

# Conscious Capitalism

## Creating a New Paradigm for Business

by John Mackey, CEO, Whole Foods Market

co-founder, FLOW

Do we need a new way to think about business, corporations, and capitalism for the 21st century? Do we need to create a new business paradigm? Corporations are probably the most influential institutions in the world today and yet many people do not believe that they can be trusted. Instead corporations are widely perceived as greedy, selfish, exploitative, uncaring – and interested only in maximizing profits. In the early years of the 21st century, major ethical lapses on the part of big business came to light including scandals at Enron, Arthur Anderson, Tyco, the New York Stock Exchange, WorldCom, Mutual Funds, and AIG. These scandals have all contributed to a growing distrust of business and further eroded public trust in large corporations in the United States.

Increasingly, many people believe there must be something wrong with both corporations and capitalism. The anti-globalization movement is primarily an anti-corporation movement. Many people have come to the conclusion that corporations want to dominate and control the world – for example David Korten wrote an interesting book called *When Corporations Rule the World*. While many critics, including myself, take issue with Korten's assertions, the book reflects this relatively common belief that corporations are slowly, steadily taking over the world. Along this line of reasoning it follows that this corporate hegemony is not a good thing since corporations are greedy, selfish, and uncaring, along this line of reasoning it follows that this corporate hegemony is not a good thing for the world. In short, corporations and capitalism are not generally in favor, and both have serious branding problems.

Our first theories of economics were developed during the Industrial Revolution. Prior to that, economics did not exist as a discipline. Economics was created as one explanatory response to the Industrial Revolution and initial economic models were based on industrial models of the economy. Although economic theory has evolved since Adam Smith wrote *The Wealth of Nations* in 1776, many economists continue using industrial and machine metaphors to explain how the economy works. Now that we are well into the post-industrial Information Age, these metaphors have become outdated and mislead our thinking about business. For example, recall the trinity of labor, land, and capital as "factors of production", and therefore as merely a means to the end of efficiency and profits. According to this model, business operates like a machine—business owners input various amounts of capital, labor, and land at the start. Profits then spit out on the other side of the metaphorical machine. As most modern economists continue to see

it, very much like this model, the purpose of business is to transform factors of production into profit for the benefit of the investors.

The world has become much more complex since those simple machine metaphors were first developed. 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, besides investors. Large corporations are still grounded in a theoretical model that does not acknowledge the complex interdependencies of all of the various constituencies. For business to reach its fullest potential in the 21st Century, we will need to create a new business paradigm that moves beyond simplistic machine/industrial models to those that embrace the complex interdependencies of multiple constituencies. This is the reality in which corporations exist today and our economic and business theories need to evolve to reflect this truth.

I intend to raise several questions about current business thinking and practice in this chapter. Because my experience as co-founder and CEO of Whole Foods Market is in the retail grocery business, many of my examples, especially for new business thinking, will feature innovations and standard operating procedures at my own company. I encourage you to take my examples and use your creative imagination to see the possibilities that exist for all current businesses to escape outdated thinking and action. My hope is that you will build upon the Whole Foods Market model for any future businesses or organizations you create as part of a new paradigm.

### Voluntary Exchange

In a capitalistic market economy business is ultimately based on voluntary exchange; all the main constituencies of a business (such as customers, employees, suppliers, and investors) voluntarily exchange with the business to create value for themselves and for others. No constituency is coerced to exchange against their will. This voluntary exchange for mutual benefit is the ethical foundation of business and capitalism. For example, if customers are unhappy with the prices, the services, or the selection at Whole Foods Market, they are free to shop at another competitor. If our team members are unhappy with their wages, benefits, or working conditions, they are free to seek a job with a different firm that provides more of what they seek. If investors in a public corporation such as Whole Foods Market are unhappy with the economic returns being generated, they are free to sell their shares and invest their money in some

other alternative. If suppliers want better terms or different product placement than we are willing to give they are free to seek alternative outlets to sell their products. All the constituents therefore exchange voluntarily for mutual benefit, and they are free to exit the relationship whenever they wish.

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 and to be responsible for any negative impacts it may create, for example, environmental pollution. So voluntary exchange provides the ethical foundation of business, but what is its purpose?

### **The Purpose of Business**

Have you ever asked yourself what is the purpose of a business? Most business people never ask themselves this interesting question. If you think about it, what is the purpose of a doctor or hospital? Is their purpose to maximize profits? This isn't what they teach in medical schools or what most doctors advocate. A doctor's purpose is to help heal sick people. What about the purpose of a teacher or a school? Do they exist maximize profits? No, their primary purpose is to educate the young and prepare them to live successful lives in society. What about the purpose of lawyers or courts of law? All lawyer jokes aside, the purpose of a lawyer would be to pursue justice on behalf of a client and our courts exist to settle disputes and bring wrongdoers to justice. All of the other professions put an emphasis on the public good and have purposes beyond self-interest. Why doesn't business?

What then is the purpose of business and who has the right to define it? Economists routinely teach that the purpose of business is to maximize profits for the investors. However, they seldom offer arguments to support this point of view beyond asserting that the business is owned by its investors who have a legal right to hire and fire the management, through the Board of Directors they elect, and who also have a legal claim on the residual profits of the business. Both of these assertions are true, but these legal rights do not necessarily equate to defining the purpose of a business – why it exists and what its purpose and goals are. In most cases the original purpose of a business is decided prior to any capital being received from investors. While the capital from investors is very important to any business, there is one

participant in business who has the right to define what the purpose(s) of the business will be – the entrepreneur who creates the business in the first place. Entrepreneurs create a company, bring all the “factors of production” together, and coordinate them into a viable business. Entrepreneurs set the company strategy and negotiate the terms of trade with all of the voluntarily cooperating stakeholders – including the investors. When we recruited our original investors at Whole Foods Market they understood that Whole Foods Market had other purposes besides maximizing profits. Entrepreneurs discover and/or create the purpose of a business – not investors, or politicians, or lawyers, or economists.

I've known many entrepreneurs in my life, and with only a few exceptions most did not create their business primarily to maximize profits. Of course they wanted to make money, but profit was just one of the reasons they started their business. The following are plausible scenarios for why entrepreneurs create businesses. Perhaps the entrepreneur was unable to work for anybody else, had strong authority issues, and therefore need to be his or her own boss. Or they needed to be in charge of their own enterprise because that is how they derive their sense of self-worth, value, and self-esteem. Maybe the entrepreneur has something to prove to their parents, siblings, or friends and creating a successful business will exorcise unconscious childhood demons. It could be that the entrepreneur is a very creative individual who has ideas that he or she wants to see tested in reality to see whether they work. Possibly the entrepreneur is an idealist and wants to make the world a better place – and their primary motivation for creating a new business is to improve the world. Some entrepreneurs likely create a new business for the sheer fun of it. There are many, many reasons why people create businesses. There are certain entrepreneurs who create a business primarily to maximize profits, however, in my life experience they are definitely a minority.

The founding entrepreneurs determine the initial purpose of their business, but eventually these entrepreneurs will retire or leave the businesses that they created. Does the founding entrepreneur's original purpose remain in perpetuity or can it evolve over time? I believe the purpose of any business can evolve over time. This evolution of purpose is the result of the dynamic interaction of the various interdependent stakeholders with each other and with the business itself. Customers, employees, investors, suppliers, and the community all influence business purpose over time. While the investors will have the ultimate legal claim on the residual profits of the business, the purpose of the business itself evolves over time through the co-creation of the interdependent stakeholders.

This is a fascinating discovery I've made about Whole Foods Market during the previous 28 years. Whole

Foods Market's co-founders created the original purpose of the company in 1980, but the interdependent stakeholders have worked together to drive its evolution over the years. We started with a few simple ideals and core values for the company and then created very simple business structures to help fulfill those ideals. However, over time as the company grew a process of self-organization took place and layers of organizational complexity evolved year after year to fulfill the original core values. As the original core values were expressed over time, deeper meanings of those core values were discovered and/or created by the interdependent stakeholders. Whole Foods Market's purpose has become deeper, richer, and more complex as it has evolved over the years.

