Creating the Virtuous Organization

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Chapter 1

Mission

The Principle of the Deep Why

Marissa Richardson

A group of people get together and exist as an institution that we call a company so they are able to accomplish something collectively that they could not accomplish separately—they make a contribution to society.

David Packard

This book is for the sort of manager or executive who says, “I don’t work at a charity, but I want to do good in the world.” Or maybe, “I’m not a social entrepreneur, but I wish I could feel better about working for my company.” Or “I feel so fortunate about the wealth I have been able to generate through my work. I am wondering what I can do to give back.”

Our first answer to all these questions is this: Your company probably already adds tremendous value to the world. And we can help you to be better.

Not do better. Be better.

Our philosophy is rooted in virtue ethics. The basic idea underlying virtue ethics is that when faced with a decision, the main thing you consider is what your decision will say about who you are and who you are working to become. What matters most is your mission and values in life, and every decision you make is weighed against a sense of loyalty to the concept of achieving—and maybe even improving—that mission.

If you ask most people working in for-profit companies what the “mission” of their organization is, you’ll typically hear one of two things: it’s organized either 1) to generate money (either for the owners/shareholders, the employees, or both) or 2) to produce a product or service. What you won’t often hear is the very thing that an organization needs in order to even have a virtue orientation: a mission. Not an ambition (“I want to be the biggest/best/fastest/essential/first/most innovative . . .”). A mission. A value-based statement about the contribution your organization seeks to make in the world.

The irony is that most businesses have a mission. It’s inherent in what they do—if they weren’t contributing something of value to the world, people wouldn’t buy their products. But it’s too easy to get trapped into believing that having a product is the same as having a mission. And if the product is the center of your organizational identity, then you are trapped if your product is ever at odds with your values (think cigarettes and the discovery of tobacco-related harms or the sugar industry).

The philosophy of virtue ethics was developed with individuals in mind. But from decades of research, we know that organizations have values too and that organizational values matter for attracting, inspiring, and directing the people who affiliate with those organizations—not just founders, employees, and customers, but a whole range of stakeholders who are linked to the organization in a variety of ways. Over time, we have learned that there is such a thing as organizational psychology, organizational behavior, and organizational values, missions, and identities.

What is the core purpose of your organization? Why does it exist? There are different ways of answering these questions, and we believe that some kinds of answers are more likely to motivate virtue in your organization than others.

There are some answers we are more primed to give because of the way we generally teach people to think and talk about organizations (particularly for-profit firms): answers about profit, product, and differentiation, for example. But these are not the deep why of the organization. If you allow yourself to be satisfied with these primed answers—if you define your organizational mission, vision, and values according to them—you may not fully realize the potential of your organization's identify and strategy statements to integrate your entire organization around the kind of deeply resonant purpose that will connect your executives, employees, customers, shareholders, and others to a deep sense of purpose and identity.

We believe you are more likely to create a virtuous organization if you understand the deep why.

The deep why is a statement about the world that connects people by identifying a common (sometimes even universal) problem and a shared need. Filling such a need in ourselves and others can help us to achieve a greater connection with ourselves as people, and with others as members of a shared humanity. Statements about organizational mission or purpose that fall short of the deep why have less potential to motivate us toward virtue.

The remainder of this chapter is focused on figuring out how to identify the deep why and offering some practical tools for developing mission and vision statements that build on the deep why in a way that can help guide your organization toward a more virtuous identity.

The deep why

Some people get trapped when they try to figure out the purpose their organization exists to fill. We have identified

The easy answer for most for-profit organizations is that they exist to create wealth; companies create income for the owners and shareholders and for the employees who count on the company for their wages. We call this the profit trap. Creating wealth can be a virtuous goal, as we discuss in a later chapter. There are infinite ways in which a founder or employee could pursue the objective of making money. But for some reason, they chose this one. Wealth is an important outcome of businesses and markets, but it is not the unique reason that this organization exists in this particular way.

A second easy answer for many organizations is to focus on the product or service. We call this the product trap. You might say, "We provide these specific products or services to people who are willing to pay for them. That's why we exist." And certainly the product mix is a key component of what organizations do, and the nature of the product mix is an important part of organization virtue. But the very fact that people will consume and pay for these products or services suggests a deeper reason for existing—a way of being connected to the society around you by producing something of value. So why is your service or product valuable?

The answer to that question may not be quite as easy as others, but plenty of people jump to differentiation as a straightforward way of answering the question as yet another justification for organizational existence. We call this the differentiation trap. Organizations differentiate their product or service from other similar products or services in the same general market. "We produce better/less expensive/unique versions of the product. That's why we exist." Certainly, differentiation demonstrates self-awareness on the part of the organization and is an important—even vital—set on the way of identifying the deep why. In ideal cases, it's motivated by the deep why.

But we're not there yet.

If you are trying so hard to convince people to choose your product or service rather than those offered by competitors, it's important to know why the market for your product exists in the first place. The answer almost universally comes down to a statement of need. Such needs can generally be linked, in their essence, to a specific human need from Maslow's hierarchy of needs. Identifying the need your organization exists to fill can help bring your organization into alignment. People can powerfully empathize with the needs of others—being part of an organization that exists to lift others out of need can fill a need for employees and shareholders themselves. It gives everything your organization does a deeper purpose.

Sure, people may not need to donate to a national charity, to gain graphic design skills, or to buy mascara, Settlers of Catan, or Purple brand mattresses. They want to. But why? Stopping at this point means you are caught in the want trap. Because below everything people want is the reason they need it. A person might donate to a national charity because they need to connect with something greater than themselves (self-transcendence) or might take graphic design classes because they need outlets for personal expression (self-actualization). A customer might buy mascara because they crave social acceptance (esteem) or play board games because they need more time with their friends (social belonging). A person might buy a new mattress because the old one prevents them from getting a good night's sleep (physiological).

But need still isn't your deep why.

The deep why is one level below need: Why do people still have the need you've identified? What problem or barrier prevents them from being able to solve this problem on their own? That is your deep why. Overcoming that problem or barrier is the reason you exist. It is why the market for your product or service exists. In a more general sense, it is the reason people need other people—even strangers—in this world. The truth is, there are some problems we cannot solve on our own. There are some needs we can't fill on our own, no matter how self-reliant we think we are.

Your organization exists to make it possible for other people to meet their own needs—by connecting with you.

Consider these two hypothetical conversations with shoe manufacturers:

Organization 1

We sell shoes. (Product trap)

Why?

Because people will pay for shoes. (Profit trap)

Why?

Because people want to buy our shoes. (Want trap)

Why?

Because our shoes are more durable than other kinds of shoes. (Differentiation trap)

Why?

Because people need shoes to have their feet protected. (Need)

Why?

Because without shoes, the places they walk can be cold, wet, and dangerous. (The deep why)

Organization 2

We sell shoes. (Product trap)

Why?

Because people will pay for shoes. (Profit trap)

Why?

Because people want to buy our shoes. (Want trap)

Why?

Because our shoes are more beautifully designed than other kinds of shoes. (Differentiation trap)

Why?

Because people need to express themselves. (Need)

Why?

Because the world is filled with pressure to conform. (The deep why)

Both organizations sell shoes, and both organizations sell shoes ostensibly to make money. But the difference they are trying to make in the world—the value they bring to others—is different in both cases.

In describing the process of identifying a company vision, David Packard (CEO of HP) said the following: "I want to discuss why a company exists in the first place. In other words, why are we here? I think many people assume, wrongly, that a company exists to make money. While this is an important result of a company's existence, we have to go deeper and find the real reasons for our being. As we investigate this, we inevitably come to the conclusion that a group of people get together and exist as an institution that we call a company so they are able to accomplish something collectively that they could not accomplish separately—they make a contribution to society, a phrase that sounds trite but is fundamental" (Building Your Company's Vision, HBR, 1996).

The deep why shapes that special, unique way that each organization contributes to the world. We are trying to help organizations design practices, policies, and procedures that have an integral sense of meaning, purpose, and direction. In order to design an organization that uniquely and successfully achieves this goal,

Vision quest

The deep why invites you to create a vision—a dream of a world in which the problem or barrier you've observed no longer exists. This vision serves as a driving and unifying force within your organization and among your stakeholders. William Drohan writes, "A vision statement pushes the association toward some future goal or achievement, while a mission statement guides current, critical, strategic decision making" (Drohan, 1999). Another way of looking at a vision statement can be something you potentially have in common with many other organizations, but the mission statement is what makes your organization unique. Your products may change over time. Your profit margin certainly will. You might even achieve your mission (more on this later). But your vision of the world? That's enduring. That's a deep why.

"Companies have a responsibility to improve society, and the problems Airbnb can have a role in solving are so vast that we need to operate on a longer time horizon," writes AirBNB's Brian Chesky in an open letter to the network's community. “We imagine a world where every one of us can belong anywhere. A world where you can go to any community and someone says, 'Welcome home.' Where home isn't just a house, but anywhere you belong. Where every city is a village, every block a community, and every kitchen table a conversation. In this world, we can be anything we want. This is the magical world of Airbnb. We will probably never fully realize this vision, but we will die trying.”[1]

Out of a universal physiological need for shelter—and by identifying specific ways in which the need for shelter has not been addressed for all people—a vision is born. A deep why that can motivate a loose network of thousands of people and provide an enduring sense of purpose and belonging despite changes in platform, target audience, and pricing models.

Defining the organizational mission

An organizational mission can also be derived from the deep why of an organization, but it is more about the unique contribution your organization can make toward achieving the mission. It can help the organization identify the positive influence it wants to have on the world just by existing and performing its usual, day-to-day tasks.

Consider the two approaches suggested by this idea. In one approach, the company exists to produce shoes for profit. In the second approach, the company exists to achieve an ideal and works to achieve this ideal by selling shoes. And, bonus! The company sustains livelihoods in the process.

It doesn’t matter, as in the case of our two shoe manufacturers above, whether the ideal is “We keep the world’s feet safe from the elements” or “We encourage creative expression from heel to toe.” What matters is that the company has an ideal. It has a purpose. It has a mission.

You differentiate because of your mission; your mission is not to differentiate.

People pay you because of your mission; your mission is not to get paid.

You have a product because of your mission; your mission is not to produce a product.

To keep the company’s purpose and mission at the forefront of all the decisions made at the company, many organizations choose to write a mission statement. And for the virtuous organization, a mission statement is essential. A mission statement is your company’s WHY. It defines the company's business, its objectives, and its approach to reaching those objectives. And, if it’s implemented well, a mission statement can and should set the tone, culture, and direction of the virtuous organization.

Focusing on your mission statement will help you avoid pitfalls that take you away from virtue and cause you to forgo your core goals and values during times of pressure. When in doubt, let your statements guide your decisions.

Many of the mission statements of for-profit organizations automatically focus on the financial benefits they bring to their shareholders. Because that’s where the value is, right? Not entirely. We believe that for the virtuous organization, objectives should shift from profits and products and instead focus on an organization’s purpose. “A company’s mission statement reveals the long-term vision of an organization in terms of what it wants to be and who it wants to serve” ("How companies define their mission," Fred R. David).

