder and the financial community and away from other stakeholders. This has resulted in massive skewing of the incentive systems with large financial rewards flowing to the powerful and greedy few. People got addicted to the rewards. In this environment people espousing the value of Stakeholder theory were never likely to be listened to.

Other reasons for the slow adoption that are explored in *Firms of Endearment* (Sisodia, B.Wolfe, & Sheth, 2007) are that people are slow to change. Fear is a great motivator but can also paralyze you. Additionally, people
grow and develop with certain mental models of world order and they constantly look for data or evidence that supports their pre-existing worldview and disregard other evidence such as the proven financial returns mentioned earlier with the Firms of Endearment set of companies.

There is quite possibly another contributing factor to the slow level of adoption. While theories and models explain a lot about What should be done, it does not explain much about How it can be accomplished.

In this paper we are attempting to help with the How.

Given the growing civil unrest in the western world due to high unemployment and massive levels of public and private debt we are hoping to take the conversation to a broader audience. We would like people to be more aware that there is an alternate to the practices of the past and people can still influence the outcome and make a difference by engaging with this mindset and holding all stakeholders both direct and indirect accountable to a higher standard of business behavior.

This paper provides some of the basic elements of a stakeholder based management system, called a Balanced Stakeholder System and is written from the mindset of the business executive.

The Model

As the journey begins, it is critically important to state that the “how” needs to be viewed with a systems thinking mindset. The model above in Fig 1.0 is a simple pictorial model showing the principal (there are others) relationships that exists in a business enterprise.

The model attempts to provide the grounding that can help shape the thinking and action that can generate a new economy that leads to:

- The production of real products and services that create value and satisfy a real need in the market as opposed to financial engineering exercises that create no value.
- A more equitable distribution of wealth among the stakeholders with people deriving benefits commensurate with the risks that they take and the contribution that they make.
- An efficient and effective self-correcting dynamic that minimizes the development of large-scale economic bubbles and bursts.
- Creation of long-term and sustainable enterprises.
- A business culture where ALL stakeholders feel comfortable, confident, and willing to voluntarily contribute and continuously apply their best efforts and talents.

As outlined in Fig. 2.0 below, the system/model in its simplest form depicts that between each stakeholder there is an engagement and an exchange process that takes place, which needs to be wholesome and balanced.

Each stakeholder voluntarily enters into the business system with certain offerings, expectations, wants, and needs. During the course of the exchange, the offerings are consumed, because they are perceived to be of value to the enterprise (worth whatever they are giving up), needs get satisfied, and benefits are derived. This becomes a two-way exchange as depicted above. When the benefits derived match or exceed the initial expectations of each party, then both parties are satisfied. As long as this continues to be the case, each party will continue to voluntarily contribute and engage in the system in a positive and wholesome manner.

At the very instant that the exchange becomes unbalanced, the dynamics shift. If not addressed or corrected, it can and usually does lead to negative outcomes such as distrust, resentment, withholding of information or resources and a diminishment of the offerings brought to the table. But more importantly, it is the damage to the spirit of the engagement where the real long-term problems arise. Relationships become more closed and conditional. Responsiveness, speed, and decision-making deteriorate and the relationships often turn to purely transactional (or worse, protectional). The result is often that work becomes devoid of meaning and fulfillment for many of the participants, productivity drops, innovation slows down, and competitiveness languishes. Raw economic motives begin to drive the relationships and they become purely mercenary.

For vibrant balanced stakeholder systems to function, it must have three fundamental elements or principles and these have long existed in the field of commerce. In fact, Adam Smith speaks at length about the idea of exchange, trade, and value in Wealth of Nations.

They are:

- **The marketplace**: “A marketplace is the space, actual, virtual, or metaphorical in which the market operates.” (Marketplace 2010) In today's world, markets have become very complex because they are much more globally connected and interdependent.

- **The principle of exchange** is central to an effective marketplace and a stakeholder model working properly. Each stakeholder needs to always give something up (invest or offer) in return for something received (benefit). There needs to be a sense of reciprocity and of getting something that both parties agree upon as matched in some currency (something of value) which is
The concept of monetary currency as the only medium of the exchange of value is quite simply too limiting. While of great importance, money is only one of the currencies of the exchange. It only expresses the very surface of the primary exchange that too often overshadows other deeper and more significant benefits. We detail these other currencies later.

The principle of fairness: Underlying the exchange of value is the principle of balance and fairness. We need to understand and think about how this all fits into the overall fabric of how people engage one another in a commercial, economic, and moral sense. As a society, people have developed the innate ability to be able to judge or measure equitability and fairness on an everyday basis. They do not need a formal system of justice to support those judgments. This capacity has been present for eons of time. The universal symbol for justice is Lady Justice – blindfolded (for objectivity) carrying a scale (for fairness, truth and balance) and a sword (for punishment) for those who flaunt the rules. The stakeholder approach can help to re-establish that sense of fairness and justice, by enabling people to be more aware of what is at stake for everyone. It requires an authentic spirit of positive intent, respect for others and a sense of genuine inquiry and a desire to listen and learn. With that people can have better dialogue and better explanation of what is involved in each exchange and quicker resolutions when there are misunderstandings. This all contributes to the creation of high trust environments which if practiced by the leader and can enable him to set the same standard of expected behavior that all can live by. This will then lead to a powerful culture where better quicker judgments and decisions get made constantly.