The persistent "myth" claiming that the ultimate purpose of business is always to maximize profits for the investors originated with the Industrial Revolution's earliest economists. How did this myth originate? The classical economists formulated their theories by observing and describing the behavior of various entrepreneurs and their businesses. They observed correctly that successful businesses were always profitable and that, indeed, the entrepreneurs who organized and operated these successful businesses always sought to make profits. Businesses that were not profitable did not survive for very long in a competitive marketplace because profits are essential to the long-term survival and flourishing of all businesses. Without profits entrepreneurs will not be able to invest the necessary capital to replace their depreciating buildings and equipment and won't be able to make the necessary investments to adapt to the always evolving and competitive marketplace. The need for profit is universal for all businesses in a healthy market economy.

Unfortunately, early economists went far beyond merely describing how entrepreneurs always seek profits as an important goal, to concluding that maximizing profits is the only important goal of business. They actually took it one step further; the economists soon concluded that maximizing profits is the only goal they should seek. The classical economists went from describing the behavior in which they observed successful entrepreneurs engage while operating their businesses, to prescribing that behavior as the correct behavior that all entrepreneurs should always engage in all of the time. How did they come to this conclusion?

One possibility is that the classical economists became enchanted with the efficiency and the productivity of the industrial enterprises that they studied. Industrial and machine metaphors became the primary metaphors used to explain how the world really worked since this reflected the Newtonian scientific world-view that came to dominate the consciousness of the age. Every business was seen as a type of machine with various

inputs and profits being the output. Profits from business became the primary capital that investors and entrepreneurs used to not only upgrade and improve existing enterprises, but also the capital used to begin new enterprises. The progress of the larger economy was dependent upon this capital accumulation, through the profits of enterprise being saved and reinvested.

In the United States we often take for granted the availability of large pools of capital to invest in new businesses because our economy has been producing them for more than 250 years. However, at the beginning of the Industrial Revolution capital was quite scarce. The ability of successful enterprises to accumulate profits and the redirection of accumulated capital by the entrepreneurs and investors into new promising opportunities was largely unprecedented in history. Therefore it isn't too surprising that classical economists became enamored with the importance of profits, because profits had historically been very rare and they were essential to the continued improvement and progress of society. Industrial Age entrepreneurs had discovered a form of "perpetual motion machine, if effect, enterprises organized to maximize profits, and through the reinvestment of these profits, the promise of indefinite continued growth.

## **Great Companies Have Great Purposes**

If most entrepreneurs don't create their businesses for the primary purpose of maximizing profits, what are their primary goals? The answer varies tremendously from business to business—there are potentially as many different purposes for businesses as there are businesses. Entrepreneurs create their businesses for a diversity of reasons. However, I believe that most of the greatest companies in the world also have great purposes which were discovered and/or created by their original founders and which still remain at the core of their business models. Having a deeper, more transcendent purpose is highly energizing for all of the various interdependent stakeholders, including the customers, employees, investors, suppliers, and the larger communities in which the business participates. While these deeper, more transcendent purposes have unique expressions at each business they also can be grouped into certain well known and timeless categories. Philosophy credits with expressing the timeless ideals of "The Good", "The True", and "The Beautiful" that humanity has sought to create, discover, and express for thousands of years. If we add the ideal of "The Heroic" to the above three we have the framework of higher ideals that most great businesses seek to express in some form or fashion. The following examples present these four ideals as created and expressed by modern great businesses.

The first great purpose that great businesses express is "The Good". The most common way this ideal manifests

in business is through "Service to Others". Authentic service is typically based on genuine empathy for the needs and desires of other people. Genuine empathy leads to the development, growth, and expression of love, care, and compassion. Great businesses dedicated to the great purpose of "Service to Others" also develop methods to grow the emotional intelligence of their organizations, an emotional intelligence that nourishes and encourages love, care, and compassion towards customers, employees, and the larger community. While any category of business can be motivated by the deeper purpose of "Service to Others", we find businesses that primarily depend upon the goodwill of their customers to be the most likely to wholeheartedly express this particular deeper purpose. Some of the great businesses that best express the great purpose of "Service to Others" include Southwest Airlines, Jet Blue, Wegmans, Commerce Bank, Nordstrom, REI, and The Container Store—all of them retailers and service businesses. Whole Foods Market also aspires to express the great ideal of "Service to Others" as its primary purpose. Devotion to "Service to Others" is a deeply motivating purpose, one that provides tremendous emotional fulfillment to individuals who truly embrace this ideal.

The second great purpose to animate great businesses is "The True", or the "excitement of discovery and the pursuit of truth". How very exciting to discover what no one has ever discovered before, to learn what has never before been known, to create a product or service that has never before existed and that advances the well-being of humanity! This great purpose is at the core of some of the most creative and dynamic companies. Google, Intel, Genentech, Amgen, and Medtronic are all examples of great companies motivated by the "excitement of discovery and the pursuit of truth". Through their successful fulfillment of this great purpose, all these companies have greatly benefited humanity.

The third great purpose that we find at the core of great businesses is "The Beautiful", which can best be expressed in business as the search for "excellence and the quest for perfection". A company that expresses beauty enriches our lives in numerous ways. While we more commonly experience "The Beautiful" through the work of individual creative artists in music, painting, film, and artisanal crafts, we can also see it expressed through certain special companies who have tapped into this powerful purpose as they pursue perfection in their chosen endeavor. Some great companies who express this purpose include Apple, Berkshire Hathaway, and Four Seasons Hotels. True excellence expresses beauty in unique and inspiring ways that make our lives more enjoyable.

The fourth great purpose that inspires many great businesses is "The Heroic", or changing and improving

the world through heroic efforts. The heroic business is motivated by the desire to change the world, not necessarily through "service to others" or through "discovery and the pursuit of truth", or through "the quest for perfection", but through the powerful promethean desire to really change things—to truly make the world better, to solve insoluble problems, to do the really courageous thing even when it is very risky, and to achieve what others say is impossible. When Henry Ford first created the Ford Motor Company it could be viewed as a heroic company. Henry Ford truly changed the world in the early part of the 20th century. Microsoft changed the world in the later half of the 20th century. In the 21st century The Bill and Melinda Gates Foundation seeks to solve many of the world's major health problems, from AIDS to malaria. One of the best examples of a truly heroic enterprise is Grameen Bank, begun by Muhammed Yunus. His heroic dedication to ending poverty in Bangladesh and throughout the world garnered him the 2006 Nobel Peace prize. I recommend his book *Banker to the Poor* for an inspiring tale of heroic enterprise. Most heroic enterprises are begun by charismatic, heroic entrepreneurs and the organization's biggest challenge is to successfully institutionalize the heroic purpose after their founding entrepreneur dies or moves on. Very few heroic enterprises have been able to do this over the long-term.

Finally, I recommend two books that present the importance of business purpose. The first is *Built to Last* by Jim Collins and Jerry Porras. The other, from which I have drawn heavily for this essay, is *Purpose: The Starting Point of Great Companies* by Nikos Mourkogiannis.

## **The Paradox of Profits**

My thesis about business having important purposes besides maximizing profits should not be mistaken for hostility toward profit, however. I do know something about maximizing profits and creating shareholder value. When I co-founded Whole Foods Market in 1978, we began with \$45,000 in capital; we only had \$250,000 in sales our first year. In 2006, Whole Foods Market had sales of more than \$5.6 billion, with net profits of more than \$200 million, and a market capitalization over \$8 billion. Profits are one of the most important goals of any successful business and investors are one of the most important constituencies of public businesses. Although it may seem counter intuitive, the best way to maximize profits over the long-term is to not make them the primary goal of the business.

I will use an analogy to explain the best way to create long-term profits. The analogy is "happiness" because, based on my life experience, happiness is best experienced by not aiming for it directly. A person who focuses their life energies on striving for their own self-interest and personal happiness is often someone who



is also a narcissist, or someone who is self-involved and obsessed with their own ego gratification. Ironically, chances are high that they won't actually achieve their goal of happiness pursuing happiness along this path. In my experience, happiness is a by-product of other things; happiness comes from having a strong sense of purpose, meaningful work, great friends, good health, learning and growing, loving relationships with many people, and helping other people to flourish in their lives. If we have a strong sense of all of the above, it's very likely that we will also experience happiness in our lives on a frequent basis.