Thinking beyond the bottom line is an essential aspect of a virtuous company’s mission statement. As seen in the prior examples, each of the examples includes a social focus as an integral part of the company’s overall mission.

Consider the following questions as you think of a social purpose for your organization:

- What problems does our company’s product have the ability to solve?
- What are our company’s strengths and how can we leverage them to do good?
- Does our company have access to resources that can help us make a difference in a unique way?

Organizational values as safety rails

It might be tempting to presume that an organization's stated values should closely align with the mission statement—that the values should reinforce the mission and vision in order to achieve a sense of internal consistency.

We suggest that values should play precisely the opposite role.

If the vision is the why of your organization and the mission is the what, then values are the how. In this case, values motivate the action of restraint. They prevent you from operating outside the boundaries of what you might consider virtuous. In the absence of value tensions, our eagerness to fulfill a mission might encourage us to do so at all costs. Any mission or individual value taken to an extreme can turn a virtue into a vice.

This is why we identify values: to give us safety rails that prevent us from going too far.

Shalom Schwartz is a world-renowned expert in human values. He has studied tens of thousands of people and has examined values in every part of the world. He found that across the vast diversity of languages and cultures in humanity, there is a set of what he calls "universal human values" that exist in natural tension with one another.[2] Together they form a circumplex with four quadrants that demonstrate opposition in the values: openness to change vs. conservatism and self-transcendence vs. self-enhancement.

Within the openness to change quadrant, we see values such as self-direction and stimulation. These are in tension with values like security, conformity, and tradition in the conservatism quadrant. In self-enhancement, we see hedonism, achievement, and power. These are in tension with values like universalism and benevolence.

If your organization has identified a mission that closely aligns with values in one part of the circumplex, consider complementing this mission with values from other parts of the circumplex. If your mission closely aligns with innovation, for example—innovation is a change value—you might want to actively invoke values such as "security" and "tradition" in order to help your organization remember that there are always tradeoffs in the decisions they make. Forcing the company to face those tensions and reason through them is an important key to making good decisions.

This is true even in those cases where your organization has been founded with a social mission in mind. If your most naturally mission-aligned values are universalism and benevolence, then your challenge is to identify values that will prevent you from marching off in the direction of destructive self-sacrifice for yourself and those who work with you—even, perhaps, for your planned beneficiaries. Identifying self-enhancement goals for the organization can maintain balance and create dynamic tension that might not otherwise exist. For example, TOMS shoes learned the hard way that their benevolence—if unchecked—came at the sacrifice of power and achievement in those they aimed to serve.

Their revised approach is much more focused on operating and giving in ways that are focused on empowerment for the served populations.

The General Motors (GM) strategic priorities ("earn customers for life, grow our brands, lead in technology and innovation, drive core efficiency, and culture to win") demonstrate internal value tensions. The goal of earning customers for life is a conservative value, while the goal of leading in technology in innovation is from the opposite quadrant, openness to change. This tension suggests that the company should not innovate so quickly as to lose customers, nor should it cater so much to the historical demands of the customer base that it fails to develop new and exciting technology. Growing brands, culture to win, and drive core efficiency are all driven by self-enhancement values, so it is good that GM has balanced this need for achievement and power with its more benevolent vision statement ("zero crashes, zero emissions, zero congestion").

Building on your strong foundation

The virtuous organization doesn't just write mission, vision, and values statements and let them collect dust. The virtuous organization incorporates these foundational documents into every aspect of the company.

Everyone from the custodian to the shareholders and from the front line employee to the CEO should know why they come to work every day. And if they are tuned into the mission, vision, and values of the organization, they will be coming to work for more than just a paycheck.

Incorporating your mission, vision, and values statements into everything you do can include the following ideas:

- Post the statements on walls or placards throughout the workplace. This can help constantly remind the employees of your WHY.
- Discuss the purpose of your organization as part of team meetings. Follow up with employees on how they have been incorporating the mission and values into their daily work and how their work contributes to the vision. This reiterates the importance of your mission, vision, and values in the success of the company and can help employees get new ideas from each other on how to live the mission and values at work.
- Recognize your employees privately and publicly for the ways they incorporate the mission, vision, and values into their core activities. This also reinforces the importance of the mission and shows the employees that their efforts are important to the company.

A strong, focused mission statement is essential to the success of a virtuous organization. It creates a culture that reflects the values of the organization and gives direction and focus to the goals of the company. Inside and outside of the company, the brand will be known for its outward focus and gain credibility, influence, and opportunities to make a real difference in the problems that face our world.

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[1] https://www.prnewswire.com/news-releases/brian-cheskys-open-letter-to-the-airbnb-community-about-building-a-21st-century-company-300588412.html

[2] Schwartz, Shalom H. "Are there universal aspects in the structure and contents of human values?" Journal of social issues 50, no. 4 (1994): 19–45.

Chapter 2

Product Mix

The Best Life Principle

Jonathan Hardy

Profit is not the legitimate purpose of business. The legitimate purpose of business is to provide a product or service that people need and do it so well that it's profitable.

James Rouse

Don't give people what they want, give them what they need.

Joss Whedon

In order to carry out your organizational mission, you must produce something of value—a product or service. What you produce must be a benefit to others that will both inspire people to join your organization in pursuit of the mission and serve as the fruit of your labors. The core products or services that you provide to the market are where your impact on the world begins, and these products or services represent your primary interaction with the world.

In this chapter we will explore how you can think about your core business and its potential to contribute or detract from organizational virtue. We will also propose ways organizations can potentially shift a non-virtuous product mix to neutral or a neutral product mix to virtuous and continually move your business in the direction of virtue.

Core business should fill a universal human need

Core business is the product and service mix on which you gain revenue. In other words, it is the tangible value that you offer to the world. In order for your business to be considered virtuous, this core business must not prevent or remove the achievement of basic human needs from any person, and it should be helping people achieve some element of at least one human need. Consistent with the deep why approach to the organizational mission, we adopt Maslow's hierarchy of needs as our framework for understanding the way products and services can affect organizational virtue.

When we consider Maslow's hierarchy, we should be able to identify one or more needs that our products or services are designed to fill. We can improve the virtue of our products by more purposefully designing our products and services to actively meet specific needs at one or more levels of the hierarchy. The following list provides examples of those needs:

- Physiological: Does your business provide for or improve basic needs such as food, sleep, or shelter? Does your business make meeting these needs more accessible or affordable for those who struggle to meet them?
- Safety: What are the risks associated with consumption of your product or utilization of your service? Does it reduce risk in people's lives? Does it deliver value with less risk than the alternatives? How does your core business affect the health and physical wellbeing of your customers? Does it improve it, make it worse or is it neutral?
- Love and belonging: Does your core business help consumers establish or maintain meaningful relationships? Does use of your product sometimes negatively impact relationships? Does it help strengthen or does it weaken communities?
- Esteem: Does use of your product positively or negatively affect the respect that your consumers have for themselves or that which they receive from others? Does your branding and marketing help others to feel better or worse about themselves? Does your business lead customers or community members to feel inferior or of lower value than others?
- Self-actualization: Are users of your product more or less able to reach their full potential than if they were not using your product?
- Self-transcendence: Does your product or service allow your customers to demonstrate the intrinsic value they place on other people, animals, or the planet?

In evaluating your core product, look at each element and examine the impact your product is having on that aspect of your consumers' lives. Consider the same for the members of the community in which your product is being used and for other stakeholders. Is there a difference in how your product was intended to be used and how it is actually used that affects your answers to these questions?

Do no harm

A virtuous product or service should add value to the consumers or community in at least one of these areas of basic human needs—but should also not be creating harm in other aspects. There are three main ways in which organizations can cause harm: either they can provide value at one level but erode values at lower levels (such as use of drugs that increase a sense of belonging while challenging safety), they can "trap" people at one level and prevent them from achieving higher levels (like social media platforms that provide love and belonging but may prevent esteem and self-actualization), or they can trade off the same value between different groups of people (such as law enforcement practices that disproportionately create safety for certain groups of people while making other groups of people feel unsafe).

As is often the case, this is not as cut and dry as we wish it were. Many products are created for a positive purpose but have negative side effects or can be misused in ways that are harmful. Other products are believed to be good at one time but later on are discovered to have negative effects. A virtuous organization is responsible and accountable for the effects of its products, services, and processes on people and the world. As we will discuss in greater detail in this chapter, it is important for organizations to be constantly keeping a pulse on the impact of their products and finding ways to actively identify and mitigate harm their products or services could be causing.

If a product or service causes harm, the company that produces it should be the first to identify the harm, the first to publicize the harm, and the first to respond in a way that will minimize and repair the damage.

One way to identify core product harm is to look at a utility-damage ratio—how much good is this creating for consumers and communities compared to how much harm it is causing? Almost all businesses will create some unavoidable harm so the question to ask is whether that harm is outweighed by the value of the product or service in filling an important human need.

Another approach to evaluating the virtue of your core business is to consider whether, if you were living your best life, you would use your own product in the way you are encouraging your customers to use it. We call this the "best life principle."

A virtuous organization seeks to maintain a product mix that adds value to the consumer by meeting their core human needs and promoting the product mix in a way that enhances that value (rather than sacrificing customer value to enhance the profit motive of the business). This concept acknowledges that your product could have a positive use as promoted in advertising (the potential benefit of your product, which you use to convince customers to buy the product) and a detrimental use in actual practice (how people actually experience your product and the ways that you nudge them to use it once they are using it).

Let's look at social media as an example. Facebook has stated its goal is to "give people the power to build community and bring the world closer together."[1] This is certainly a likeable proposition. And perhaps there are use cases in which people feel closer to people who would otherwise be separated by time or distance and in which communities of individuals can form and interact. However, evidence from social science appears to suggest that for many users, Facebook actually pulls them away from those closest to them and Facebook seems to employ and/or promote behaviors that can prevent people from building meaningful relationships, such as using algorithms to limit the range of news media presented to users—which increases the likelihood of Facebook generating revenue through clicks but exacerbating rifts between people with different points of view.

Similarly, the amount of time that consumers spend clicking on clickbait articles and scrolling through non-relevant information could just as easily be spent talking to or spending time with loved ones. However, Facebook has built its business on advertising revenue, which means it only gets paid when users are distracted from building community and strengthening relationships. This makes sense given that Facebook's revenue model makes a lot of money but doesn't necessarily deliver its promised "best life" value or align with its stated mission.

If leaders at Facebook were to apply the best life principle, they might consider how they would use Facebook if they were living life in the way they really desired or consider the ways in which their own use of Facebook differs from that of the average user. This may include reaching out to old friends, seeing key life events for those they care about, and learning from the insights of other people. It would likely include setting personal limits on how long they spend on the platform and a balance between online connection and face-to-face connection. After identifying this best life ideal, Facebook could look for ways to shift its actual and promoted use toward the ideal use to better benefit their customers.