The Business Leader’s Role

To continue to lead, and operate a business utilizing the Balanced Stakeholder System, the business leader must fully respond to all stakeholder needs while recognizing the systemic interdependence that requires the balancing of all of the forces that affect each stakeholder. Failing to ensure this balance is in place eventually leads to the decline and possible destruction of the enterprise’s culture and business system. Depending on the relative size and scale of that business enterprise, this can even spread and negatively affect the greater eco system in which it plays.

When leaders know of all the currencies that can be exchanged, and understand the full spectrum of relationships that might exist, they can make conscious and intentional choices that lead to the creation of wholesome and sustainable business environments. The business leader must understand how multiple factors lead to very different expectations on the part of each stakeholder. Business leaders must be able to differentiate and respond very differently to these often very differing stakeholders. One generic approach does not fit all.

Recognizing the systemic interdependence and working to achieve a harmonizing optimization of all of the forces at play is not easy work. Honestly, a non-stakeholder business system is easier to run, as leaders can avoid difficult conversations, can maybe extract great short term wealth for themselves, surround themselves with yes men and before the business fails completely they can leave and let the next guy clean up the mess. This is common practice. The kick the can down the road style of management is very prevalent in western worlds, but society is putting renewed pressure and will continue to do so, to get businesses back to operating in a more long term sustainable manner.

The long-term success of all enterprises is inextricably linked to this stakeholder approach. It is also vital to the long-term viability of a macro-economic environment where the dependent communities are also indirectly engaged. It may appear a little daunting to some but at the end of the day, leaders get paid higher compensation due to their ability to make better business judgments in somewhat complex and demanding environments. For the 21st century the business leaders must have a more complete behavioral and relationship-oriented way of thinking together with a strong capitalistic economic
orientation. When they have both they can absolutely be more successful at meeting the differing stakeholder needs and expectations as well as achieving tremendous long term positive business results.

The book Firms of Endearment (Sisodia, B.Wolfe, & Sheth, 2007) outlines the results of much research into companies that have supported a Stakeholder approach to business. They cover such companies as Whole Foods, Harley Davidson, Southwest Airlines, Amazon.com and Google. Though not listed in their work, the new Ford Motor company under the leadership of Alan Mulally also has recently totally embraced the stakeholder principle. A wholesome transformation took place between 2006 to 2011. They were essentially facing insolvency in the early to mid 2000’s They restructured their debt, changed their management team, developed a simple plan and went to work. Stock price went from $1.45 in 2008 to $16 in early 2011. For other impressive data, take a look at the difference between the Ford cars of today compared to early 2000’s. In the US in 2010 they were able to command a premium of over $3k over competitors due to their innovative technology. They did all during the great recession and while not taking any bail out from the governement like their competitors in the US did.

The Stakeholders Explained

This section is covers some of the details involved between some of the primary stakeholders in an enterprise.

A. Customers as Stakeholders

Countless well-respected works from many authors and organizations espouse the importance of the Customer and the Market place to a business. We’ve heard many battle cries such as “the customer is always right” or “customer first” or “the customer is the reason we are here and our purpose is to serve them better than our competitors.” But it is impossible to speak of the Customer without revisiting why a company goes into business in the first place and the answer goes a lot deeper than most people acknowledge. In Jim Collins’s book Good to Great, based on his team’s four years worth of research of 1,435 companies that yielded only 11 that made the transition from Good to Great, one of his boldest declarations was that “all great companies had a purpose that had nothing to do directly with making money”. (Collins, Good to Great, 2001) Another study by a team led by Jason Jennings, for his book Think BIG-Act Small analyzed 40,000 global companies and picked 10 that grew revenue AND operating profits by more than 10% for ten consecutive years. One of the top 5 things they had in common. “They all had a noble cause which was the non-financial reason for doing what they do”. (Jennings, 2005)

Both of the aforementioned studies put economic and financial success as the largest contribution to a company’s inclusion in their final lists. In the world of stakeholder theory there is absolutely no incongruence between financial success and following the stakeholder model. What is very, very clear though, is the crucial link that exists between the success of the enterprise and its reason for being. This reason for being must be linked to satisfying a need in the market place. It must lead to the company viewing the Customer and the marketplace in general, a little more deeply than an entity that is just a source of the next purchase order or revenue to feed the enterprise in order to reward the investors. There is no doubt that just as investment capital is VITAL in order to get a company off the ground, that the business the Customer provides to the enterprise is undeniably one of the largest sources of vitality to the ongoing growth and health of the enterprise. It is for all these reasons and more that many feel the Customer should be given a prime and comprehensive focus of all of the stakeholders. People often argue that the needs of the rest of the stakeholders have absolutely no chance of being satisfied if there is no customer to consume an enterprise’s product or service. It is also of critical importance that one takes an expanded and inclusive view of the entire value chain. This view needs to be all the way to the point where the final end consumer makes his/her discretionary purchase and has a resultant
experience. Each business needs to know precisely where it fits, in the total value chain and be aware of all of the dependencies that exist as a result of that position.

The table in Fig 3.0 below provides a next level deeper insight into some of the inputs and outputs of the exchange process that takes place between the Customer and the Enterprise.