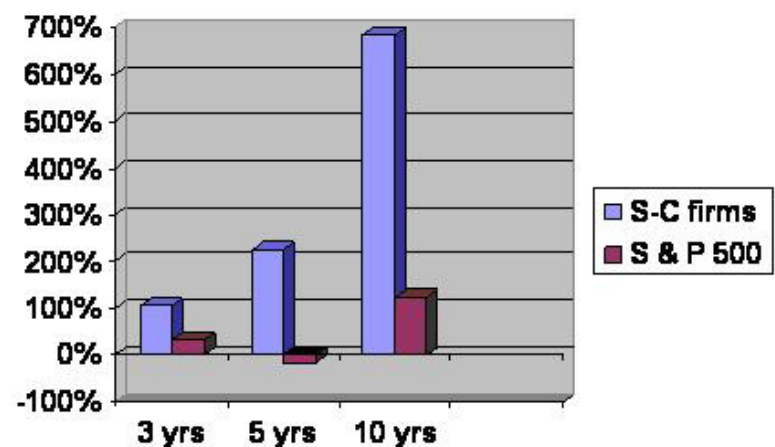
Yet, happiness is a by-product of pursuing those other goals and I think that analogy applies to business as well. In my business experience, profits are best achieved by not making them the primary goal of the business. Rather, long-term profits are the result of having a deeper business purpose, great products, customer satisfaction, employee happiness, excellent suppliers, community and environmental responsibility – these are the keys to maximizing long-term profits. The paradox of profits is that, like happiness, they are best achieved by not aiming directly for them.

Long-term profits are maximized by not making them the primary goal. A business is best not thought of as a machine with various factors of production working in tandem to maximize profits. A business model more in touch with our complex, post-modern, information-rich world is that of a complex self-adaptive system of interdependent constituencies. Management's role is to optimize the health and value of the entire complex, evolving, and self-adaptive system. All of the various constituencies connect together and affect one another. If business managers optimize the health and value of the entire interdependent system and the well-being of all the major constituencies, the end result will also be the highest long-term profits for the investors as well.

Conversely, if a business seeks only to maximize profits to ensure shareholder value and does not attend to the health of the entire system, short-term profits may indeed result, perhaps lasting many years, depending upon how well its competitor companies are managed. However, neglecting or abusing the other constituencies in the interdependent system will eventually create negative feedback loops that will end up harming the long-term interests of the investors and shareholders, resulting in sub-optimization of the entire system. Without consistent customer satisfaction, employee happiness and commitment, and community support, the short-term profits will probably prove to be unsustainable over the long-term.

The most common objection to the above argument is that several thousand businesses are highly profitable and are not actively managed to optimize the value for

all of the stakeholders. Instead they put the interests of their investors first and they are also highly profitable. Doesn't this disprove my argument? Not at all. Most businesses are simply competing against other similar businesses that are organized and managed with the same overall values and goals – maximizing profits. The real question is, how does a traditional profit-centered business fare when it competes against a stakeholder-centered business? The only study I know that tries to answer this question is *Firms of Endearment: the Pursuit of Purpose and Profit* by David Wolfe, Rajendra Sisodia, and Jagdish Sheth (2007, Wharton School Publishing). The authors identify 30 companies that are managed to optimize total stakeholder value instead of focusing strictly on profits. They track the long-term stock performance of those that are publicly traded compared to the S&P 500<sup>1</sup>. Figure 1 illustrates this comparison.



**Figure 1. Investment Performance of Stakeholder-Centered**

As the chart above indicates, companies that are managed to create value for all of their stakeholders have had extraordinarily high stock market returns both over the short-term and the long-term. This is no accident in my opinion. Rather, it is the result of all 30 firms creating a superior business model – the business model that I believe will become dominant in the 21st century.

## Stockholders Maintain Legal Control

Optimizing value for all the interdependent stakeholders does not mean, however, a loss of legal control of the business for the investors. The owners/investors must legally control the business to prevent their exploitation by management and by the other stakeholders. However, the owners/investors do get paid last. What do I mean by this? The customers get paid first in their relationships with the business – in that they come in,

<sup>1</sup> The publicly-traded companies included in the study include: Amazon, Best Buy, CarMax, Caterpillar, Commerce Bank, Costco, eBay, Google, Harley Davidson, Honda, JetBlue, Johnson & Johnson, Progressive Insurance, Southwest Airlines, Starbucks, Timberland, Toyota, UPS, and Whole Foods Market.

find products or services they desire, purchase those products or services, receive those products or services fairly quickly, and often pay after the product or service has been rendered to them, for example, they eat before they have to pay at a café. Next, the employees render their services and get paid on a short-term, periodic basis. Whole Foods Market team members receive their pay every two weeks. The suppliers get paid, according to agreed up on terms and time frames, and government taxes are remitted monthly and quarterly. The owners/investors are paid last, after everyone else has received goods, services, wages, or payment. The investors are entitled to whatever is left over, the residual

profits. Because they are paid last, investors must have legal and fiduciary control of the business to prevent management or other stakeholders from shortchanging them. Investors usually demand these conditions as a requirement for investing their capital in a business.

Management does have legal and fiduciary responsibility to maximize long-term shareholder value. However, the best way to maximize long-term shareholder value is to simultaneously optimize value for all the major constituencies, because they are all interdependent upon one another. This is the most important business lesson that I learned while creating and growing Whole

## The Whole Foods Business Model: Conscious Capitalism

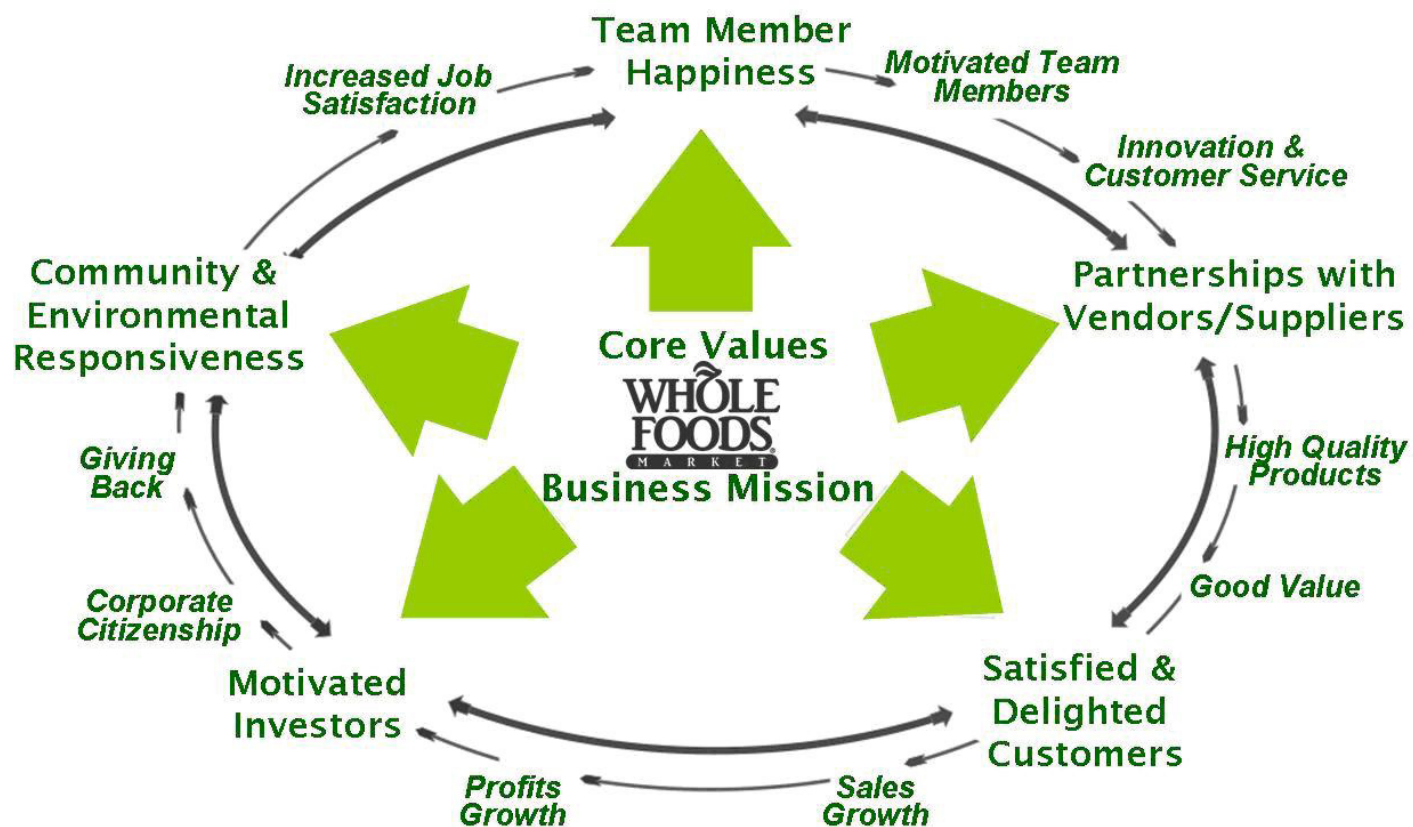


Figure 2. Whole Foods Market Stakeholder Model

Foods Market. Occasionally there are conflicts of interest among constituencies, but in general a “harmony of interests” exists between the different constituencies, since they are so dependent on one another. The best way to maximize long-term shareholder value is to simultaneously optimize the value for all other constituencies. The health of the entire system is what matters the most. Figure 2 below illustrates one example of what I mean by the phrase “Conscious Capitalism”.