Certainly, there are ways in which this would impact Facebook's current revenue model and thus might not be as simple as it sounds. If you consider that Facebook's advertisers are also part of the community, that people often want or need to connect with local or online businesses to meet legitimate needs for products and services, and that Facebook algorithms are often quite successful at presenting users with content they find interesting and compelling, an argument can be made that the best life measure does not deal a fatal blow to the Facebook revenue model. Instead, it suggests the need to carefully consider ways in which Facebook can balance its positive, mission-supported qualities with its negative, mission-deterrent qualities. The best life principle assists with drawing these distinctions.

A tool kit for building the customer's best life

We have identified that it is the role of a virtuous organization to minimize harm and find ways to achieve a positive impact with the least amount of negative consequences. Adjusting for the best life principle can have a large impact on sales and the future success of a firm, so in the rest of this chapter, we will explore ways that companies can successfully navigate these changes. We will explore the following four tools:

- Research and development: focusing effort and investment on developing ways to achieve utility with less harm.
- Product mix adjustments: introducing multiple products that focus on the same utility and guiding customers toward the lower harm products.
- The virtuous nudge: directing customers away from harmful product use and into more virtuous consumption.
- Customer education: communicating to customers about harmful effects and suggesting ways to gain the utility without the harm

Research and development

In addressing harm, organizations can and should find ways to become aware of and negate negative consequences through strong investment in research and development (R&D) to discover alternative solutions. While there may not be immediate ways for companies to help their consumers use their products in a virtuous way, we believe that all companies can find ways to achieve the same or similar value to consumers with better solutions in the long run. This could require significant research and change, and in this section, we will consider how organizations can start down this path.

All companies engage in a certain amount of product and market research in building out their business and finding ways to expand. Companies who are cognizant of the good and bad they do in the world will leverage this research to identify opportunities to shift the form and function of their product and the way they market it to do more good and cause less harm to consumers. But this should be considered a starting point.

Virtuous companies will dedicate R&D efforts to identifying potential ways their product could be harming others and actively seek to find better long-term solutions to the problems their business is addressing. They will also look for ways that they can make their products benefit others in areas where they are currently causing harm or not affecting customers.

The first point is that instead of waiting for outside researchers, consumers, or government regulators to identify harm that they are causing, virtuous organizations will proactively try to understand the impact that they are having and how it could be harming users or their communities. Not all organizations will have the resources to maintain R&D departments, but even small companies can stay connected with their customers to learn about the impacts of their business and stay updated with evidence-based industry research. Once they have identified harm, organizations can use the tools outlined in this chapter to help them find ways to minimize this harm.

The second point is that virtuous organizations will focus R&D efforts on providing products that are better for consumers and society. This could include focusing on issues they have identified and finding ways to counter the harm that is being caused. This could also include looking at a totally separate product offering that could meet the needs of the consumer without causing the harm that the current core product is creating. In either case, the company is putting time and money into research specifically to improve the impact it has on the world and to make the lives of people better.

One prominent example of reflecting on and redirecting product mix is in the oil industry. While oil companies provide real value to their consumers and society by providing energy that drives much of modern industry, their products also create many negative externalities. Oil companies who are seeking to be virtuous are focusing their investments and efforts on finding long-term solutions that reduce environmental impact while adding similar value to consumers. There are many examples of this, such as ExxonMobil investing more than $1 billion a year in low carbon technologies.[2]

It is important, however, that these efforts be more than greenwashing (trying to appear environmentally friendly on the surface for a better public image while failing to really value such change). As an example, some oil companies have come under fire (including Exxon) for publicizing investment in clean energy while also lobbying against legislation that would promote its use.[3] These companies clearly walk a difficult line of trying to find the best solution for the long term while also maintaining profitability with their current business model and products so they can make investments in new solutions and be around for the next era of energy production. Every organization must take an honest look at their public and private actions and do its best to reach for virtue.

A key to making these kind of changes is for companies to understand what the core value they offer to society is and then to find methods to achieve that end in more virtuous ways. It is because oil companies know that the value they add is energy, not oil, that they have been able to make targeted investments in new solutions to the same problem.

Companies that find themselves in situations where small changes will not shift their current product to virtue can start to invest in long-term solutions that can drive change in the future. By recognizing the harm they are creating and investing in research to find low-harm alternatives, they can build products and services that will help make the world a better place.

Product mix adjustment

While an immediate change to a no-harm solution may not be possible, in addition to investing in long-term fixes, virtuous companies can start to make small shifts in their product mix. Look at the value your current product offers and start to introduce products that are able to add that value even if they cannot do it at the same price point as your current solutions or if it is not a perfect match.

Too often, companies get caught in the product mindset instead of the purpose mindset. This product-focused trap leads organizations to consider solutions in the limited scope of their current product offering. Organizations who instead focus on their purpose will be able to identify options that solve the consumer problem but in vastly different ways. By adopting principles such as those taught in design thinking (prototyping multiple solutions to the same problem based on valuing the insights of those the product is designed for) organizations can consider many paths to solve a single problem and then identify low or no harm solutions to introduce while still accomplishing their overall purposes.

Imagine a tobacco company that was founded before a comprehensive research on the negative health impact of smoking existed—one that set out with the purpose of helping people relax and connect to people around them. This organization would have later encountered research that showed that its current product offering was likely having significant negative impacts on customers' safety and physiological wellbeing, leading the company to a decision point. If it saw itself as just a cigarette company, it may not have a lot of options; however, if the company viewed its mission as centered on helping people relax and connect socially, it could start to pursue and market new solutions that will help its customers obtain these same outcomes in healthier ways.

We can also see this in the example mentioned before of the shift that oil companies are making by starting to introduce renewable energy solutions into their product mix. For example, Exxon identifies itself not as a gas company but as an energy company and can thus produce both oil energy and solar energy and perhaps other energy types as well; although the full economic argument for solar power is still emerging, Exxon can start to introduce that option to consumers in time.

While this is one step toward virtue, companies could take this a step further by finding ways to subsidize the no- or low-harm product in order to encourage consumption. In the case of oil companies, they can leverage the high profits they gain in oil to decrease the price of renewable energy to consumers in order to encourage and grow its use more rapidly.

Companies who take this path will often then be able to start scaling these products and finding ways to drive down costs of the more virtuous options until they meet or exceed the profitability of the original product. In this way, they are not only promoting the use of better products, but they are creating a long-term, economically viable solution for their business that will keep them ahead of competitors.

The virtuous nudge

In almost all cases, products are created and marketed with the intent to meet a real need in customers' lives and to add value. As the product is rolled out and scaled, the organization may discover that in addition to meeting the need, the product itself also has harmful impact on the lives of those who consume it. One key way that virtuous companies can respond is in finding ways to promote new use of their product that will eliminate that harm.

One example of this is Apple's iPhone. This product was created to drive productivity and connection and while it created this value, Apple also realized that it was distracting drivers and creating dependency and attention issues.

Upon this realization, Apple could have chosen not to respond or to celebrate that they had created such an engaging product that people loved it enough to use it all the time. In this case though, Apple chose the virtuous response, at least in part.

With the release of IOS 11 in September 2017, Apple introduced a "Do Not Disturb While Driving" feature which sought to minimize distracted driving by preventing users from receiving notifications or unlocking their phone easily while driving. When the phone senses that the user may be driving, it requires them to click the "I'm Not Driving" button before the phone gives them access and resumes notifications. In this way, Apple owned the problem and introduced a nudge to shift the use of their product away from harm.

While this feature reduced the use of Apple's product in a dangerous situation, Apple has also released a feature that will also likely reduce overall use of their product. In September 2018 Apple released "Screen Time," which allows users to view statistics on how much time they are spending on their phone and on which apps. The feature then allows users to set limits on how long they spend on certain types of apps. Screen Time could likely decrease users' overall use of their iPhones, which has a variety of implications on the value users gain from the product but also addresses an important negative impact of this very useful product.

One way to look at this is that virtuous organizations are self-regulating. They recognize when there is a harmful impact in the use of their product and then put fixes in place to adjust use without being forced to do so. There are a number of industry regulators and other government regulators that will seek to enforce this type of change, but virtuous organizations will get ahead of these regulations and go above and beyond what is required. They truly view their purpose as serving their customers and will make necessary adjustments to their product that will help their consumers in the long term. These companies are proactive in finding these solutions and are willing to take small hits as a company to improve the lives of their customers.

Some concern has been expressed about the virtue of trying to control the way other people interact with your product. For clarity on this topic, we turn to Cass Sunstein and Richard Thaler's idea of "libertarian paternalism,"[4] or respecting people's ability to choose while nudging them in a positive direction. At the heart of this idea is the fact that organizations inherently shape the environment in which people make decisions. While organizations should not force people to make decisions that the organization believes are best for them they can and should strive to help them make the choice that they believe is in their best interest. As an example, consider the small grocery store mentioned earlier in this chapter. The store will make choices about which products are easy to grab while customers are waiting in line at the register, and customers will make the decision whether or not to buy those products. By choosing to place healthier options by the registers, the grocery store can nudge people towards making better choices while still permitting them to make the choice. In this sense, the store is being both paternalistic and embracing consumers' ability to choose.

Where possible, virtuous organizations find ways to nudge consumers to use their products in ways that negate the unintended harm that their products are causing. At times this could require sacrifices to ideal use and could even require shifts in the organizations' revenue models. These are trade-offs and changes that virtuous organizations will carefully make.

Customer education

A final approach that companies can take is to simply educate consumers on ways to reduce the harm that can come from their products. Unlike companies who find ways to nudge consumers to better use, these companies may find that it is difficult to introduce changes that can create better use and must lean on education.

Let's consider the response of Johnson & Johnson's (J&J) Tylenol brand to the 1982 deaths of some of their consumers due to an external drug tampering crime.[5] In recognizing these negative impacts of their product, Tylenol immediately recalled their products, helped with mass communications to educate customers on what had happened in order to prevent more deaths, and then put in better product protection mechanisms before putting the product back on the market. Tylenol owned the problem, educated the customers, and found solutions. This is the path of all virtuous organizations in response to harm caused by their core products.

While this example is fairly clear cut, J&J is in the midst of a much more unclear situation involving its baby powder. The Washington Post reported that in one of many cases brought against the company claiming that its baby powder was causing cancer, J&J was ordered “to pay $4.69 billion in damages to 22 women who claim the company’s talcum powder products caused ovarian cancer.”[6] J&J has conducted years of research on this and is convinced there is no link between their product and cancer. However, given significant external research disputing this claim, many have advocated that J&J should have printed warning labels on its product. In this case, J&J has opted to fight the accusations and failed to broadly communicate about the possibility of such a link. The company does have a second product that omits the ingredient in question, but it has made no change to the original product nor any attempt to better educate consumers on how to more safely use the product.