Figure 3.0

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Inputs/Offerings</th>
<th>Derived Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer</td>
<td>Access to an End Market, Revenue, Security, A Reference, Credibility, Access to greater market</td>
<td>Business Flow, Product Supply, Receipt of Services, Enabling Value chain to continue ultimately to final end consumer, Contribution to Vision Achievement, Success, Goodwill</td>
</tr>
<tr>
<td>Enterprise</td>
<td>Offering of Product or Service, Value, Cost, Quality, Delivery, Ideas for improvement</td>
<td>Revenue, Cash Flow, Income, Earnings, ROI, Challenges, Reference Account</td>
</tr>
</tbody>
</table>

The Customer provides or offers access to the end market or possible indirect access to the end consumer. The derived benefit of the enterprise is a source of revenue and cash for the enterprise. But there is a lot more. It can also offer desperately needed security and stability. It can become a referenceable client that can be used to help expand the enterprise’s business. If can legitimize the enterprise in the eyes of others.

On the other side of the exchange, the enterprise offers a product or service. However many of these can in fact be enablers of other benefits for the Customer. The Enterprise delivers, value, cost effectiveness or competitiveness to the Customer which may in fact significantly bolster the customer’s financial returns. It can offer reliability and confidence via good quality, reliable delivery and superior service. Reliable assurance of supply in a market that is perishable can lead market share growth. Additionally as the enterprise builds a closer relationship with the Customer it can be a source of innovative ideas that further enable the Customer to be successful in its market. In the long term sustainable enterprise, there can become such a mutual interdependence that both can synergistically prosper together and it can almost come to a point where the exchanges and the benefits are so dynamic that they seem endless. At this stage or level of relationship maturity, it requires a commitment to the mindset and types of conditions as outlined in Level 5 of Fig 8.0, the Business Worth Doing continuum.

B. Investors as Stakeholder

Though this stakeholder does not get the pole position in this paper, there is absolutely no denying the criticality of the investor to an enterprise, particularly at the early stages of the formation of the company. The initial capital of any new company is quite arguably the most critical enabler of some people’s ideas coming to life. It is also worth noting that GREAT investors are not just to be viewed as purely a source of capital. In the right types of relationship they provide so much more. They can be a source of ideas, advice, professional services, access to a talent pool and customers, as well as the know-how to set up an enterprise with all the administrative and governance required for success, not to mention, the know-how on how to scale.

Figure 4.0

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Inputs/Offerings</th>
<th>Derived Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investor or Shareholder</td>
<td>Capital, Liquidity, Ideas Governance, Advice, Professional Services and Customer Network, source of innovation, Stability</td>
<td>ROI, Growth Opportunity, Portfolio Diversification, Security, Prestige</td>
</tr>
</tbody>
</table>

In exchange for all that, the investors get a return on their investments. They may get diversification in their portfolio, thus lower overall risk. In successful ventures
financed by Venture Capitalists or Private Equity groups, they can gain credibility, prestige, a source of confidence and security that can be used to attract more funds at higher fees.

Of course the enterprise offers the business idea, the product or service along with a business model that can work. It provides enthusiastic and talented teams that have the confidence and staying power to overcome the undoubted obstacles that occur. And it must be noted that all this comes with variable risk factors. However, the more the spirit of the engagement is correct as in Level 4 or 5 in table 8.0, the less risk there is in the enterprise. Investors in the main are in the business of risk extraction and wealth creation. An open virtuous system with high trust and high levels of competence always provides a more rapid path to success.

One Distinction Needs to Be Made

As we look deeper at this pivotal stakeholder that provides capital, we wish to point out the difference between an “Investor” and a “Speculator or Trader.” It turns out that they are almost polar opposite and yet many company leaders very often get strongly influenced due to the activities of the trader/speculator.

As can be seen from Fig 5.0 the differences between the trader/speculator and an investor are quite stark on almost every dimension examined. These differences are by no means profound, yet people often forget about them due to the quarterly pressure of meeting the financial expectations of the market, where many traders have strong levels of short term influence. These pressures are exacerbated as the traders play momentum, or pump and dump games or engage in stock shorting. It can all have significant short term impact on stock price performance. Leaders who are too influenced by it will inevitably make poor decisions in the long run.

In many regards, the quarterly performance cycle drives the wrong behaviors and often puts undue pressure on company leadership. The most prudent way for a long term sustainable public company to deal with this is to have medium to long range plans and use the quarterly reporting cycles *NOT as end states* of their own, but rather as *way points on a longer journey*. However, staying on the strategic course is crucial for a sustainable business. The business leaders do often times have to weather short term financial challenges or even losses in order to eventually succeed in the marketplace and these
need to be viewed through the appropriate lens and in the correct medium to long range environment. It takes considerable courage for the leader to stay true to the enterprises strategic intent and the pressures they bear in facing those decisions are enormous. Many times major course corrections are in fact necessary so they cannot totally ignore the quarterly feedback cycle as sometimes it is helpful and serves as a needed wake up call. The complexity and dynamics of what is involved in strategic change decisions resulting from these types of situations, leads to pressure cooker environments and these are crucial judgments that leaders will always have to make. That is the single largest reason why a leader’s compensation is significantly larger than those at the entry level employee position in a company. Most people understand and get that. However where it often breaks down in the compensation conversation is that the salary multiples become inappropriately high and it appears as if annual salary becomes a wealth extraction vehicle regardless of overall company performance. In a successful enterprise that operates a balanced stakeholder system, investors, board of directors and compensation committees always need to play a role in ensuring that this balance is kept right and that reward is based principally on long term performance and results.