## **Whole Foods Market’s Conscious Capitalism**

At the center of the Whole Foods Market business model illustrating holistic interdependence, you’ll find our Core Values and Business Mission. Everything else extends from the business purpose reflected in the Core Values. Surrounding the central purpose are the various constituencies: customers, team members, suppliers, investors, and the community and environment. All are linked interdependently. Retail business provides a simple model to illustrate that management’s role is to hire good people, train them well, and do whatever it takes to have those team members flourish and be happy while they are at work. The team member’s job, at least at Whole Foods Market, is to satisfy and delight the customers. If we have happy customers, we will have a successful business and happy investors. Management helps the team members experience happiness, team members help the customers achieve happiness, the customers help the investors achieve happiness, and when some of the profits from the investors are reinvested in business you end up with a virtuous circle. I find myself continually astounded about how few business people understand these linkages. But market analysis increasingly illustrates that the businesses with a sole purpose of maximizing profits, in other words, those that do not understand that their profits are produced by an interdependent system of constituencies, are less successful over the long-term.<sup>2</sup>

### **Core Values**

When businesses have a purpose beyond maximizing profits, this purpose is often expressed in the business mission. Core values constitute the guiding principles the business uses to realize its purpose. Whole Foods Market’s core values very succinctly express the purposes of the business – purposes that include making profits but also creating value for all of the major constituencies. I want to talk briefly about Whole Foods Market’s Core Values. Our business talks and walks our values; we share them with our constituency groups, and invite feedback in the form of dialogs. The core values are: selling the highest quality natural and organic products available, satisfying and delighting our customers, supporting team member happiness and excellence, creating wealth, profits, and growth, and caring about our communities and environment.

### ***Selling the Highest Quality Natural and Organic Products Available***

Whole Foods Market is the leading retailer of natural and organic foods in the world. We developed strict and explicit quality standards, which we review regularly. We are very proud to have helped improve the health, well-being and longevity of millions of people, and that we have proven that good health and pleasurable eating are compatible goals. Whole Foods Market resists the continuous trend toward the degradation of the quality of our food through the industrialization of food production. While this industrialization of our food supply has increased efficiency and lowered the cost of many food staples, both of which are beneficial to society, the process has also resulted in many negative unintended consequences. Several of the practices developed for the industrialized food system have resulted in lower nutritional quality for our food and negative environmental impacts such as pesticide contamination and concentrated animal waste products from CAFOs (Concentrated Animal Feeding Operations). We see this particularly in our animal foods production. Widespread factory farm production of our animal foods results in a tremendous cost to the well-being of the animals, along with severe, negative impacts to food safety and human health that are only recently coming to light in the public arena. To combat this assault on multiple fronts, and to walk our Core Values, Whole Foods Market is very proud to be developing animal compassionate production standards, working in concert with concerned stakeholder groups in North America.

### ***Satisfying and Delighting our Customers***

The customer is our most important constituency, since with no customers, we have no business. We always maintain awareness that our customers shop voluntarily – they are not coerced to shop. If they are unhappy with our business they will go trade someplace else. Because of the voluntary nature of business, we design our business model around the customer, who must be treated as an end and not as a means. What I mean by this statement is that the well-being of the customer must be seen as the most important goal overall and not as a means to profit for the business. In my experience, businesses that think of customers as means to the end of profit do not have the same commitment to service, empathy, and understanding of customers’ well-being as the business that treats customers as ends instead of means. Customers are very intelligent! They know when someone is doing a sales job on them, and they know when someone genuinely cares about their well-being.

### ***Supporting Team Member Happiness and Excellence***

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<sup>2</sup> Sisodia, Rajendra, Wolfe, David, and Sheth, Jagdish, *Firms of Endearment: the Pursuit of Purpose and Profit*, Wharton School Publishing, 2007.

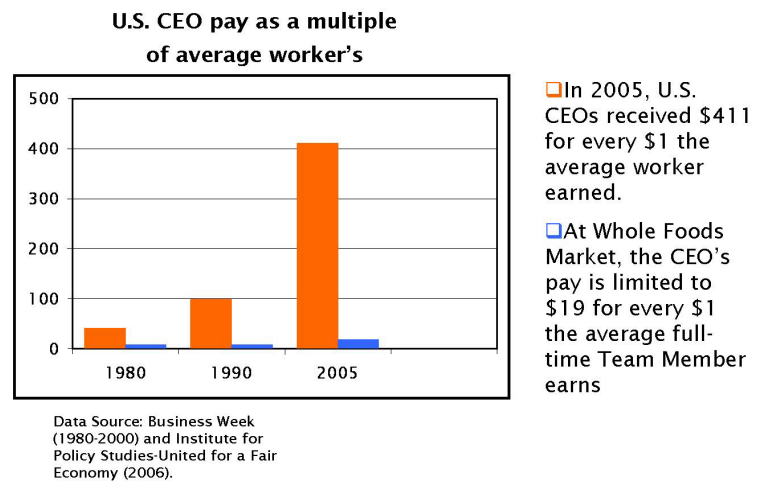
In order to treat the customers as an end we have empowered our team members to satisfy and delight our customers. New team members are trained to do whatever it takes to satisfy our customers. Happy customers create happy investors. In order to have happy customers we also need to have happy team members because the team members are primarily responsible for creating happy customers. When team members are frustrated, dissatisfied, and unhappy in their work they are unlikely to give the high levels of customer service that the business needs to flourish.

Within a complex interdependent self-evolving system, team members must also be treated as ends and not means. Their well-being and happiness must be an end in itself, not merely a means to the profits of the business. Our internal business model within each store is the self-managing team, which are truly the organizational cells of the business. The teams do their own hiring, work scheduling, and product procurement. They are running their own small business within the store, and they have full responsibility for the business. Each team is empowered on many levels, not only in customer satisfaction.

I also believe that it is absolutely essential to trust team members, and one way to show that trust is through open information. Whole Foods provides open financial information—on all levels since want to be as transparent an organization as possible – without making ourselves overly vulnerable to our competitors. I think it essential that the team members have a sense of shared purpose and power. If team members can align around the values and purpose of the business, they are going to have a greater commitment to the business. They will likely unleash greater energy and creativity through that sense of alignment and shared purpose. At Whole Foods, we consciously reject the command-and-control management style. This top-down, “Do It My Way” approach is the opposite of team member empowerment. We also teach the importance of “shared fate”, and by shared fate I mean that the better the company does, the better the customers do, the better the team members do and the better the investors do. Once again, I reference the interdependent nature of the relationship of all the constituencies: happy team members create happy customers, happy customers create happy investors.

Another innovative practice at Whole Foods is the sharing of salary information, so that what everyone gets paid is open information. I believe this is the best way to deal with envy, which exists as part of human nature and in any organization. To deal directly with envy, a business must open up and becoming more transparent. When unjust employment compensation exists, the situation will be noticed and a feedback mechanism will develop to correct it. Conversely, by having such transparency, people can see what skills and qualities are most highly

valued and rewarded in the organization so that they can know what to strive for with their own career objectives. We also have a salary cap at Whole Foods, which is currently 19 times the average pay (Figure 3); more about that below.