In this much more ambiguous case, J&J has decided to only communicate in response to media attention and has refused to do further customer warning. While it is not cut and dry, the unambiguously virtuous response, in this case, would be to communicate openly that while J&J does not believe there is a link between the baby powder and cancer, there are some studies that hint that the product could cause damage, and the company is doing further research to clarify and point people in the direction of the other product option.

These are challenging and ambiguous situations that each organization must grapple with, but we suggest that organizations who lead in virtue will default to acknowledging potential risks and educating their customers of those risks while working to mitigate or remove them.

Applying the tools

We now have a few tools that can be used to identify harm in your organization and to start yourselves on the path to virtue with your core products and services. Let’s return now to the Facebook example and find ways the company could apply these tools to its product.

Facebook has a product that was initially created with the intent of connecting people, and it has succeeded at doing that. From connecting long-lost families members to allowing activists to create movements, Facebook has empowered connection in an industry-defining way. However, as Facebook has sought to become a profitable business, it encourages consumers to spend more time on its platform, share more personal information, and click on more links so the company can generate more advertising revenue. New research is showing that this has created negative effects on the attention span of users and created addictions that cause many people to waste time and lose self-control.[7] [8]

In evaluating its core business, Facebook could identify that its product has a negative mental impact on consumers by encouraging clickbait marketing and contributing to consumers losing some of their ability to focus and control their use of time. Let’s focus on this dimension of Facebook's product impact and walk through the tools given in this chapter to find the virtuous implications for Facebook:

- Research and development: Facebook could focus investment on understanding how its product negatively affects its users and on finding revenue models that would allow for level or increased revenue while also decreasing the negative effects on attention and tendency toward addiction. This would require fully understanding the effects and what causes them and testing revenue models that would decrease these causes. This could include things such as leveraging content creators to have more engaged viewers by increasing fees based on length of visit. This simple shift in revenue model could ensure that Facebook benefits from mission-consistent consumption more than clickbait. Facebook could also create a paid premium account where advertising is removed and, if preferred by the user, algorithms would eliminate clickbait posts from the feed. This premium model could also offer features similar to Apple's Screen Time that allow people to evaluate their use of the product and self-impose limits.
- The virtuous nudge: Facebook could encourage users to focus on using the platform to connect socially with their contacts, de-emphasizing the role and prominence of ads on their site. This could, of course, significantly impact revenues.
- Product mix adjustments: With the results of their long-term solution finding, Facebook could start to pilot paid premium memberships alongside their current free, advertising-based option. As the company builds out the viability of the tools for the premium version, it could start to decrease the cost of the membership in order to shift the main base of users in that direction.
- Customer education: Facebook can start immediately to help users identify the ways that the product has negative effects on their attention spans through alerts, articles, and research. While doing so immediately could have an impact on revenue, Facebook can also strategically release this education in ways that invite consumers to move to premium models as they become available.

While this is all speculative and would require a lot of time and investment from Facebook, we hope that this provides a helpful illustration of how to apply these principles at your own company.

The virtuous path requires companies to explore totally new ways of viewing their core business. Businesses that understand their why and are willing to invest in the most virtuous means of achieving it in the future will succeed in the long term. In the case of Facebook, if it does not educate its customers and shift its model, it is likely that its customers will gain that education elsewhere and shift their attention to new products that meet their needs without the negative side effects. We believe that this is the virtuous path and the best path to long-term success.

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Chapter 3

Corporate Responsibility

The Principle of Integrated Goodness

Megan Brewster

The truly exciting thing about this generation we are a part of is that business and doing good in the world are not mutually exclusive. They are hand-in-hand, and that's how it should be.

Maxine Bedat

For those who care about integrating their desire to improve the world with their day-to-day work life, now is an exciting time to be alive. From social enterprise to corporate responsibility, from greening workplaces to diversity and inclusion, organizations are creating and sustaining social value in new ways with a level of maturity in these initiatives never seen before.

No longer is doing good the mandate only for nonprofits, or using sophisticated analytics and management approaches only expected of corporations. The roles, definitions, and strategies of organizations across the sectors (private, public/government, and nonprofit) are blurring. This is particularly true when it comes to the desire to leverage organizational resources to do good.

The premise of this book is that we can take all this good intention a step further, endowing every facet of our organizations with an approach to value maximization and intentional, congruent virtue that makes doing good and being good the deep purpose for every organization.

This chapter rests on the assertion that two foundational principles undergird the virtuous future of organizational strategy: congruence and value maximization. Together, these identify the difference between virtuous organizations and organizations that merely engage in prosocial initiatives: virtuous organizations have their prosocial intentions and practices inextricably woven throughout their systems of checks and balances.

Throughout this book, we cover many of the key principles virtuous organizations must practice, from accountability to humanizing interactions with people to environmental proactiveness. This chapter covers perhaps the most "meta" of these topics: how to practice corporate responsibility and social impact in a more virtuous way. First, the chapter explores a paradigm shift needed to bring a sense of integration to the virtuous efforts of organizations. Next, it explores the evolution of corporate efforts to achieve good in the world. Finally, it provides a roadmap for organizations to lead change through more integrated goodness. Each of these sections is intended to help organizations and their leaders reflect as they build a new concept of what it means to not only do good but to be good.

Concinnity and the maximization problem

The idea of multiple departments, systems, and efforts working together cohesively for an integrated purpose is called concinnity.

As noted in the leading text, *Firms of Endearment*,[1] concinnity is about organizational decisions that reinforce one another to create a virtuous system—as compared with the kinds of competing value conflicts that can fragment an organization. When an organization can develop a state of concinnity, it can gain and give greater value overall since its many people and processes are centered on the same purpose. Organizations that demonstrate concinnity show congruence in how their business strategies, people operations, prosocial efforts, systems, products, and processes all fit together to advance the central purpose and mission of the organization.

Integrated, mission-driven corporate responsibility (CR) means that there is no one-size-fits-all approach that will work for all organizations. In fact, good CR should look different at each organization because the highest and best CR will leverage the organization's unique strengths, capabilities, insights, partnerships, and more.

Pluralsight is an educational technology company that recently completed a $310 million IPO[2] and employs a robust social impact arm titled Pluralsight One focused on "democratizing technology skills." Their initiatives in this portfolio include providing nonprofits with discounted access to their educational platform, partnering with Code.org and the Computer Science Teachers Association to increase computer science education opportunities for underrepresented groups, incentivizing employees to volunteer expertise and time in technology skills training, and funding and mentoring ventures working to close the technology skills gap. Pluralsight's corporate responsibility initiatives are unique compared to other technology companies, and each initiative directs back to the central mission of the company, which is "creating progress through technology that lifts the human condition."[3]

In addition to strategic congruence, virtuous organizations and virtuous corporate responsibility are centered on a philosophy of multi-faceted value maximization. We cannot prioritize certain stakeholders at the peril of other groups or praise our efforts in one department as we seek to hide our efforts in another.

Virtue is not a zero-sum game. It is a maximization problem.

This paradigm shift suggests that instead of trying to offset or make up for the harms we cause in the course of ordinary business, we need to minimize those harms at their source. It suggests that we needn't consider how many organizational resources to divert from profit margins to prosocial initiatives because, in the value-centered paradigm, profit margins and prosocial initiatives should be two different measures of how the organization fulfills the same mission.

The sooner we stop viewing wealth and goodness as tradeoffs and start realizing that we can maximize total value—including financial prosperity and other kinds of social value—the sooner we can make the kinds of investments in the systems and skills that will help us succeed in creating efforts that leverage and reinforce one another while simultaneously advancing the strategic objectives of an organization.

Profit is often the most prominent measure of a business; as discussed below, this measure extends to corporate responsibility as well, with the bulk of evidence and research on CR focusing on establishing that CR makes organizations more profitable. Certainly, making money is a key objective for any organization and any CR effort, but it cannot be the only measure of success or even the main measure of success. Instead, virtuous organizations should have a mandate to deliver value to multiple groups of stakeholders, recognizing that their responsibility and opportunity go beyond simply enriching shareholders. This value maximization philosophy can prepare them to solve some of the world's toughest challenges, while also improving financially and creating a positive work environment and development opportunity for employees, among benefits to other groups as well.

An evolution of organized goodness

While business has long been concerned with social welfare, the concept of corporate responsibility as we know it now began to take shape in the 1950s and has expanded over the decades since.[4] The terminology has moved from social responsibility to corporate social responsibility to corporate responsibility (CR) over the years. From the 1950s to the 1980s, philanthropy dominated as the primary CR method for companies. In the '70s, managers and executives began to widen their approach, considering more inclusive hiring and environmental awareness as part of corporate responsibility, while business ethics and balancing stakeholder obligations became part of the discussion in the 1980s. The 1990s saw the inclusion of the corporate citizen concept and sustainability in this space, as well as significant research on the financial impacts of corporate responsibility. In the 2000s, CR took shape as a global movement supported by well-established research and popular narratives based on the business case.[5]

Today, the concept of corporate responsibility indicates an expectation—held by both internal and external stakeholders—for organizations to be responsible for the impacts they have on the environment and society.

Why does it matter that companies and organizations practice corporate responsibility and engage with the community around them? Certainly, there are instrumental reasons, such as gaining greater public trust and goodwill, avoiding problems created by an unhappy community, and marketing a value proposition to consumers and talent pipelines in local areas. There are other reasons too: creating greater prosperity, equity, and opportunity for individuals in the communities a business uses and serves or instilling a greater sense of meaning and purpose in an organization's culture by contributing to solving a problem larger than the organization.

Being in touch with and serving the community can also help an organization foresee specific mistakes or challenges and create a brand legacy that, ideally, benefits the community in a lasting way. There are many instrumental reasons for organizations to be involved with their communities—but this is not to suggest that there aren't also meaningful, value-driven reasons as well.

Today's generations of leadership, consumers, and talent have a greater interest in and expectation of CR than previous generations, contributing to the rise of social entrepreneurship and consistent pressure on leading organizations to be ethically, socially, fiscally, and environmentally sound.

On the consumer front, research suggests that 70% of millennials will spend more on brands supporting causes they care about.[6] In today's talent marketplace, corporate responsibility plays a key role as well, with more than 30% of millennials saying they would trade off responsibility or advancement to work for a business whose purpose they believed in—compared to only 19% of Gen Xers—and 78% saying their employer's values should match their own.[7]

Value-centered attitudes are also found at the top of hierarchies, with today's founders and CEOs advocating for more purpose in business. This is evidenced by everything from Blackrock's mandate that firms who want its support must contribute to society[8] to the rise of firms with built-in corporate responsibility models like one-to-one giving.

Defining CR specifically as it is practiced today presents a challenge since the ways companies and organizations deploy CR are often proprietary and the institutional values advanced by CR can vary in interpretation across cultural contexts. Though corporate philanthropy has been the historical face of corporate responsibility, in modern businesses we see a diverse array of corporate responsibility initiatives, from donations to cause marketing or corporate advocacy.