C. Suppliers as Stakeholders

In the ever-interdependent supply chain of the world today, as one looks up and down the typical supply or value chains, almost every entity plays the role of Customer and Supplier. So in this stakeholder model the supplier, too, plays a critical enabling role in value flowing in the entire chain or business system. As in the case of all stakeholders, interruptions can cause the entire business system to come to a screeching halt.

The relationship between supplier and the enterprise is almost the mirror reflection of the relationship between the Enterprise and the Customer. The only additional element to be mindful of here is the level of dependence that the supplier has on the Enterprise and visa versa. Either way, with high dependence in both directions, the relationship can thrive, as even many sole source relationships have, once the requisite levels of trust are in place.

The best and most public example of this kind of relationship got widespread exposure in February of 1997 was when a fire broke out at a supplier of Toyota Motor Company. The suppliers name was Aisin and they produced brake fluid valves. Toyota had 99% of their supply coming from that company with only four hours of safety stock. It was expected as a result of the fire that totally destroyed the factory that Toyota’s production line would be down for weeks. However through enormous human effort and with the collaboration of multiple suppliers (as they too were indirectly impacted and shut down), the supply chain was up and running again within 5 days with multiple companies contributing to the solutions. During the course of the coordinated response it is reported that there was never having any conversation about cost/price or reimbursement. It was understood and expected that Toyota would contribute to the costs of getting things back on line. True to form Toyota honored the relationships and systematically compensated all parties for their expenses and even provided $100 million in bonuses split within those companies that all pulled together. Though 99% dependence sounds exceptionally high and presented tremendous risk, this type of integrated and interdependent relationship serves as a model that demonstrates what is possible in a Balanced Stakeholder Business System.

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Inputs/Offerings</th>
<th>Derived Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplier</td>
<td>Offering of Product or Service, Value, Cost, Quality, Delivery</td>
<td>Revenue, Cash Flow, Income, Earnings, ROI, Reference Account, Challenges</td>
</tr>
<tr>
<td>Enterprise</td>
<td>Source of Innovation,</td>
<td>Component Supply,</td>
</tr>
</tbody>
</table>
D. Employees As Stakeholders

One of the authors of this paper had the enormous good fortune, directly out of college, to be employed by Esso Research & Development, an affiliate of Esso (now ExxonMobil). Not only was the pay good and the job security ironclad for those who were competent and committed, but the organizational culture and identity were rooted in the belief of the importance of valuing the contributions of its employees. It was an organization full of knowledge workers – scientists and engineers – and the management clearly understood that the only contribution that this organization could make to the parent company and to the world at large was the knowledge, ideas, and creativity of its members which led to new and highly productive technologies. It took this author some time before he understood that this organizational culture was priceless. It formed in him a worldview that deeply enriched his work and his value to organizations to which he consulted. He eventually came to the conclusion that an organization is primarily a social system – a community of workers bound together by common interests and goals.

The relationship between employee and corporation is what defines the employee as a stakeholder in an organization’s success. Outlined in Fig 7.0 the details of what is involved in the exchange between the Enterprise and the Employee. It is also worth noting that those that make up the other stakeholder organizations are people too and they have similar needs for the organizations that they work for. For most employees, the organization is a livelihood, a source of security, a place to learn and develop new competence. It is a place to find deep meaning in work, and provides a community of colleagues who share and shape one’s identity. The employees’ relationship with the organization goes far beyond the paycheck.

The organization, in turn, gets from its members: commitment, competence, courage, creativity and cooperation. Again, this exchange between the employee and the organization goes far beyond money. This kind of relationship is also needed in organizations that do not exclusively employ knowledge workers. If the organization is going to survive and thrive in the long term, it necessarily requires the energy, ideas and commitment of its members in all functions and positions. This is at the core of the organization’s ability to adapt and thrive in an ever changing environment.

Business leaders have to understand that the individual both wants and needs certain conditions to be established by the organization. These needs do not simply disappear once they are initially satisfied; they are ongoing in life. If the leaders of the organization don’t respond appropriately they cannot expect employees to be fully engaged or motivated to do their part to achieve organizational goals. In fact, as we all know, employees can be alienated and even subversive if their reasonable needs are not met. At the highest level of the development of a sound relationship between the employee and the organization, the organization is a source of self-actualization, providing the opportunity for the individual to become all that he or she can become.

The Gallup organization has been studying human behavior for over 70 years. Dr. Donald O. Clifton began studying the unique strengths of leaders in the 1960s. He and his colleagues were searching for the keys to effective leadership. Fifty years of Gallup Polls about the world’s most admired leaders and 20,000 in-depth interviews with senior leaders led to following conclusions:

- The most effective leaders are always investing in the strengths of their employees.
- The most effective leaders surround themselves with the right people and then maximize their teams.
The most effective leaders understand their follower’s needs.