**Figure 3. CEO Pay Comparison**

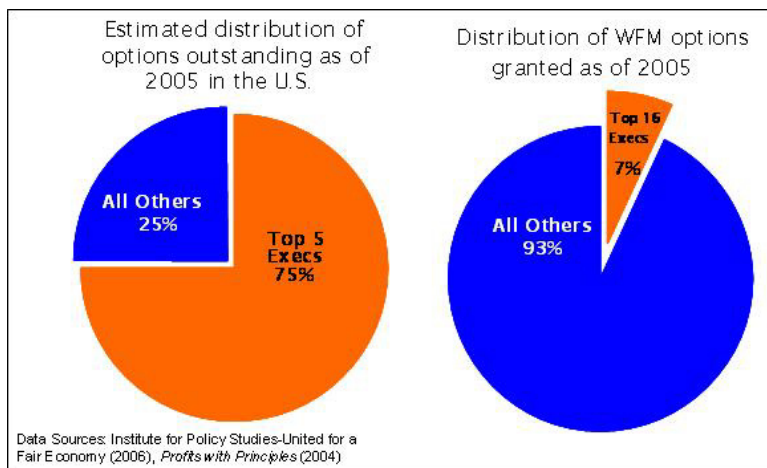
Yet another innovation is our benefits vote, wherein team members vote every three years on what benefits they can enjoy. After fielding repeated and ongoing requests for various benefits as I traveled around to our stores to meet with team members, I realized that I was not smart enough to figure out the right mix of benefits for Whole Foods Market. Our team members were forever asking me if they could have this or that additional benefit. Requests for addition benefits are endless. But this is also true for every stakeholder – the desire for a better deal. Every stakeholder is always looking for more. Customers are always looking for lower prices and higher quality. Investors want higher profits. Team members want higher pay and additional benefits. The government wants higher taxes, and the community wants larger donations. I realized that I was not smart enough to figure out the right mix of benefits for Whole Foods Market's team members; instead the executive leadership now decides what percentage of the total revenue will go toward benefits for the company, and then assigns a cost for every potential benefit. Every three years our team members prioritize and vote on the benefits that they most prefer. This process results in benefits that reflect the needs and desires of the majority of the team members in the company.

I also believe in promoting gain-sharing to the largest extent possible. Gain-sharing means creating incentive-based compensation for every team member working at a company. Through this process, a team member basically receives his/her just rewards for efforts expended, and full participation in teamwork is critical to success. Businesses are well-served to clearly define what it



wants to reward and then set up an incentive program around those criteria.

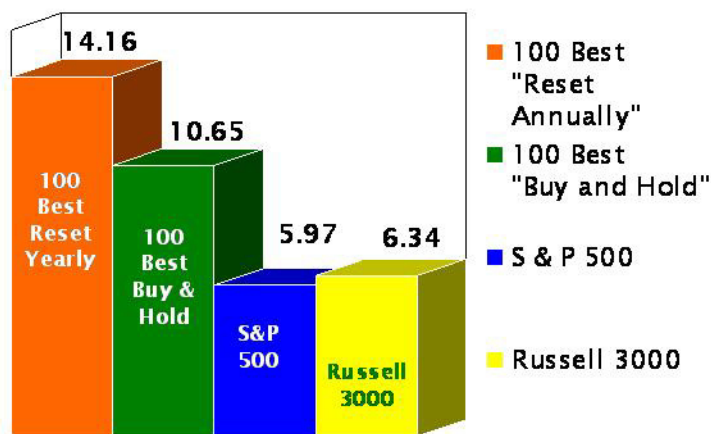
We have instituted fully paid health insurance for all of our full-time (30 hours per week) team members, or close to 90 percent of all the people that work for Whole Foods. The remaining 10 percent part-time (less than 30 hours per week) team members are encouraged to buy our discounted health insurance if they wish. We also offer personal wellness accounts that allow team members many additional options for their health spending, and health saving accounts. These allow team members to cover the deductible for the health insurance plan or to pay for health services that are out of coverage, such as acupuncture and chiropractic. Money not used rolls over to the next years' wellness account or into a health savings account. We also grant stock options to all team members who have three years of service with the company, with an unprecedented 93 percent of our stock options going to non-executives (Figure 4).



**Figure 4. The Distribution of Stock Options**

When team members provide us with feedback, we respond. We are very proud of the fact that Whole Foods Market has been named by Fortune Magazine as one of the 100 best companies to work for during the last nine consecutive years through 2006. Does an emphasis on team member happiness pay off for investors? In a zero sum world it would not. Team member gains would necessarily mean investor losses. Fortunately we don't live in a zero sum world. Rather, we live in an interdependent world where the flourishing of the various stakeholders creates mutual benefits for each other. The chart below clearly shows that creating a great place to work and employee happiness does not necessarily come at the expense of the investors in the business. The companies comprising Fortune Magazine's list of the 100 Best Companies to Work For have significantly outperformed both the S&P 500 and the Russell 3000 indices since the list was first created in 1998. This strong

evidence completely supports the ideas articulated in this chapter.



Source: Russell Investment Group

**Figure 5. Fortune's "100 Best Employers" vs. Stock Market 1998-2006**

### *Creating Wealth, Profits, and Growth*

While creating value for both customers and team members is very important, so is creating value for the investors. All three stakeholders are interdependent upon one another and all must flourish together. As one of our Core Values, we feel that Whole Foods Market has a responsibility to create prosperity through profits and growth. We consider ourselves stewards of the investors' money and because of this, frugality is important. We strive never to waste the investors' money. Profits are created through voluntary exchange for mutual benefit, not through exploitation of people. This very important truth reveals as false the many critiques of capitalism, such as Marxism, which argues that all profits should belong to labor because labor creates all of the value of the business. However, this Marxist theory of labor value doesn't bear up under testing in reality.

All value in business is not created through labor, although of course labor does create a significant portion of value (and also receives the appropriate share of the value it generates). Management also creates value with strategic direction, proper resource allocation, and through organizing the business in effective and efficient ways. Investors create value through the capital they have invested. Without sufficient investment capital businesses are unable to buy necessary equipment or invest in necessary leasehold improvements to operate the business or make investments in research and development for the future. Investors deserve competitive returns on their business investments; otherwise they will withdraw their capital from the business and redirect it to alternative investments which give them higher returns.

The different suppliers trading with the business also deserve fair returns in exchange for the goods and services they provide to the business, as do the landlords who provide the real estate to operate the business. Everyone trading with a business is trading voluntarily and their own profits are created through exchange with the business. Any money left over from the myriad of voluntary exchanges is justly owned by the investors in the business. This is their profit and they are paid last – after every other voluntary trader has completed their exchanges.

Profits create wealth, prosperity, and additional capital. Capital inputs fund most technological innovation and progress. For example, 200 years ago 95 percent of the world's population was considered poor. Today about 60 percent of the global population is still poor. In the last 200 years we have seen the poverty rate drop from 95% to 60%. At the current rate of growth, we are going to see world poverty drop considerably in the next 50 years; by the year 2050 only about 25 percent of the world's population will remain below the poverty level. We are seeing this happen right now with the explosion in the economies of two of the most populated countries in the world—China and India. These two economies are growing at extremely rapid rates and hundreds of millions of people are being lifted into the middle class and moving out of poverty. This illustrates what I believe to be one of the most important purposes of business. Business has the fundamental responsibility to create prosperity for our society and for the world.

The Whole Foods Market system of Conscious Capitalism and managing the business for the benefit of all its stakeholders works very well and it creates tremendous long-term shareholder value. Whole Foods is the fastest growing, and the most profitable, public food retailer, percentage-wise, in the United States. Our same store sales have averaged close to 10 percent for the last 10 years. Comparing this growth rate to conventional supermarket companies such as Kroger's, Safeway, Albertson's, Wild Oats or Wal-Mart you'll see that our same-store sales are somewhere between 300 and 500 percent greater than same-store sales at conventional markets. Our sales per square foot currently exceed \$900, more than twice as high as any of our previously identified competitors. Our store return on after-tax invested capital is 34 percent overall, and higher for stores that have been open for more than one year. Whole Foods' stock price has increased almost 2500 percent since our IPO in 1992. The sum of \$10,000 dollars invested during our IPO would be worth nearly \$250,000 today.

### ***Suppliers are Partners***

The fourth stakeholder group consists of thousands of suppliers who provide us with invaluable goods and ser-

vices. Without our suppliers we wouldn't have anything to sell and the business would quickly cease to exist. I believe the best attitude toward the various suppliers of any business is to view them as essential partners in the enterprise. To keep the system of interrelated stakeholders healthy, most of the suppliers of a business should also flourish through their voluntary trade with the business. While in the competitive marketplace it is impossible for all suppliers of a particular business to simultaneously succeed – inevitably some will fail through a lack of quality or efficiency – it is essential that most suppliers successfully flourish in order to have the capital to improve their quality and the efficiency of their products and services. Honesty, fair trading, and an attitude of helping suppliers to learn, grow, and continuously improve are valuable attitudes to have in relating to the vendor stakeholder group. As suppliers improve the quality and efficiency of their goods and services, this will also improve what the business can offer to its own customers. I've watched the suppliers in the natural and organic products marketplace continuously improve for almost 30 years. A large part of Whole Foods Market's success has been the result of the continuous improvements and countless innovations of our vendor community.