The good, the bad, and the ugly

As shared understanding of the role and nature of corporate responsibility has evolved and taken shape, so too have criticisms about such efforts. Critics often see the CR movement as fundamentally flawed, though they generally acknowledge that CR is well intentioned. Four of the most common critiques are outlined below.

The minuses of the credits/debits approach

Too often, community engagement and corporate responsibility have been used as cover-ups or distractions from harm or negative impacts on people or the environment happening in other parts of the organization. This approach reflects an accounting-style focus on debits and credits: if we do harm here, then do good there; it all evens out. This attitude is common even among the most highly resourced organizations. For example, one article[9] describes how several prominent automobile organizations lauded their environmental stewardship efforts in community engagement reports—but simultaneously lobbied to loosen environmental standards.

At its most innocent, this "credits vs. debits" attitude reflects a lack of strategy and concinnity in an organization. At its most pernicious, this attitude reflects a conscious attempt to misdirect the public with falsehoods about an organization's value commitments.

For organizations that truly want to lead in virtue, our assertion is that they must seek to maximize value in all facets of their operations. This means simultaneously working to maximize wealth and prosperity, maximize the inherent benefits of the product or service being sold, maximize the good that comes from strategically related efforts like philanthropy, and minimize harm.

It may not be possible to have 100% of the wealth, product benefits, philanthropy, and harm reduction that we want, but that's why we call it a maximization problem. And this is why organizations should employ the tools of strategy to make careful decisions in each of these areas rather than relegating the objective of "do-gooding" to an isolated corner of the company's budget and action plan.

The hazard of haphazard giving

A second common flaw in current corporate responsibility is the lack of systematic care in the use of funds and other resources toward social or environmental causes. For many such organizations, it is clear that their philanthropic efforts have little purpose other than to divert funds from the payment of taxes.

How often do charitable causes identify corporations whose values seem to align with their own, only to find that the company has spent its philanthropic allotment on causes unrelated to their ostensibly shared mission?

Giving to unrelated causes—or for unrelated reasons—undermines the ability of the organization to focus its resources on those efforts that are value aligned. It also dilutes the brand of the organization. Both of these drawbacks undermine the organization's ability to create value and achieve the mission.

Why would a recognition and corporate rewards company cut a check to a well-funded children's hospital? Why would a food product company focus on supporting reading programs rather than ensuring that hungry children in the community have enough food to eat?

Obviously, there is nothing inherently wrong with donating to children's hospitals or reading programs. And obviously, hospitals and reading programs are important–essential–and should be funded generously. But so should housing programs. And emergency shelters. And animal shelters. And environmental causes. And social justice programs. And prison to work programs. And refugee resettlement programs. And victim assistance funds. And cancer research.

Throwing money haphazardly at the world's causes will not leverage organizational expertise toward a desired social end.

Why donate a dollar, when giving an aligned dollar could easily triple the impact of the social investment?

Organizations should leverage their expertise—not just their money—to make a difference in the world.

For example, what if the food product company sponsored a local food bank, offering not only money and volunteer time but also operational and safety expertise while fostering a deep sense of community by uniting two food-related brands in the local area?

Sometimes haphazard social contributions have resulted from the pet projects or relationships of a senior executive; more often, they have arisen from an interest in doing good without taking the time to figure out what good the company intends to achieve or how it intends to achieve it.

A virtuous organization makes purposeful, strategic decisions about its giving priorities in pursuit of its overall mission.

Organizations can create the greatest good by leveraging their proprietary mission, capabilities, talent, and other assets to make a unique, strategic contribution in an area that aligns with their expertise, industry, and values. Additionally, organizations that truly want to lead out in virtue will make a concerted, measurable effort to integrate practices that create social and environmental good not only as independent CR efforts but as core ways of doing business that reflect a deeply entrenched organizational purpose.

The problem with doing well by doing good

Much of the established literature on corporate responsibility posits that organizations should care about CR and doing social good because it will increase their profitability by generating public goodwill, talent interest, reputational "warm glow," and more.

To be fair, there is a pervasive narrative in corporate culture that suggests it is somehow unethical or even illegal to do anything but maximize returns to shareholders. This belief—however erroneous—threatens the existence of environmental, prosocial, or philanthropic efforts. So it is no wonder that people who embrace the idea of corporate goodness would focus on proving that doing good does not prevent—and might even enhance—profit.

Through one lens, the well-established finding that CR efforts can increase financial performance is exciting because it suggests that doing good need not detract from fiscal success. However, this approach can prevent organizations from achieving the societal impact they could have through their CR because they are measuring it only in financial terms.

The problem is that the profit motive—central to these kinds of findings—can be at odds with a mission-driven motive. When profit and goodness come into conflict, the "do well by doing good" philosophy maintains the primacy of "doing well."

In contrast, when profit and goodness come into conflict within a mission-driven virtue perspective, we have tools for maximizing the sum benefit of both "doing well" and "doing good."

One additional study suggests that executives don't believe the research on "doing well by doing good" anyway. In an article published in the Harvard Business Review,[10] two researchers investigated whether empirical evidence supports the "business case" for CR-motivated executives to direct more resources toward CR. They found that business executives only believed the business case when they had a prior ideology that welcomed the finding. This means that believing in the business case was based on personal characteristics, not data presented. Executives who believed in the business case as the rationale for CR also underestimated the severity of social problems, seemingly believing that "strong business case for support" was synonymous with "less need to invest."

These findings suggest that while well intentioned, emphasizing the primacy of financial outcomes as the rationale for CR can actually be counterproductive.

Instead, the case for CR should be integrated with the case for every other activity carried out by the organization. Virtuous organizations make the case for CR and profit-generating activities simultaneously. We don't do CR in order to profit from it. We do CR to achieve our organizational mission.

The ignorance of the "we know best" approach

Many well-intentioned organizations and leaders are motivated to address a social problem after witnessing the negative impacts of that problem, quickly designing multi-level impact initiatives they are sure will help address the problem.

However, many organizations don't take the time to truly partner with and empower the people and communities they are seeking to serve; the result can be initiatives that actually aggravate the severity of social issues, create new problems, or displace local autonomy, culture, economy, and expertise in the process.

A recent example of this flaw and a successful change in direction is the story of TOMS Shoes. Created in 2006, TOMS Shoes employed a one-to-one business/giving model where the company gave away a pair of shoes to an underserved child for every pair of shoes bought. Though the approach was popular with consumers, the company learned that their approach created unintended negative consequences: their shoes contributed to creating a dependency in the kids who received the shoes and disrupted local economies.[11] TOMS changed its approach after these findings and engaged in new ways of driving social good and economic prosperity, including working to ensure a certain percentage of their products were produced in the economies they sought to help.[12] Though the company's current social good portfolio is diverse and divergent (including addressing gun violence, maternal health, vision loss, and more) rather than focused on a coordinated strategic objective, its story of changing its approach from a "we know best" to one that better reflects community needs is laudable.

Organizations that truly care about mission fulfillment will partner with organizations that understand deeply the roots of social and environmental issues and choose to employ approaches to their CR that uphold the dignity and wisdom of the communities they serve.

The virtue of integrated goodness

Given some of the short-sighted approaches that can derail CR, what does it look like to design and deploy strategic, successful CR—particularly when CR looks different at each organization? Halme and Laurila[13] assert that good CR falls into three categories: philanthropy, integration, and innovation.

1. Philanthropy: Philanthropy includes charitable giving, sponsorships, employee volunteerism, and other "donation" types of CR. It's also marked by an attitude that separates CR from core business objectives and operations.

2. Integration: Integration includes embedding CR as a part of business operations and conducting business more responsibly, such as building a more ethical supply chain or offering equitable compensation models.

3. Innovation: Innovation includes developing new business models that inherently address social and environmental problems in the process of creating business, such as creating new financial products that bring in revenue and meet an underserved need of a vulnerable population.

The authors suggest that integration and innovation are the more virtuous ways to practice CR because they drive change as a part of normalized business operations, rather than seeing CR as a way of depleting corporate funds and being outside of the expected mission of the company. Additionally, Rangan et al.[14] demonstrate that organizations with CR portfolios whose initiatives support each other across all three categories (concinnity!) are often most successful in generating real impact and deriving corporate benefits from CR.

Virtuous CR initiatives are also effectively measured. If one idiom rules American organizations, perhaps it is "What is measured matters." Like in other aspects of organizational success, effective measurement and evaluation is critical in driving resources and results for CR. And like in other aspects of virtuous organizations, it is the organization's responsibility to be the first to identify any harms or potential harms that might result from corporate action.

A roadmap for more virtuous CR

We've explored the what and why of virtuous CR—now it's time for the how. Recalling our foundational principles of strategic congruence and value maximization, we can explore a roadmap for how to put successful initiatives into place. This section draws heavily on Rangan et al.'s framework[15] for moving toward more virtuous CR within the paradigm that good CR is aligned with a company's business purpose, the values of stakeholders, and the needs of the communities in which companies operate. These principles apply both to small organizations developing their missions, visions, and values and large organizations who are looking to revise their historical CR efforts.

1. Choose initiatives that both address an important social/environmental challenge and align with the organization's mission, vision, and values.

If your organization has existed for a longer period of time and built a diverse and multifaceted CR portfolio, consider how to phase out initiatives that do not meet both of these criteria. If your organization is just starting, prioritize an issue area that makes sense in alignment with your core business products and organizational purpose; this choice will help you make a significant contribution and embed CR as part of your strategy and contribution.

2. Design initiatives in partnership with the people they are meant to serve and by defining a clear theory of change.

As discussed earlier in this chapter, many well-intentioned initiatives fail because they take an approach that condescendingly suggests organizational leaders know what communities need better than the people dealing with a specific challenge each day. By using human-centered design principles that empower and dignify the people your CR efforts seek to serve, you can build initiatives that are more likely to have a positive impact. Developing a clear theory of change—how your organization's efforts will specifically lead to the change you hope to see—is also important. Organizations should consider why they are equipped to address a certain challenge and how they will do this in a way that adds additional value.

3. Develop and deploy metrics to track performance.

As discussed above, what is measured is what matters. Organizations should measure inputs, outputs, outcomes, and impact to truly understand the success of their CR efforts. Given the popular framework of couching CR efforts primarily in financial contribution, it's also important for organizations to reject this and measure the true social and environmental impact of their efforts. Organizations should also be thoughtful about how the methodology they use in measuring success can change the direction of their initiatives.

4. Coordinate your portfolio of efforts across theaters and disciplines.

As discussed above, organizations may choose to develop CR initiatives in philanthropy, integration, or innovation, or more likely, some combination of the three areas. It's essential that each level of these efforts coordinates with those in the other categories rather than detracting from or competing with them. Each of these three categories and the initiatives within them should drive back to the organization's central purpose and mission. Leadership and management for these efforts should also ensure they effectively manage and integrate stakeholder relationships and leverage expertise across disciplines in the organization.