Following the research on leadership, Gallup looked into the needs of followers from the followers viewpoint. They contacted a random sample of 10,000 followers. The research used two open-ended questions to discover what followers wanted from their leaders. First, they asked: What leader has the most positive influence in your daily life? (This question was not limited to business leaders, but included leaders from other realms of life.) And then regarding those chosen leaders they were asked to list three words that best described these leaders. From these open-ended questions they distilled what followers around the world had to say. Four basic needs were discovered: (Rath & Conchie, 2008)

- Trust
- Compassion
- Stability
- Hope

Does this picture square with what has been happening in the business world in the United States and other western nations? Unfortunately, not any longer! Down-sizing, right-sizing, and benefit reduction strategies have been the order of the day and are primarily aimed at lowering short term costs. The old, more mature and wholesome, social contracts have been shredded. Too often workers are viewed as equivalent to machine parts or assets that are expendable and easily replaced, not people. Job security flies out the window and thousands of job opportunities are sent off shore. The relationship between employees and employers, therefore, becomes tenuous.

As a result, employees now feel that they must think only of themselves, rather than the welfare of the enterprise, because greater commitment and security/stability is not offered to them. They don’t trust the leadership and often feel hopeless and powerless. This shift to a selfish and individualistic mind-set can create a vicious and negative spiral. Employees shift and become less loyal to the organization and tend to ignore the welfare of their working colleagues so key ingredients for teamwork, productivity, and innovation is severely impacted and a new less desirable culture follows. Many companies then develop platitudes enshrined as company values and use language such as Loyalty, Innovation, and Collaboration but create an environment where none of it is likely to happen.

This situation does not exist in all organizations, but it is certainly true of many. In the primarily financial calculation of the short term business decision, the employee ends up too often being purely, a factor of cost. This worldview, in the longer term, turns out to be a recipe for disaster. Yes, it needs to be acknowledged that globalization has brought tremendous pressure on corporations to be more efficient than ever. It is also true that many corporations become bloated and overstaffed. But there are many more options to consider other than reactively and simply viewing an employee as a unit of cost. The corporation is not purely a money-making machine. *Money and profit is a result, not the purpose.*

During challenging times leaders have alternatives to the quick reactive response to cut. They can re-tool, re-train, re-distribute, re-structure, or re-organize. Many times a lack of medium-term planning (not to mention long-term planning) leads to reactive actions that serve as snapshot moments to re-dress balance sheets or take advantages of a window for one time charges or accounting write offs. This often destroys the spirit and soul of an enterprise and while cuts are sometimes inevitable, the process for managing them can be vastly improved.

Building on the notes earlier from Gallup, the following table captures some of the positive dynamics at play for a wholesome exchange between the employee and the enterprise.

<table>
<thead>
<tr>
<th>Trust</th>
<th>Compassion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stability</td>
<td>Hope</td>
</tr>
</tbody>
</table>

How big is the consequence of not doing right by the employee or other stakeholders? Huge!

In Jim Collins’ latest work, *How the Mighty Fall* (Collins, 2009) one of the causes of failure he mentions is the arrogance and inflated egos of top executives where things end up with the enterprise essentially

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3 This is all explained and elaborated in *Strengths Based Leadership* by Tom Rath and Barry Conchie.
serving the leaders and not the other way around. There are many manifestations of this problem and one that we find particularly troublesome is the ever-widening compensation gap between executives and regular hourly direct employees. “In 1980, the average CEO was paid around 40 times the average worker; now the multiple is above 400. (Economist, 2003) This is not a healthy situation and it needs to be addressed before some form of social upheaval occurs. Harvey Hornstein in his book The Haves and the Have Nots explains the psychological source of this behavior and what to do about it. He explains that “it is an unleashing of ‘we-boosting’ at the expense of ‘the others’ – a natural human impulse that prompts one group of people to elevate its status at the expense of other groups.” (Hornstein, 2002)

There are companies that foster wholesome employee-enterprise relationships. Ford Motor Company has recently been in the news for doing a remarkable job in its restructure and turnaround. During the early 2000’s when a lot of heavy lifting was done by Bill Ford and his team, Mr. Ford took a salary of $1 until the business achieved its successful turnaround. He searched tirelessly for the right CEO and brought in Alan Mulally from Boeing who is the epitome of a leader with a service and balanced stakeholder mindset.

Whole foods founder and CEO Jim Mackey is another. He has publicly stated that he caps his salary at 19 times the hourly wage earner. He has successfully built an $8Billion high end grocery chain. He too is an ardent supporter of the stakeholder philosophy and is an active contributor to the conscious capitalism movement. Mackey said in a paper that he wrote as part of his role in the Conscious Capitalism group “Unfortunately current business thinking does not easily grasp systems interdependencies and therefore often lacks ecological consciousness or a sense of responsibility for other constituencies, or other stakeholders other than investors”. (Mackey, 2010)

Another well established company that is often admired is Herman Miller, Inc. It has faced massive global pressures as an office furnishings company. Max DePree, a former president of the company, wrote a delightful, even poetic, book on leadership entitled Leadership Is An Art. He wrote: “Relationships are at the heart and center of the capitalist system, both contractual relationships and deeper, more enabling covenantal relationships.” (DePree, 1983) DePree goes on to say that “leaders need to be more inclusive of their followers: First there are always certain marks of being included, being needed, being involved, being cared for as an individual, fair wages and benefits, having the opportunity to do one’s best, having the opportunity to understand, having a piece of the action” (DePree, 1983)

And finally DePree describes gifts and perceptions of being inclusive ending stating that employees get “the gift of meaning: not superfluous, but worthy, not superficial, but integral; not disposable, but permanent.” (DePree, 1983) Even in very tough economic times Herman Miller still subscribes to the tenets that he put in place. It has faced the decline of its US marketplace and operates profitably in a global marketplace.