### ***Caring About our Communities and Environment***

The fifth constituency is our community and the sixth is the environment. I believe that business is best thought of as a citizen existing within the communities where it transacts business. Business even enjoys the same legal status as a person. As citizens, businesses have responsibilities to their communities just like every other citizen. These responsibilities are not infinite, just as we do not have infinite responsibilities as individual citizens to our government or to the local communities in which we live, but we do have some. Most community responsibilities are met through following all the laws that exist in the communities and by paying all the taxes assessed on the business. However, just as individuals may choose to give additional community support beyond simply complying with all laws and paying their taxes, so may business. Vital, dynamic communities need philanthropic support from both individuals and businesses that participate within the community.

I believe philanthropy is consistent with citizenship and should be managed prudently and efficiently just like every other aspect of a business. Philanthropy, executed properly, can also contribute to shareholder value through increased goodwill with customers, team members and communities. In my experience, philanthropy is not a win/lose situation, where money is being taken away from investors and shareholders and given to someone undeserving. Instead, with business viewed as an interdependent system of various constituencies, if you manage the business for the health of all the

constituencies, optimizing the community constituency provides positive feedback effects on the shareholder constituency. For example, when our stores do the right thing by our communities, we create goodwill with our customers and team members, so that they both feel good about the business. We also tend to generate good public relations by doing the right thing in our communities, leading to positive media attention. We are enhancing the long-term brand and viability of our business and all of the above ultimately pays benefits to our investors.

In meeting our responsibilities as citizens, Whole Foods donates five percent of our after tax profits to non-profit organizations, with nearly 75 percent given away on a local basis. Whole Foods Market stores support various food banks, local community events, school functions, and Boy and Girl Scouts – whose families might also patronize our stores. We likewise support health initiatives such as fighting AIDS, and breast and childhood cancers. With 198 stores currently, we give to thousands of local organizations. Many of our customers belong to or volunteer with the organizations we support, and as they trade with Whole Foods, we are in turn supporting them in the communities in which we live and do business. Many of our stores also compensate team members for community service work, either on an individual basis, or as a group.

Whole Foods Market trades throughout the world and we recognize our responsibilities as global citizens, as well. Poverty remains one of the most serious global challenges, and one of the ways we are trying to be good global citizens is through the creation of Whole Planet Foundation. Our mission with Whole Planet Foundation is to create economic partnerships with the poor and developing world communities that supply our stores with products. Through innovative assistance for entrepreneurship, including direct micro-credit loans, as well as intangible support for other community partnership projects, we seek to support the energy and creativity of every human being we work with in order to help create wealth and prosperity in emerging economies.

Whole Planet Foundation's current efforts center in Costa Rica, Nicaragua, and the Lake Atitlan district of Guatemala, in villages from which Whole Foods purchases pineapples, bananas, and coffee. Additional projects are being set up in India and Honduras, and eventually we will have micro-credit projects throughout the world. Whole Planet Foundation partners with Grameen Bank, which pioneered micro-lending to the poor (both Grameen Bank and its founder, Muhammed Yunus won the 2006 Nobel Peace Prize). Most loans will go to women, who tend to be the most economically and socially marginalized constituents in many rural communities. Grameen's work in other parts of the world has shown that women have a huge impact on their com-

munities when given access to credit with which to start small businesses. The system Whole Planet Foundation employs is consistent with Whole Foods Market's long-standing internal philosophy of empowerment. For more information on the Whole Planet Foundation go to <http://www.wholeplanetfoundation.org>.

The voiceless stakeholder is the environment. All of our other constituencies can speak up when they are unhappy about something. We consider the environment as closely linked to our community constituency. As a business, we exist within both a local and global environment. Whole Foods Market wants to be a responsible citizen in the environment in which we live. We do this by supporting organic and sustainable agriculture and by selling sustainably-harvested seafood.

From its start in 1978 as Safer Way, Whole Foods Market has promoted organic food and the agricultural systems from which it derives. By helping to develop markets, customers, distribution networks, and even the national standards for labeling for organic foods, Whole Foods has also promoted the environmental benefits that accompany the increasing number of organic farms, dairies, ranches and sustainable agricultural practices. For example, organic farms utilize no synthetic fertilizers and pesticides, resulting in reduced usage of fossil fuels, and less chemical contamination entering food chains and water supplies. While some products are transported long distance to meet consumer demand, Whole Foods Markets also stock as many locally-grown and/or manufactured products that meet our quality standards as are available in our market areas.

Organic and sustainable agricultural methods, in addition, build healthy, vital soil rich with microorganisms and nutrients, featuring superior moisture retention and a resistance to erosion. Other benefits include increased biodiversity when compared to the vast mono-cultural fields found on industrial farms, and the maintenance of food safety and the integrity of soil and crops by prohibiting the use of genetically modified organisms. Organic agriculture typically acknowledges the role food animals have in our provisioning systems, and preserves the integrity of meat and dairy products by prohibiting the use of antibiotics and artificial growth hormones.

Whole Foods Market is working towards animal compassion with livestock animals and eliminating cruel practices in commercial livestock production. Whole Foods refuses to sell commercial veal from tethered calves, foie gras from force-fed ducks, or live lobsters, feeling that the methods used to produce and these animals are too inhumane. Helping create alternatives to the "factory farm" methods of raising livestock is a goal that Whole Foods is strongly committed to and we have created animal compassionate standards through a multi-stakeholder process to try to raise the bar. Our

standards can be seen in more detail at <http://www.animalcompassionfoundation.org/standards.html>

Industrial pollution and over-fishing cause tremendous damage to our oceans. Coral reefs have declined by 30% in the last 30 years. Scientists estimate that the total number of whales in the world has declined 90% in the last 100 years. World supplies of cod, swordfish, marlin, halibut, skate, and flounder have been reduced by over 50% in the last 50 years. We are fishing out the oceans and it is happening in our lifetimes. Whole Foods Market refuses to sell seafood species such as Chilean sea bass and blue fin tuna that are considered to be endangered species by a consensus of seafood experts. We have long supported The Marine Stewardship Council financially and through participation on their Board of Directors. <http://www.msc.org>

Whole Foods addresses its energy usage in several ways. We track our energy use by store, and are drilling down to the equipment level, so that we can track when outdated appliances need to be replaced. We utilize solar energy and other green building practices in our newer stores, and harness the idealistic energy of many of our younger team members in our Green Mission teams. Green Mission team members throughout the company are empowered to work together to systematically lessen our environmental impacts. Our Green Teams have been highly effective in moving the company forward to greater and greater environmental integrity through numerous reusing, recycling, and re-education initiatives.

Finally, in 2006, Whole Foods took the lead as the largest corporate purchaser of wind energy credits in the nation as we offset 100% of our building energy needs with wind energy credits. Each store and office has a comprehensive recycling program, and we open up many of our recycling initiatives to our customers.

In summary, Whole Foods Market meets its responsibilities to both local and global communities, often with innovative programs, and has led by example in many pro-environment initiatives. Whole Foods is also aware that its operations provide many opportunities for improvement in the future. As with our other constituency groups, we have no intention of becoming complacent.

Creating a New Paradigm for Non-Profit Organizations  
I want to briefly discuss the limitations of the current non-profit models that exist in the world today. In my opinion, most modern American non-profit organizations operate with a mentality that creates inefficiencies, waste and stagnation; most non-profits are ineffective in fulfilling their mission. Fully 99 percent of non-profit organizations are dependent upon donations from the business sector or private citizens in order to exist; in

other words, they're not sustainable on their own. Most non-profits feel pretty good about themselves because they have idealistic, altruistic goals – they have stated purposes beyond maximizing profits. They are do-gooders, trying to do good things in the world. But these good intentions beg the question – are altruistic goals, by themselves, enough to make non-profit organizations good and ethical, and do these goals also make them effective? Are the noble purposes by themselves enough? And just because the goals are idealistic does that mean that a non-profit organization is able to completely transcend self-interest? From my viewpoint, probably not.