5. Engage in the wider landscape, including creating new education, sharing findings, and building partnerships.

A common critique of the way the nonprofit sector has approached social good is the rampant fragmentation of the service landscape—meaning that despite having the same vision, many nonprofits spend their resources competing with each other for funding or other resources rather than partnering for impact. Organizations designing virtuous CR efforts can overcome this by mapping the ecosystem of other organizations (public, private, and government) that address the strategic challenge(s) they have selected, and then choosing their partners selectively. Additionally, organizations should participate in the wider landscape by educating their stakeholders on the issues within their CR portfolio and why it makes sense for their organization to be addressing those challenges.

Conclusion

A more virtuous version of corporate responsibility is possible. Focusing on new and better ways of doing corporate responsibility is a natural extension of the holistic focus on the virtuous organization. The strategic alignment and value maximization elements of the virtuous organizations approach can help organizations to both identify better CR initiatives and maximize value by leveraging their unique skills and values.

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Chapter 4

People

The Principle of Humanizing Interaction

JoDell Davidson

Corporations have an obligation to constituent groups in society other than stockholders . . . What are these groups? How many of these groups must be served? Which of their interests are most important? How can their interests be balanced? How much corporate money should be allotted to serve these interests?

Thomas M. Jones

Every organization is a living organism, made up of many people and groups working together, ideally toward a common goal. All organizations rely heavily on people for their success, growth, and survival. Because people play such a vital role throughout an organization's life cycle, it makes sense that a virtuous organization would need to consider the groups of people it interacts with—both inside and outside of the organization—and its responsibilities toward those people.

It is easy to understand an organization's responsibility toward the people it employs. This sort of approach details practices for human resource policies such as compensation and benefit structures, diversity and inclusion practices, professional development, and psychological safety in the workplace. Certainly, many books have been written on how best to select, compensate, and motivate employees.

Similarly, we could focus on the organization's relationships with its customers or clients: How do organizations attract, please, and maintain positive relationships with the customers who make their existence possible? Excellent volumes and research have also explored these issues.

The problem with these traditional approaches to considering the interactions of organizations with people is that people are often considered forms or sources of capital—either they are viewed as important because they generate resources for the organization or they are important because they are themselves an important resource for the organization. Terms like "social capital," "human capital," and "human resources" emphasize this instrumental view.

We believe that a virtuous organization sees people as inherently valuable, simply because they are human beings. A virtuous organization thus centers all of its interactions with a person—regardless of that person's role in relation to the organization—on honor and respect. This goes beyond a sense of professional courtesy. Rather, a virtuous organization structures itself and its interactions with all people in a way that honors their humanity. We call this the principle of humanizing interactions.

In this chapter, we identify general principles that should guide virtuous organizations as they work to establish humanizing interactions. As we move through this discussion, we will first consider the concept of humanizing interactions—what this means and why it is important for virtuous organizations. Second, we will give some guidance for how to identify the groups of people most likely to be impacted by the organization, and whose unique interests and needs should be considered as humanizing interactions are developed. Third, we will delve into the general principles that should guide a virtuous organization as it establishes specific people practices, drawing heavily on Maslow's Hierarchy of Needs, Schwartz's theory of universal human values, and the United Nations Declaration of Human Rights.

This chapter invites you to take a broader look at how your interactions with all stakeholders affect the entire range of their basic needs and human rights. For example, considering an employee's personal well-being above her mere productive capacity is the mark of a virtuous shift in organizational perspective. When companies begin to look this way at all the people they interact with, they will find subtle shifts in their approach to business.

Honoring what makes us human

The core idea underlying the principle of humanizing interactions is that virtuous organizations honor the humanity in every individual human being. In order to do so, it is important to understand what makes human beings special—what makes us different from other living creatures. By appealing to the unique needs, drives, and values of human beings can help inform the ways in which we design our organizational interactions with individual people.

The human brain has evolved in ways that allow for advanced language skills, collaboration and cooperation skills (uniquely, even with those who are not blood-relations or partners/mates), and the ability to infer what other people are thinking and feeling.[1] The cognitive and social capabilities of human beings are more advanced than has yet been observed in any other creature.[2]

Our human cognitive abilities have allowed for incredible advances and innovation in all areas of human experience: technology, science, communication, business, education, and medicine. We can hop in a machine that flies in the sky and be on the other side of globe in half a day, we are living longer than at any time in recent history, and more people have more access to more knowledge than at any other time in history. Our enhanced cognitive abilities allow us to start organizations and build products and services that add value to our world. While our cognitive abilities tend to get the spotlight, it is the combination of our cognitive and social abilities that allow our innovations and technology to have such a big impact.

Like other animals, humans act in ways that ensure either their survival or the survival of those closely related to them.[3] The difference is that humans also take into consideration the needs, wants, and desires of others who do not share our same genes.[4] This allows for a greater scope of collaboration and a greater chance for survival and evolution. Without this ability to collaborate with people who are not like us (i.e., to ensure the survival of individuals we have never met) many of the advances we have made as human beings would not have come about.

Our ability to take into consideration the needs, wants, and desires of all the people we interact with is exactly what makes us different than all other creatures. It's at the core of what makes us human. Our advanced social abilities often motivate and channel our cognitive abilities. Our ability to collaborate in these enhanced ways is what drives and enables us to create organizations in the first place.

It seems natural, then, that people interact with your organization at least in part to express their uniquely human ability to socially be "part of something larger than themselves." This desire is part of what makes humans special.

Individuals interact with your organization to express their uniquely human ability to co-create. Even customers who purchase a product are co-creating with the organization, shaping the person's own user experience, potentially shaping the organization's future product mix, and influencing the nature of the broader market.

Every interaction an organization has with a human being should humanize this experience by honoring that sociality, that creativity, that sense of expression.

As a virtuous organization, humanizing interactions are the foundation on which all of people practices should be built.

In addition to these uniquely human characteristics that should be honored through humanizing interactions, it is essential to recognize and believe that people also have fundamental needs, wants, and desires that your organization can use its collective, advanced cognitive and social abilities to address.

Principle trumps practice

As we seek to create organizations that are virtuous in the sense described in this book—making decisions based on a desire to be good rather than solely to do good—it is important to understand that no set of practices alone is sufficient to fulfill the demands of what it means to embody humanizing interactions.

Certainly the improvement of standard practices is a good start, and there are a great many fundamental practices in managing people, communicating with customers, and relating to external stakeholders that can help us to honor the humanity in our organization's people. The truly virtuous organization, however, will strive to have an even deeper commitment.

In business, profit strategy often precedes and even trumps considerations about how these decisions will impact individuals. We commend the numerous organizations that are turning toward better human resource practices, but often, even the motivation for such practices is profit: good people practices make employees and customers happier, and happier employees and customers mean more profit. Certainly, we believe that profitable organizations have the ability to do incredible amounts of good, and we want organizations to contribute to the creation of wealth. We also acknowledge the win-win proposition of benefits to both employee and company.

But to be a virtuous organization, the culture of the organization must be saturated with the beliefs that people have basic needs and rights that the organization has a responsibility to honor, that people deserve to be treated with dignity and respect, and that people deserve to be viewed as whole people with lives that matter. These beliefs should be independent of your organization's profit goals.

For example, your core motivation for creating a humanizing workplace for your employees could recognize the fact that your employees are spending the majority of their lives giving their energy to build your business. In return, you can honor their whole selves by treating them with dignity and respect, providing them with fair compensation and benefits, creating a diverse and inclusive workplace, and providing opportunities for professional and personal development opportunities because, as people, they matter to your organization even if these practices do not enhance productivity and increase financial gains.

Identifying organizational stakeholders

Organizations interact with and impact a wide array of individuals and groups of people: shareholders and investors, employees, customers, suppliers, buyers, and the people that live in the communities where the organization manufactures, produces, and delivers its goods and services. We can refer to these groups of people within an organization's circle of influence as stakeholders.

According to a well-known theory, stakeholders that should be considered by an organization are those who have power, legitimacy, and/or urgency claims on the organization.[5] Although the organization has a responsibility to all groups that possess even one of these qualities, the authors say that those who possess just one quality should be given the least attention, those who have two should be given moderate attention, and those who have all three should be given the greatest attention. This is a dynamic process: stakeholders can shift from having one to having two or three qualities, depending on the circumstance.[6]

This theory is a useful framework, and it can help managers to address limitations on time and attention when dealing with multiple demands from many types of people. Certainly, groups like employees and customers would qualify as having power, legitimacy, and urgency.

But what if we relaxed the constraint on which this theory was built? What if we did not assume limited resources in our ability to respond meaningfully to the needs of all stakeholders, even when those needs are expensive, difficult, and conflicting? What if instead of demanding limited time and money from the executive and her budget, the entire culture of the organization was built to self-govern in a manner that honors the humanity in every person, as a matter of course?

Certainly difficult decisions must be made to determine which needs to address and among which populations of stakeholders. The process of identifying your stakeholders through the power, legitimacy, and urgency each possesses in relation to your organization, and the priority you will place on meeting their needs, is an essential process for every virtuous organization.

But stakeholders know this. They know that not all needs can be met. They know that some of their demands are difficult or even impossible. Then why do they make these demands? They are an expression of a desire to be connected with others in a creative process. They are like the emotional bids described by the Gottman Institute as the act of seeking "attention, affirmation, affection, or any other positive connection."[7] In other words, contacts with people —whether inside or outside the organization—are not mere inputs for a decision-making calculus. Rather, they indicate home for connection made by individual human beings to other human beings. Demands are not only bids for attention, but are also creative in nature as well. In other words, the act of making requests or demands of a company—by community members, employees, customers, or anyone else—is an expression of humanity that can be honored regardless of whether the company ultimately grants the request.

How do you honor the humanity of your stakeholders while interacting with them? You offer them voice and choice. You treat them with kindness. You ensure that you have their ideas, feedback, and interests correctly identified and recorded. You consider their requests. You respond personally. You connect with them in more, deeper, meaningful ways. This likely means automating less and training more.

As a virtuous organization, you will seek to have humanizing interactions with all of your stakeholders, regardless of the category they fit into. While your decision about how to act on the demands of different stakeholder groups will be greater or smaller, depending on the stakeholder salience framework, the virtuous organization will recognize that all interactions with people can be treated as opportunities to respect the autonomy and connectedness that make us human.

Honoring basic human needs

Stakeholders' bids for social connection and creative expression are two uniquely human traits, but people also have needs that are more basic. In his article, "A Theory of Human Motivation," Abraham Maslow sets forth a hierarchy of basic human needs. Maslow's theory claims that all human beings have basic needs— physiological, safety, love (or belonging), esteem, self-actualization, and self-transcendence—and that these needs are fulfilled in a hierarchical order. [8] For example, "A person who is lacking food [physiological], safety, love, and esteem would most probably hunger for food more strongly than for anything else."[9]

This means that if organizations are to honor the humanity of others, they must address the full complement of needs that people experience. This is not to suggest that organizations are responsible to ensure that all human needs are met for all people, or even that all needs are met for all stakeholders. Organizations need to acknowledge that people have a full range of needs and not inhibit people from being able to pursue the fulfillment of their own needs.