These are just three examples from three industries that are notorious for being ultra competitive. Part of these companies competitiveness undoubtedly comes from their commitment to a value and balanced stakeholder business system that gives rise to a culture that can shift with the ever changing tides of business. Their approach inverts the traditional hierarchical pyramid and places the value adding employees at the top and the leadership at the bottom.

This expresses much of the thinking and values that we are suggesting at the 5th level of our Business Worth Doing Continuum which is outlined in the next section.

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4 p. 56
5 p. 60
When looking at an enterprise, there are many differing elements each with their own continuum that help to explain the nature of how an enterprise engages with its stakeholders. On the Y axis of the Business Worth Doing continuum represented in Fig 8.0 below, are six of the most critical and dominant elements that characterize how an enterprise behaves. It is necessary to deconstruct and come face to face with these elements to demonstrate the connectedness, interdependence and convergence that influence the overall conditions that dictate the manner in which a business system operates. One can clearly see that the combined effect of these six alone, results in differing and classical types of enterprises going from Level 1 to Level 5.

All organizations fall somewhere between Levels 1 and 5, and the following provides a brief outline of how to think about each level.

<table>
<thead>
<tr>
<th>Investment and Risk</th>
<th>Level 1 Minimal</th>
<th>Level 2 Some</th>
<th>Level 3 Moderate</th>
<th>Level 4 Significant</th>
<th>Level 5 Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimal investment and low risk, quick exit</td>
<td>Some modest investment and risk, can exit easily</td>
<td>Moderate investment and risk, Exit can be tricky</td>
<td>Significant investment and risk and difficult to exit</td>
<td>Significant investment and risk and committed to long term</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Time Duration of Customer Engagement</th>
<th>Minutes</th>
<th>Minutes to Hours/Days</th>
<th>Days to Weeks to Months to Qtrs</th>
<th>Months to Qtrs to Years</th>
<th>Qtrs/Years to Decades to Generations</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Exchange Process</th>
<th>Monetary One Way (Win/Lose Maybe Lose/Lose in long term)</th>
<th>Monetary Both Ways (Win/Lose to basic Win/Win)</th>
<th>Monetary+ Value+ Esteem (Win/Win)</th>
<th>Monetary+ Value+ Esteem+ Goodwill (Win/Win+)</th>
<th>Monetary+ Value+ Esteem+ Goodwill+ Greater Good (Co-Creative)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Trust Levels</th>
<th>No trust</th>
<th>Guarded</th>
<th>Vulnerable</th>
<th>Transparent</th>
<th>Complete Trust</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>People</th>
<th>Disposable</th>
<th>Costs</th>
<th>Assets or Contact Resources</th>
<th>Associates and Business Partners</th>
<th>Mutually committed Sources of Energy, Vitality &amp; Innovation</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Nature of the Engagement</th>
<th>Protectional</th>
<th>Transactional</th>
<th>Relational</th>
<th>Positively Intentional</th>
<th>Co-Creatively Innovative Expansive</th>
</tr>
</thead>
</table>

**Level 1:**

**Snake oil salesman or On-Line Scam. Here today, gone tomorrow!**

Extremely short term, reactive and exploitative with a Win-Lose mentality. “I am only interested in winning and it is not important whether you win or not.” A business like this hits the market quickly, has minimal sunk costs or risks, captures money, folds up its tent and moves on to the next victim. In bygone days this may well be best characterized by the traveling *snake-oil* salesmen. It features shoddy products that come and go and are often sold via snazzy infomercials or on-line marketing scams particularly aimed at the most vulnerable. It is purely protectional and calls forth a “buyer beware” the “” mindset. Quick Money is the only motivation and there is zero concern for the Customer (often in this case, the victim) regardless of their circumstance and there is never an intention to build a
long term relationship. People within any stakeholder
group in the business system are generally not seen or
regarded as important. They are completely disposable.
The work environment is dominated by a few strong
Egos’ and often attracts like-minded exploitative people
who have a get-rich-quick mindset regardless of the
consequences.

**Level 2:**
**Temporary Street Vendor. Here today and
tomorrow, possible repeat business.**

Relatively short-term. Understands and tries to practice
Win/Win however it is mainly transactional. People are
always guarded. The enterprise needs repeat business, is
concerned that the Customer does have his principle or
highest order needs met, but they usually satisfy the bare
minimum. There is minimal loyalty and Customer will
switch quickly if there is even a slightly better
alternative. People are seen as necessary costs and are
tolerated. The work environment is challenging and
people stay because they do not have many alternative
options.

**Level 3:**
**Semi permanent sales outlet.**
**Better quality, repeat business expected.**

Here, there is more than money at stake. There is a
medium-term mindset due to generally having some
sunken investment, but most business investments have
early stage release clauses and leasing is high to enable
quick exits. There is always a tendency to shift to short-
termism if excessive pressure builds. The business
leaders say they care about Customer satisfaction and
ensuring some value flows, even if it is forced or not
totally authentic, such that the basic needs of the
Customer are satisfied. The business exchanges begin to
build deeper levels of relationships. Money is still of
prime importance but other non-monetary benefits are
being derived and are beginning to be talked about.
Business margins are at or below industry average.
People are still viewed as assets on the balances sheet
and are incentivized by creative bonus systems. The
work environment is tolerable where some employees
can have fairly positive engagements which are
conditioned on them getting their needs met.