It's my position that non-profit organizations also need to evolve to a more holistic model, just as business needs to. Here we have a great collage of the good altruistic non-profits versus the evil, selfish greedy corporations (Figure 6).



**Figure 6. Non-Profit Organizations vs. For Profit Corporations**

A wall exists between the non-profits and for-profits consisting partly of the stereotypes that exist in our society today. Non-profits are viewed as good because they have altruistic, idealistic goals. As you can see on the graphic, non-profits often believe that money "grows on trees", and because their ideals are altruistic, they are seen as "angels". Non-profits sponsor idealistic events like AIDS walks and they have an environmental consciousness. On the other side of the wall you see the clear contrast with the for-profit sector of business. You see the stereotype of the greedy businessman with dollar signs in his eyes, grasping after money, and smokestacks popping up all around the world. The angel being transformed into a devil because again, the only goal is to maximize profits and that it is seen as simply selfish and greedy.



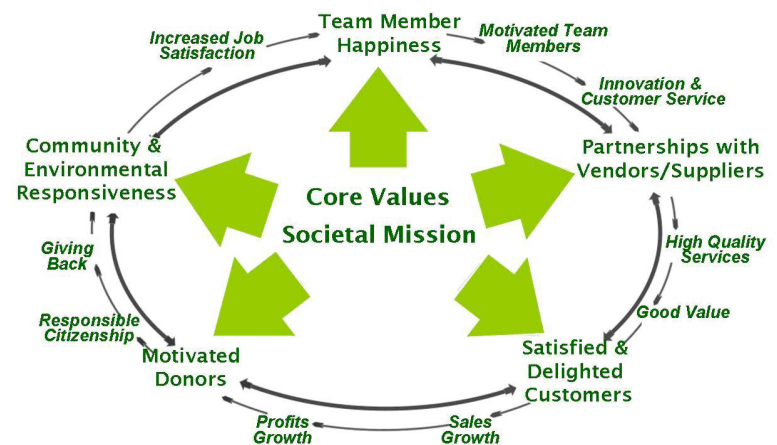
These stereotypes have outlived their usefulness. As a global society we need both non-profit and for-profit organizations to become holistic and integral, the wall that separates them needs to be torn down, and the polarities integrated. Corporations need to become more conscious, and identify deeper and more comprehensive purposes for why they exist. They must evolve past machine metaphors and learn how to think holistically in terms of creating value for all their interdependent constituencies. Likewise, non-profits must become economically sustainable and realize that money and profits are good, not evil, and that they are a necessary part of a healthy holistic organization.

A great example of an economically sustainable non-profit is Asian-based Grameen Bank, founded by Muhammed Yunus. Grameen has not only helped millions of people lift themselves out of poverty, but it has also become financially sustainable. Grameen Bank provides a great model toward which other non-profits can aspire. Started in 1983 by Yunus in his native Bangladesh, Grameen Bank offers small, collateral-free loans to (predominantly) poor women who pass certain criteria. Founded on the basis of trust and solidarity, Grameen (Village) Bank works with its customers on their business plans, and requires a particular code of conduct that emphasizes community building behaviors and actions. Principal and interest from the loans, typically repaid by small weekly installments, go back into the borrower's local operating funds, to fund new loans. By providing financial opportunity to traditionally under-served clients, Grameen Bank has realized a repayment record of more than 97% (one of the best bank repayment records in the world). This contrasts with a repayment rate of less than 60% over the same time frame in the traditional Bangladesh banking world that caters to middle and upper class clients. In the 20+ years Grameen Bank has been in business, the income of more than 50% of the families of Grameen borrowers have risen above the poverty level.

In Bangladesh today, Grameen operates more than 1,000 branches, serving over 2.1 million borrowers in 37,000 villages. On any working day Grameen collects an average of \$1.5 million in weekly installments. Of the borrowers, 94% are women. Although operating in the realm of philanthropic organizations in that it has altruistic goals and ideals, Grameen Bank employs a model that is self-sustaining. And while it welcomes donations, the alternative bank does not rely on the business or private sector for its operating expenses. Grameen methods are now applied in projects in 58 countries, including the US, Canada, France, the Netherlands and Norway.

Once the conceptual wall separating non-profits and profits is torn down, it becomes clear that businesses and non-profits are potentially much more alike than

they are different. They both can become holistic, and at a higher integral level, non-profits and for-profit businesses look remarkably similar. An ideal non-profit's organizational model looks very similar to the Whole Foods Conscious Capitalism model introduced earlier. The non-profit expresses core values and it has similar constituencies to a business: employees, customers, suppliers, and investors/donors. The donors want the organization to achieve its societal mission, and if it does the donors will be happy, and will send increased financial resources to the non-profit organization. Just because it has a social mission does not exempt the non-profit from community and environmental responsibilities. The holistic non-profit has a very similar model to the holistic business, an important point I want to underscore. The following graphic illustrates the holistic model for non-profit organizations.



**Figure 7. Non-profit Stakeholder Model**

## Conclusion

The old paradigm of maximizing profits and shareholder values as the sole purpose of business has created negative unintended consequences. Businesses and corporations are seen as greedy, selfish, and evil. Business is seen as despoiling the environment and causing harm in the world. Business therefore has a very bad brand. The good news is that we can remove most the hostility toward business and capitalism if we change the way we think about it. Business needs to become holistic and integral with deeper more comprehensive purposes. Corporations must rethink why they exist. If business owners/entrepreneurs begin to view their business as an 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 purpose, then I believe that we would begin to see the hostility towards capitalism and business disappear.

In summation, business is fundamentally a community of people working together to create value for other people, their customers, employees, investors, and the greater society. Business interacts within a harmony of interests. At the same time non-profits need to become economically sustainable and discover that money and profits are good, not evil, and necessary for them to fulfill their purposes. A holistic perspective is essential for non-profits. A new Conscious Capitalism paradigm will improve the effectiveness of each type of organization. But on a basic philosophical level, why try to “do good” in the world? Why isn’t the pursuit of our own self-interest enough? Perhaps we need to look more closely again at what Adam Smith wrote. The Wealth of Nations was a tremendous achievement, but economists would also be well served to read Smith’s other great book, The Theory of Moral Sentiments. There he explains that human nature is not just about self-interest. It also includes sympathy, empathy, friendship, love, and the desire for social approval. As motives for human behavior, these are at least as important as self-interest; for many people, they are more important.

When we are small children we are egocentric, concerned only about our own needs and desires. As we mature, we grow beyond this egocentrism and begin to care about others – our families, friends, communities, and countries. Our capacity to love can expand even further, to loving people from different races, religions, and countries – potentially to unlimited love for all people and even for other sentient creatures. This is our potential as human beings, to take joy in the flourishing of people and other living beings everywhere. Let us each realize our potential for deeper love and extend it out into the world – let us together create this new business paradigm of Conscious Capitalism.

Let me try to clear up a few misunderstandings about the ideas expressed in this chapter via the answers to questions posed at previous presentations of this material:

**Q: Why am I opposed to profit?**

A: I am not opposed to profit. As I have pointed out, Whole Foods Market is a highly profitable company. Profits are an important part of what business is about, but they are not the sole purpose of business. Business has purposes other than merely maximizing profits. Entrepreneurs who create businesses rarely create businesses solely for the purpose of maximizing profits and entrepreneurs are the ones who ultimately define the purpose of the businesses they create.

Most businesses have purposes besides maximizing profits, because entrepreneurs create them for other purposes. There may be certain occasions where an entrepreneur creates a business and is only concerned with

maximizing profits; he or she is entitled to do so, it is not unethical. But a strictly profit-based business probably won’t be as successful or profitable a business over the long-term as it could be. I doubt it will compete well head-to-head with a more holistic and integral business model, if the business strategy and all other things are equal. I am not arguing that a business cannot operate solely for profits, I’m merely stating that many, if not most, businesses are not that way when entrepreneurs first created them. If business leaders become more conscious of the fact that their business it is not really a machine but part of a complex, interdependent, and evolving system with multiple constituencies, they will see that profit is one of the important purposes of the business, but not the sole purpose. They will also begin to see that the best way to maximize long-term profits is to create value for the entire interdependent business system. Once enough business leaders come to understand and accept this new business paradigm, I believe that Conscious Capitalism will reach a take-off point and the hostility toward business will largely dissipate over the long-term.