Maslow explains that these needs are hierarchical in the sense that if one need on the bottom of the pyramid is not sufficiently satisfied, then that need will be the main driving force in an individual's subconscious. However, the needs are not completely hierarchical because one need does not need to be 100% satisfied before the drive for the next need begins.[10] He writes, "Most members of our society who are normal, are partially satisfied in all their basic needs and partially unsatisfied in all their basic needs at the same time."[11] You can also experience some of all the needs but still be lacking.

Following is a brief explanation of the five basic needs and examples of how a virtuous organization could meet these needs.

Physiological needs

Food, air, water, shelter, clothing, sleep, and reproduction: these are all physiological needs and are the most basic needs people have.[12] If an individual is severely hungry or sleep-deprived, their main drive will be to eat or to sleep before anything else.[13] Which group of stakeholders' physiological needs might you be responsible for? And in what ways should you be meeting these needs?

Let's look at this in terms of your employees. As a virtuous organization, you are responsible for compensating your employees in a way that allows them to meet their need for adequate food, water, shelter, clothing, and other basic necessities required to function in society. This is the very least an organization should be doing for their employees who spend the majority of their lives giving their time, energy, and inner resources to the organization. This compensation is called a living wage. In most nations, the physiological needs extend to things that allow people to provide for these needs—transportation, phone service, and internet access.

In the United States, many jobs pay a living wage, specifically for those with college education and advanced degrees. But there are also many jobs that do not pay a living wage. The dollar per hour amount a person needs to earn to procure a living wage varies, state by state, varies. But the minimum wage in the United States is currently $7.25 per hour ($12,140/year).[14] For a two-person household where one person works full-time, this is below the current poverty line ($15,080) and not anywhere close to a living wage.[15] According to data from MIT's living wage calculator, the living wage in the United States ranges from $45,000 to $68,000 per year, depending on what state you live in.[16]

If a person working full-time cannot meet their basic needs, they will not be able to move up the hierarchy. So, as an organization that desires to be virtuous, it is important that you find a way to create a compensation structure that will help all of your full-time employees meet their basic needs. (Note: the specific numbers used above do not represent a bar (either low or high) for organizations to reach. They are used for illustrative purposes.)

Safety

Safety needs are things like personal security, employment, resources, health, and property.[17] Maslow lists several basic safety needs, including safety "from wild animals, extremes of temperature, criminals, assault and murder, tyranny, etc."[18] But once these basic safety needs are adequately met, safety needs begin to take a different form, such as "a job with tenure and protection, the desire for a savings account, and for insurance of various kinds (medical, dental, unemployment, disability, old age)."[19] What groups of stakeholders' safety needs might you be responsible for? And which safety needs?

In the United States, the responsibility to provide healthcare largely falls on employers. But not all employers provide this benefit to their employees, and those who do generally provide it only to their full-time employees. The U.S. government only requires employers with 50 or more full-time equivalent employees to provide basic health coverage. Those individuals who work full-time and earn a wage above the poverty line (and thus, do not qualify for government health coverage), and who work for employers with 49 or fewer employees are not guaranteed to receive health coverage. And those who work less than thirty hours a week are not guaranteed health coverage by their employer, regardless of how many employees the company has. Thus, it often falls on individuals to pay for their own health coverage. This is a heavy financial burden and can cause individuals and families to not be able to meet their basic physiological needs. As a virtuous organization, your goal should be to provide health coverage to all of your employees, regardless of their full-time or part-time status. For example, Costco provides health and dental coverage to all of its employees—both full-time and part-time.[20]

We acknowledge that not all organizations have the money to provide health coverage to all of their employees. During our discussions as a class, we worked to tackle this problem. Coming up with some arbitrary number or percentage of profit above which an organization should be making in order to be required to provide health coverage to their employees felt unsettling. So, we came up with the phrase "benefits before boats." If an organization can afford luxuries (i.e., things that go beyond the physiological and safety needs of those who are benefiting from the surplus profit) and they do not provide adequate health coverage to their employees, they are not being virtuous.

Love and belonging

Love is next in the hierarchy, specifically both the giving and receiving of affection and belonging within a group.[21] This includes the need for family, friendship, intimacy, and a sense of connection.[22] Which group of stakeholders' love and belonging needs might you be responsible for? And how should you go about fulfilling these needs?

Zappos is notorious for its superior customer service. The company pride itself on connecting with its customers, which engenders feelings of love and acceptance. Unlike many other online retailers, Zappos posts its phone number at the top of its website, with the phrase "Available 24/7."[23] The founder, Tony Hsieh, encourages his employees to use the phone to talk to customers with the intention of creating moments of human connection.[24] Employees are encouraged to stay on the phone as long as they need to make that human connection, and they are rewarded for doing so.[25] They are also encouraged to treat customers like they would a friend.[26] By doing this, Zappos is fulfilling part of its customers' basic human needs for love and belonging.

Esteem

Next in the hierarchy is esteem: dignity, respect, self-esteem, status, recognition, strength, and freedom.[27] Maslow says that humans have the need for personal self-respect and esteem and esteem from others.[28] He explains that esteem must be founded on "real capacity, achievement and respect from others."[29] While some narcissistic individuals will desire flattery and lies that puff up their egos, the general population desires to be respected and esteemed for actual achievements, accomplishments, and internal qualities they have developed.

Those who feel adequately satisfied in their need for esteem will typically have a strong sense of "self-confidence, worth, strength, capability, and adequacy of being useful and necessary in the world."[30] Individuals whose esteem has not been adequately met typically feel inferior, weak, and helpless.[31]

Principles of diversity and inclusion are about esteem, dignity, respect. These principles are about recognizing a person for the things that make them unique and allowing each person the full expression of who they are. Virtuous organizations value diversity and inclusion. They recognize the intrinsic value in all of their stakeholders and treat them as whole people.

Self-Actualization

Self-actualization is "the desire to become more and more what one is, to become everything that one is capable of becoming."[32] Maslow says, "A musician must make music, an artist must paint, a poet must write, if he is to be ultimately happy. What a man can be, he must be."[33]

Each person has immense potential, but oftentimes, this potential is woefully underdeveloped. "The clear emergence of these needs rests upon prior satisfaction of the physiological, safety, love, and esteem needs. We shall call people who are satisfied in these needs, basically satisfied people, and it is from these that we may expect the fullest (and healthiest) creativeness."[34] Maslow claims that few in our society are basically satisfied, and therefore, few ever reach true self-actualization.[35]

In her book, *Multipliers*, Liz Wiseman explains the importance of helping employees reach self-actualization and gives guidance for how to do this. A "Multiplier" is someone who, through specific ways in which they interact with others, unleashes the intelligence genius in those around them.[36] They bring out the best in people and make themselves and everyone around them smarter by doing it.[37] In other words, they help the people around them reach self-actualization. Wiseman also talks about "Diminishers," or people who suck the intelligence out of the room and through their self-aggrandizing behavior and squelch the genius of those they lead.[38] Virtuous organizations not only attract and cultivate Multipliers, but they also seek to rid themselves of Diminishers, either by asking them to leave or by training them to be Multipliers.

Preconditions for basic need satisfaction

In his article, Maslow also sets forth certain preconditions that must exist in order for the five basic needs to emerge: "freedom to speak, freedom to do what one wishes so long as no harm is done to others, freedom to express one's self, freedom to investigate and seek for information, freedom to defend one's self, justice, fairness, honesty, orderliness in the group."[39] He claims that, without these preconditions, an individual's ability to satisfy his or her basic needs is "impossible, or at least, very severely endangered."[40] As the foundation on which our basic needs are met, we are highly motivated to achieve and maintain these preconditions.[41]

Maslow also says that we are also motivated by "intellectual desires," in particular "the desire to know, . . . understand, to systematize, to organize, to analyze, to look for relations and meanings." He calls this "the search for 'meaning.'"[42] Satisfaction of these intellectual desires are as important as the five basic needs, and cannot be separated from each other.[43] Virtuous organizations should keep these pre-conditions in mind, along with the basic needs, and ensure that these are seen as a priority as they map the responsibilities they have to their stakeholders.

Recognizing basic human rights

This chapter would not be complete without a discussion of human rights. We have discussed human needs and the responsibility you have to ensure that your stakeholders are moving up the hierarchy, but what about human rights? Virtuous organizations have a responsibility to ensure that their actions do not impede the basic, universal human rights of their stakeholders. In 1948, the United Nations General Assembly proclaimed thirty universal human rights, set forth in a document called "The Universal Declaration of Human Rights."[44] These rights are accepted and protected by nations across the globe and provide a good basis for organizations to work with. Some of the rights that all virtuous organizations should seek to protect are listed below:

Free Expression. Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers.[45]

Social Security and Development of Personality: Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international cooperation and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality.[46]

Workers' Rights: (1) Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment. (2) Everyone, without any discrimination, has the right to equal pay for equal work. (3) Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection. (4) Everyone has the right to form and to join trade unions for the protection of his interests.[47]

Rest and Leisure: Everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay.[48]

Standard of Living: Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing, medical care, and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.[49]

Collective Responsibility: We have a duty to other people, and we should protect their rights and freedoms.[50]

All organizations have a responsibility to refrain from impeding the human rights of any individual. Virtuous organizations seek to protect and promote these human rights. They also cease to partner with or promote others who impede the human rights of others. As a virtuous organization, you have a responsibility to ensure that your suppliers, buyers, contractors, etc. are not violating the human rights of their stakeholders. While you do not need to have an intense focus on your partners' stakeholders, you should be aware of them and commit to treating them in humanizing ways.

Conclusion

We have discussed principles for thinking about people practices, how to identify your people (i.e., your stakeholders), and a framework on which to build these people practices. But this is simply the beginning. This process of developing a virtuous people strategy, including virtuous people practices, is a continuous, ongoing process. As a virtuous organization, your strategy for interacting with people cannot be separate from your overall business strategy. The two are inseparable. The reason for this is that if the two are not intertwined, what tends to happen is that either the business strategy overrides the needs of the people or that the people strategy overrides that business strategy. Remember, your organization would not be here without people. They are at the heart of everything you do. You cannot separate the people from any other part of the organization. Virtuous organizations understand this and incorporate their virtuous people strategy as a core part of their overall business strategy.

We acknowledge that individuals have personal responsibility when it comes to moving themselves up the hierarchy of needs, doing all they can with the resources, power, and abilities that they personally possess. But organizations, as entities with tremendous power and access to resources that people need, must acknowledge their responsibility to help their unique stakeholders move up the hierarchy.

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Chapter 5

Environment

The Principle of Non-Permanence

Shannon Ellsworth

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Gro Harlem Brundtland

You cannot get through a single day without having an impact on the world around you. What you do makes a difference, and you have to decide what kind of difference you want to make.