**Level 4:**
**Established business. Reputation for quality,
service and value. Loyal customers.**

The Level 4 enterprise is committed to the medium-long
term relationships and appreciates the needs and
expectations of the Customer and other stakeholders.
They are able to satisfy these needs in a way that all
parties can be satisfied in a wholesome manner. The
business engagements become deeper and there are
significant sunk costs or investments though leasing is
used for capital efficiency and flexibility or adaptability.
There is strong interdependence with all stakeholder
groups. The enterprise management is visible and is
committed, particularly to the success of the Customer
and, builds some good relationships and referenceable
accounts. It has a positive reputation within the industry,
and is a decent place to work. Money and returns
continue to be important; margins tend to be higher than
the industry average within their sector. People are seen
as valuable resources and employee engagement is good.

**Level 5:**
**Institutionalized store. Here for long haul, stellar
reputation with loyal following**

The enterprise is -totally committed for the long term to
their place in the industry. Their investments are
significant and they own their most important assets. The
institutional level commitment and results garner a
reputation for being a trusted, sustainable and resilient
entity. It has proven (regardless of size ) that it can
morph, change and adapt even re-invent itself, depending
on the external market pressures and usually makes these
moves long before others see the threat. They can move
fast and mobilize resources due to their culture of
openness as well as performance. People within the
system hold each other accountable, but in a supportive
and developmental manner. They are adept at balancing
the need for speed and quick decisions with the need to
be mindful of the long term impact to all. Loyalty is high among all stakeholder groups. They have found productive and healthy ways to foster innovation and creativity and they understand that patience as well as urgency is required. They are totally comfortable with ambiguity, uncertainty and the contradictions that often seem evident. The management system is dynamic and the top leaders and large parts of the organization are proficient systems thinkers. They treat employees and ALL stakeholders as key sources of energy and VITALITY.

**Figure 9.0**

A Shift to the Right is in Order

All organizations fall somewhere between Levels 1 and 5, and Fig 9.0 above anecdotally explains the approximate current distribution according to random samples of the business population. While there are companies at Levels 4 and 5 which is commendable, when one looks at the large multinationals, the distribution is still heavily skewed to the lower end of the scale. What we are suggesting is a shift to the right in the direction of Level 5. It is completely unrealistic to expect that everyone can and would shift to Level 5 but it is possible to shift the majority of the players to the right over a ten year period. There is a multiplicity of ways of measuring this and much of the metrics are already in place.

Another way to think about this shift or movement is similar to that explained in the diffusion of innovation (Rogers, 1962) which was developed to help explain the level of adoption of innovation by people, organizations and cultures. See Fig 10.0 for an adapted version. We believe that the innovators and early adopters do not really need much of a management system to follow. The leaders in this community are usually committed to this way of working as part of their fundamental or ideological beliefs or their worldview. However the early majority needs a management or business system construct to follow along with. They generally tend to only adopt a new approach after it has been well proven, where there are plenty of examples and the majority of the risk has been extracted. They may also need other pressures or forces that can drive movement or change such as consumer/marketplace behavior, Government regulations, and societal pressure from NGO’s e.t.c.

**Figure 10.0**
Given that it is the beginning of the 21st century, it is fantastic and opportune that so many great companies, such as the sample listed in the early adopters’ stage or the greater list of FoE’s companies or B-Corporations, are there to provide proof of a working model. These and other companies have proven that it is possible and economically beneficial to adopt the stakeholder approach. These early adopters did not need a system. They knew in their hearts the right way to build a company and most if not all of them led with their hearts. It is not uncommon for these leaders to be seen similar to the head of a family with all of the positive benefits that go in that capacity. They are leading the way and many have been exceptionally open in sharing their learning’s along the journey, which is a classic response to doing good IN the world and FOR the world

The Other Players in the Societal System

See Fig 11.0 Above

It may be getting a little beyond the immediate or direct scope of the paper but it goes without saying that there are other indirect players that have an influence and indirect affect on how an enterprise behaves due to their influence in the greater business Eco-System.

**Government**: In all societies Government’s role is generally accepted that it is to represent the needs, interests and wishes of its people. It is also generally the only organization that can deal with the super- ‘long-term’ horizon (i.e. generational cycles) and that can really enable large-scale societal change. However, an ever-increasing number of governments fall under the influence of the wealthy and powerful. While many complain of corruption in developing countries it’s wise for the U.S. reader to note that many foreigners consider the United States’ lobbying and special interest system to be a form of legalized corruption.
Effective Governments have bodies or structures that enact legislation, put regulations in place, enforce them and establish public policy. Business oriented actions are meant to create certain conditions whereby enterprises can operate while being obligated to comply not JUST with the law, but with the spirit and intent by which the laws were created. There are obvious pros and cons to many of these and it is generally the case, that the corrective nature of any legislation significantly lags many of the events that gave rise to that same legislation. There can be such a lack of time synchronicity sometimes, that to a large extent it can render the punishment power of laws ineffective as an incentive instrument, except in a handful of cases. Additionally, in cases of suspected violation of laws, deep pocket corporations often engage masses of legal professionals to make the proving of any wrong doing time consuming and difficult. For evidence of this, begin paying attention to the number of cases involving the differing law enforcement agencies and you will constantly hear such things as company X agreed to a settlement of Y dollars or pounds (or whatever currency) without admitting any culpability or wrong doing after so many months or maybe years of investigation.