**Q: Does philanthropy equal social responsibility?**

A: No, philanthropy is actually just a small part of the social responsibility of business. The social responsibility of business is about creating value for all of its constituencies. If you are creating value for your customers and employees, acting with integrity toward your suppliers, if you are a good citizen paying taxes, if you take responsibility for your environmental impacts, you’ll fulfill most of your social responsibilities. However, if a business is responsible to its investors, employees, customers, suppliers, and the environment but refuses to contribute toward philanthropic organizations, it would be neglecting the important community constituency. This business would be a stingy neighbor, but it could still be creating value in the world through the value it creates for its customers, employees, suppliers, government, and the environment. The contrary is also true: a business could be highly philanthropic to its communities, but if it is creating shoddy or harmful products, exploiting its employees, cheating its suppliers, and doing significant damage to the environment it can hardly be considered an ethical or socially responsible business no matter how great its philanthropic efforts.

Philanthropy is not primarily what social responsibility is about, but it is also not “theft” from the investors if a business chooses to contribute some money to the communities where it has a presence. That would be part of its responsibility as a citizen and such donations will not only help the community, but will simultaneously create good will with customers, employees, the media, and other citizens in the community. I believe that while philanthropy does not equate to social responsibility by itself, philanthropic donations are certainly consistent

with being a responsible citizen in the community in which business exists.

One common objection to philanthropy is where to draw the line? If donating five percent of profits is good (as Whole Foods does), wouldn't 10 percent be even better? Why not donate 100 percent of our profits to the betterment of society? But the fact that a business has responsibilities as a citizen in the various communities it exists in doesn't mean that it doesn't have any responsibilities to investors or other stakeholders. It's a question of finding the appropriate balance and trying to create value for all of the stakeholders simultaneously. Whole Foods donates five percent of its profits to the community stakeholder, in addition to the taxes we pay. Is five percent the "right amount" to donate to the community? I don't think there is a right answer to this question, except that I believe zero percent is too little. The co-founders of the company arbitrarily decided that five percent was a reasonable amount and the owners of the company at the time we made the decision approved. Corporate philanthropy is a good thing, but it ultimately requires the legitimacy of investor approval, and the investors as the owners of the business have the right and the authority to withdraw their approval if they wish. In my experience, most investors understand that modest philanthropy can be beneficial to both the corporation and to the larger society. They understand that philanthropy is consistent with creating long-term profits for the investors because of the interdependent nature of the business enterprise.

An argument that I frequently field is that corporations or businesses don't have any special competence in philanthropy; therefore corporations should stick to what they do best, which is maximizing their profits and allowing the individual shareholders to engage in philanthropy. This argument is deceptive for two reasons. First, this line of reasoning overlooks the fact that business is treated as a citizen of the community in which it exists from a legal standpoint. If you want to maximize shareholder value in an integrated holistic system, philanthropy can be part of that strategy, and it is the responsibility a citizen has in his or her community in any case. The same people who argue against corporations engaging in philanthropy frequently argue that government is also incompetent in engaging in civic activities. As their argument develops, now they assert that business is incompetent and government is incompetent, so that puts all civic responsibility onto individual citizens. I ask you, are individual citizens inherently more competent in philanthropic endeavors than businesses? I would argue that because business taps into more complex feedback loops and may enjoy the results of more detailed research on the effectiveness of its investments, business probably has the potential to be more competent in philanthropic practice than most individuals.

From my perspective, we need to acknowledge civic responsibility at the individual, corporate, and governmental levels. Civic responsibilities cannot be completely met by the voluntary individual sector of society. Corporations have great contributions to make in philanthropy. Perhaps some corporate philanthropy is misguided and money is wasted, however, I will point out that corporations make poor investment choices all the time. Corporations make mistakes all the time, and they can make mistakes in philanthropy, just like they can make mistakes in other areas of their business such as the people they hire and promote or their investments in new equipment or facilities or their mergers and acquisitions. Not everything a business attempts will succeed, but that simple truth does not negate the business process. Corporations may not always be successful in the philanthropic arena either; they will occasionally make mistakes. These mistakes do not negate the worthwhile value of most philanthropic efforts. In most cases business philanthropy creates beneficial social value.

**Q: Who should control corporations, stockholders, or stakeholders?**

A: One of the objections I frequently hear is that I advocate for stakeholder control of corporations, as opposed to stockholder control. I am certainly not arguing for that. As I have already pointed out, stockholders own the corporation, they get paid last based on residual profits left over from the business and it remains essential that they have the final say, through the Board of Directors, on who comprises company management. They need to have the ultimate power to fire management if they are unhappy with the performance of the company. Without that power, inevitably the stockholders will eventually be exploited by the management or some of the other constituencies of the business. I am not arguing, and have never argued, for anything that weakens the property rights of the investors and stockholders. That line of reasoning is a simple misunderstanding.

**Q. What about conflicts between various stakeholders? How do you create balance between all the conflicting desires and demands of all the different stakeholders? For example: if more is given to the employees doesn't that necessarily result in less being available to the other stakeholders such as the investors and vice versa? How do you avoid conflict and keep all of the stakeholders happy?**

A. Conflict between the various stakeholders in a business is inevitable from time to time simply because each stakeholder wants more. Customers want higher quality and lower prices, employees want higher wages and better benefits, investors want higher profits, governments want higher taxes, and community groups want

greater donations. The potential for conflict is always present. However, the fundamental mistake that most people make when thinking about this issue of conflict between stakeholders is that they create analytical separations between the stakeholders and take it no further. They see the stakeholder groups as separate from each other and the business – each pursuing their own interests.

When this type of analytical separation is employed it also engages in a form of reductionism – it ignores the relationships between the stakeholders and the business and with each other. The business is more than just the sum of the individual stakeholders. It is also the interrelationship, the interconnection, the shared purpose, and the shared values that the various stakeholders of the business co-create and co-evolve together. No complex, evolving, and self-adapting organization can be adequately understood merely through analyzing its parts and ignoring the greater system that also exists. This is a very important idea to understand because while the analytic mind will focus on the conflicting interests of the stakeholders it will tend to ignore or fail to see what the intuitive systems mind understands that the stakeholders are interconnected together in a “harmony of interests”. In a healthy complex, evolving, and self-adapting system the harmony of interests between stakeholders proves to be far more important and resilient than the various conflicts of interest that the analytic mind focuses upon.

A holistic business creates value for all of its stakeholders. Given the desire of each stakeholder for more, how is the value divided between the stakeholders to keep them happy? There is, of course, ultimately no magical formula to calculate how much value each stakeholder should receive from the company. It is a dynamic process that evolves with the competitive marketplace. No stakeholder remains satisfied for long. It is the function of company leadership to develop solutions that continually work for the common good. The art of excellent leadership seeks the win-win-win-win-win solutions in the context of competitive market processes that optimizes the value of the entire business system and for each of the stakeholder participants within that business system.

**Q. How do you reconcile the famous quote from Adam Smith with your point of view? The quote is “By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good.” Adam Smith, The Wealth of Nations.**

A. To me this quote has two parts to it, the first being a reinforcement of Adam Smith’s famous “invisible hand” metaphor which I think was the most profound

insight into social history ever made. The metaphor implies that through a voluntary exchange people acting in their own self interest, pursuing their own good, create value for the greater society. I do not argue against that. I believe in the invisible hand. The second part of the statement, however, is what I disagree with, “I have never known much good done by those who have affected the trade of the public good.” Much of the good that is done in this world is done by people who intentionally do good. The invisible hand metaphor correctly points out that much good is done for the public accidentally, so to speak, by simple pursuit of self-interest. Through voluntary exchange, acting in self-interest, parties both voluntarily exchange, and both parties benefit or the exchange wouldn’t happen. That process creates a social good, true, but it is also true that much good is done because people have an intention to “do good”. All the “good” is not done accidentally.

I believe that the “invisible hand” of Adam Smith should be supplemented by the “visible hand” of intentional “do-gooding”, and that individuals, governments, and businesses have endless opportunities to attempt to do good in the world. Business has the opportunity to “do good” and create value for all the various constituencies that trade with the business voluntarily. I also believe that supplementing the “invisible hand”, with a “visible hand”, if done consciously, on an ongoing basis by individuals and corporations around the world, would help push humanity into an era of accelerated progress that would be unprecedented in world history. That is what Whole Foods Market is trying to do, and that is what Conscious Capitalism really means.