If any Government wants to look at a fresh new business centered mechanism that can be of help for beginning a greater societal conversation then this Balanced Stakeholder System has a lot to offer. Ultimately it can provide a new language and a new lens that could lead to unifying bipartisan ideas that leads to greater alignment and commitment. Part of the acknowledged requirement is that any system must be inclusive, open, flexible and adaptive. All much overused words but so many systems become closed due to the attachment or entanglement of the inflated egos by all stakeholders, including Government agencies. Many groups, even non-profit groups suffer where people are not clear of their true purpose and that get contaminated. Many parties genuinely do want to pursue a path that leads to a balanced and sustainable business environment. Hopefully they will seriously consider the Balanced Stakeholder System as a key building block. What ought to be the driving motivation now by all, is how can a strong foundation for prosperity be created for the next two generations of the worlds global society.

**Society:** In addition to educating our future leaders, society must support them. By society we mean groups such as organized religions, non-profit organizations, foundations and the society in general. These groups essentially become representative of the spirit of the nations and the non political voice of the people. This often occurs after people often-times believe that their politicians no longer listen to them or represent their views appropriately. The Non Profit organizations have long been staunch supporters of the creation of sustainable business practices that benefit all. Dr Klaus Schwab, chairman of the World Economic Forum said, “Economic progress without social development is not sustainable, while social development without economic progress is impossible”. (Schwab, 2010)

Society has many voluntary groups that play important roles in preserving the greater conscience of society and many are quite effective at bringing pressure to bear on unsustainable and unjust practices. While some may be narrowly focused and in competition with other groups, they do support the wholesome nature of Business Worth Doing and the construct of a Balanced Stakeholder System. Now imagine common leverage via common language across all nations, all industries, and all societies. All can play a part.

**Education:** All stakeholders are human and have been influenced by the education they have received. Those who have gone to business school have gotten exposed to the increasing and dominant focus that the schools have on the financial aspects of business and mostly ignored the deeper purpose of the business. The graduate student for the past thirty years have contributed to the spread of the contagion of holding such a narrow view of how a business should operate. This needs to change.

It is important to Learn from this Great Recession. Teachers and schools need to inculcate an appropriate sense of ethics and human values and, to place financial
and economic education in the larger and critical context of human welfare. They will need to fully understand and teach the principle that corporations are essentially human systems and must be managed and led with this in mind. Profits are VITAL and people love to make money, but they are the result NOT the reason for being.

Corporate Social Responsibility Movement

America’s Sarbanes Oxley Act of 2002 (the ‘Public Company Accounting reform and Investor Protection Act’) sheparded in a new era of ethics in the US and beyond. Though there was much resistance to the changes, the CEO’s and the financial community took their responsibilities and obligations very seriously and seldom questioned any resource allocation that was going to help lead to effective compliance. While the industry benefited from becoming a little more transparent and ethical, there is still much to improve upon. While companies today have internal audit functions and have generally adopted new and revised Codes of Conduct, it is often still perceived as a cost of doing business or the price of compliance. The balanced stakeholder system approach is the next logical step for ensuring that ethics and compliance obligations become integrated in the business system. They can no longer be viewed as a separate and detached obligation that is viewed as a chore.

Concluding Comments

Presented in this paper are the initial foundational elements of a Business Systems approach that hopefully can give new life to the Balanced Stakeholder Theory and help take it from a Theory to a practice. We do believe that it can become a vibrant practice and begin a path to the establishment of global best practices. This can be viewed similar to how division of labor, the quality movement, activity based costing, balanced scorecard or lean six sigma or many others that have made their mark on business. It hopefully can provide a path that enables people to lead differently and continually improve the effectiveness of their businesses AND unapologetically achieve great success in the marketplace on ALL metrics including profit, revenue growth and return metrics.

In Good to Great, Jim Collins points out that successful leaders differentiate themselves in the area of humility, authenticity, transparency, personal ethics, values and a strong commitment to their organizations development as well as stewardship and service. The leaders, also generally tend to have lots of courage, have matured, and are willing to be vulnerable. They generally demonstrate high levels of self awareness and self understanding coupled with an ability to empathize and build relationships with others at ALL levels. They also tend to be committed to their own life long personal development and have a desire to leave a positive legacy.

These leaders create the conditions for success and build a culture where all stakeholders can win. These cultures become next to impossible for competitors to imitate. People long for this wholesome type of leadership of the heart and the Balanced Stakeholder System is a strong way to express or channel it.

Given the challenges of today as well as the opportunities that undoubtedly exist with so many developing countries, it ought to provide great motivation to commit to a more balanced and sustainable way of operating. This new globalized world presents enormous opportunities for prosperity for all. Our fragile Global Marketplace tells us the time for sitting and commenting from the sidelines is over. We need a more balanced and sustainable way of operating. Leaders who take their organizations in the direction of Level 5 on the Business Worth Doing continuum outlined in Fig 8.0 can find their organizations thriving and their people enthusiastic and committed.

We can all collectively make a mark on this 21st century and really learn the lessons from past mistakes and create a future that the future generations deserve. We can make our world a better place. That is always worth fighting for. We hope that many leaders choose to join us as we embark on this journey.
Bibliography