Jane Goodall

There are various reasons to implement corporate environmental sustainability practices, including pressure from consumers and watchdogs, government regulation, and market recognition for environmental innovation. “The Internet, the news media and the information revolution shine light on business practices around the world,” writes Plotr Mazurkiewicz of the World Bank. “This transparency of business practices means that for many companies, corporate social responsibility, CSR, is no longer a luxury but a requirement.”

The virtuous organization perspective suggests that outside influences are less important than the internal drive to protect the world we live in. While outward demands can be appeased, it is from inner demands that we can find fuel for environmental innovation and a drive for sustainability.

There are several major complications that make finding intrinsic motivation for environmental consciousness difficult. The first is that the environment is—by most definitions—outside of us. Outside of us as individuals, and outside of us as organizations. In order to find internal motivation for environmental consciousness, we must internalize the interests of others. These others include our future selves and future generations, as well as species and elements that are taxonomically distant from us.

In other words, to consider the environment requires true altruism.

Of course, from an organizational standpoint, the availability of environmental resources and the presence and wellness of future generations should be of interest to us. Without them, organizations cannot survive. And we want our organizations to survive. This brings us to the second major complication: the desire for permanence.

According to psychologist Steven Reiss, human beings have a drive—both individually and organizationally—to create things that last.[1] We believe that having a real impact on the world means building products and structures that will weather the test of time. We honor the remnants of ancient civilizations whose buildings and carvings and pottery exist despite centuries of abuse from wind, rain, and sun. We value durability and resilience. We want to know that the things we have made won't just dissolve.

But it's the permanent things that clutter our planet. It's the permanent things that no longer cycle with the rest of the planet through the delicate ecosystems that rely on the constant construction and deconstruction of energy and matter. It's permanent things that disrupt the flow of air, water, sunlight, and sometimes even life itself.

For this reason, we can think of impermanence as a central principle of environmental responsibility. For any action—using trees from a forest, paving through a wetland, mining copper, creating plastics, dumping wastes, creating products and byproducts—we should ask a single question: Can this be undone?

Some might see this view as nihilistic—trying to minimize the value of humankind and its contributions. After all, self-actualization is the need of humans to create and express themselves. Self-actualization is often viewed as the culmination of personal and social growth and development. To create things that are less permanent—dissolvable, recyclable, elemental—seems antithetical to human development.

Except that it isn't.

Toward the end of his life, Abraham Maslow amended his famous hierarchy of needs, adding a level above self-actualization. The new category was self-transcendence, which he described as follows: "Transcendence refers to the very highest and most inclusive or holistic levels of human consciousness, behaving and relating, as ends rather than means, to oneself, to significant others, to human beings in general, to other species, to nature, and to the cosmos."[2] In other words, self-transcendence suggests the ability of humankind to consider other people and the environment not only as means to a valuable end, but as people, things, and creatures that have value in and of themselves.

From the standpoint of busines—the realm of products and organizations—there is an argument to be made for impermanence as well. Beyond the obvious benefit of ensuring long-term flows of resources for our progeny (an instrumental need rooted in physiological needs), we can appreciate the ways in which impermanence can help us to achieve newer, greater, more innovative things. Though still an instrumental approach, this at least links us to a sense of self-actualization.

The rapid development of our technology suggests that we just keep getting better and finding new ways of doing things—we should want our past and current technologies to be less permanent if only so that we can make way for progress and innovation. We want more resources to be available/renewed/unpolluted so we are unhampered in our progress.

Of course, the transcendent approach would be to value the resources of the planet simply because they exist.

There are three options for organisms that live in a closed system. The first is that they consume all of their resources and die for lack of food. The second is that they produce so much waste that they die of exposure to their own muck. The third option is the creation of a biosphere: each creature in the system consumes and processes some form of nutrition, generally transforming it from one form into another. This new product is then consumed by another creature in the system, which completes the cycle by creating a form of nutrition for the first.

The cycles of interrelated living things transcend the permanence of single organisms. It's a paradox: creating things that are indestructible leads to demise, but creating things that are meant to decompose creates perpetual life.

We have an imperative, then, to think of our decisions in companies in terms of a cycle with upstream components—the parts of the cycle that immediately precede our action—and downstream components—the parts that immediately follow. We will consider each of these in turn.

Reducing and offsetting upstream harm

Upstream harm generally results from irreparably harming, transforming, or destroying a resource, either by taking too much or by using damaging processes. In general, the remedy is to cause less permanent damage, either by replenishing resources, taking less of the resource, or preventing actions that will cause irreparable harm.

Reducing harm upstream might be as simple as switching providers or coaching a vendor on more ecologically sustainable practices. Consider as an example all the packaging and carbon emissions that come from large-scale online retail distributors. According to one report, “LimeLoop used data from USPS, FedEx, and UPS to estimate that around 165 billion packages are shipped in the U.S. each year, and then roughly calculated that the cardboard used would equate to more than 1 billion trees.”[3] If your company relies on products from an online retailer you could reduce environmental harm upstream by requesting that your order parts be shipped together, not in separate packages with separate trips.

Decreasing harm upstream means knowing your supply chain. Understanding the products, processes, and outputs of your vendors, and ideally, even your vendors’ vendors, is essential to determining how your organization can reduce harm.

Work to reduce the number of products and processes that are negatively affecting the environment. You may reach a point at which you have done seemingly all you can to reduce upstream harm, and you are still using too much of a resource to allow for a reasonable replenishment rate or using processes that cause too much harm. In these cases, the only virtuous option is to be accountable and transparent about these shortcomings and innovate until you have remedied the problem.

Piotr Mazurkiewicz writes that “to help ensure that their products and processes are environmentally responsible, many companies seek to buy greener products and materials from their suppliers. Some companies participate in buyers’ groups in which they leverage their collective buying clout to push suppliers to consider alternative products or processes.”

Reducing and offsetting downstream harm

Downstream harms generally result from the production of products or byproducts that are either relatively permanent and therefore harmful upon accumulation or immediately damaging regardless of their level of permanence. Of course, the worst cases of downstream harm are those situations in which products or byproducts are both permanent and damaging.

Ways of mitigating downstream harms can occur by reducing the amount of harm caused by a product or byproduct, reducing its permanence, or reducing its quantity. In some cases, focusing on reducing the number of downstream effects can also reduce upstream effects, as in the case of combustible fuel consumption where decreasing the quantity of fuel burned can both reduce emissions and reduce depletion of non-renewable resources. The auto company Mazda has been praised for advances in fuel efficiency using a compression ignition technology. According to Jay Chen, powertrain manager for Mazda North America, "As a company, we’re thinking more globally . . . In Thailand, let’s say, or Africa, there is no government incentive for a plug-in hybrid. In India, there’s not a huge market for PHEVs. We can still make a larger environmental impact by reducing overall greenhouse gas emissions throughout the majority of our engines. We’ve already done it by 23 percent with our [Skyactiv-G] engines, and that’s across the board, around the world. That’s our strategy, that’s our corporate responsibility. Sometimes, initially, it might not seem like the most cost-effective. But we’re engineers. We’re driven by certain ideals."[4]

For downstream harms derived primarily from toxic byproducts, investment in control methods can be justified by considering the value to customers—in financial terms—for reducing or mitigating the harm. Marc J. Epstein suggests that “the loss of value attributable to the damage is estimated by the public’s willingness to pay to avoid the damage.

This willingness to pay can be extrapolated from market-based data on the commodity or impact in question or can be observed through a survey that replicates the commodity in the form of a valuation scenario."

Downstream harms can also be mitigated by managing the ways in which your customers interact with your company and your products. Gains can be achieved by obtaining data on your customers, their customers, and how your product or service could be used in environmentally damaging ways.

One example is the fashion industry. The products might be created in a sustainable fashion with renewable cotton, however, if they are poor quality and the usable life of the product is short, massive amounts of your product will go into landfills. Offsetting the quick churn and disposal nature of modern fashion might be done by creating a more durable product, using paper shopping bags made of recycled materials and investing in campaigns to inform consumers of how to donate or recycle clothing.

Tradeoffs vs. maximization problem

It is common to think in terms of tradeoffs when considering the environmental impact of organizations: tradeoffs between profits and environmental costs, tradeoffs between customer satisfaction and reduced carbon-emitting logistics, even tradeoffs between effective cleaning chemicals and safe cleaning chemicals.

It usually seems that two desired, value-driven qualities generally seem to exist on opposite sides of a scale: environment vs. efficacy, environment vs. profit. "Tradeoffs exist if components of a system are competing with or exclusive of each other . . . It implies a decision to be made with full comprehension of both the upside and downside of a particular choice."[5]

Thinking in terms of tradeoffs presumes that a gain in one value will result in a decrease in the other value. Just because two values are in tension does not mean that they are mutually exclusive. Piotr Mazurkiewicz observes that "many governments and businesses are now realizing that environmental protection and economic growth are not always in conflict."

The challenge for leaders is to prevent themselves from thinking in terms of tradeoffs and zero-sum games. Instead, they must think of such tensions as maximization problems that culminate in an opportunity to innovate.

For example, reducing unnecessary packaging, and therefore waste, would be good for the environment, but it would also benefit the bottom line for both company and customer by reducing material costs.

The importance of value integration

It is up to you to adopt your own ecological standards for operations, manufacturing, and distribution within your sphere of influence. "Leadership companies recognize that to be effective, an environmental policy needs to be embraced by employees throughout the organization, not just those whose work is related to the environment," writes Piotr Mazurkiewicz. "Some companies go further, helping employees become more environmentally responsible throughout their daily lives, helping them build a true environmental ethic. Besides education, many companies create incentives, rewards and recognition programs for employees who demonstrate their environmental commitment."

In addition to adopting and propagating environmental values throughout the organization, it is possible and often preferable to observe the ways in which the organization's value-driven mission may be linked with environmental interests. Organizations that do not take the time to align their organizational mission and vision of the world with self-transcendent, environmental concerns may not realize that such alignment is possible.

Like prosocial initiatives, environmental initiatives can leverage organizational interests, values, and expertise in ways that far outweigh the dollar contributions of their efforts. For example, an organization that creates sterile, packaged medical products may not see how they can serve the environment as part of their product-driven mission, but if they focus on a more virtuous, deep why type of mission, they can incentivize employees to walk, bike, and take mass transit to work in a way that improves health and safety—a core need they exist to meet—as well as promoting the reduction of carbon emissions.

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[1] https://www.psychologytoday.com/us/blog/the-second-noble-truth/201301/accept-impermanence-be-happier

[2] The Farther Reaches of Human Nature, New York, 1971, p. 269.

[3] https://www.fastcompany.com/40560641/can-online-retail-solve-its-packaging-problem

[4] https://www.roadandtrack.com/car-shows/los-angeles-auto-show/a25356804/mazda3-skyactiv-x-future-internal-combustion/

[5] http://www.uni-kiel.de/ecology/projects/salzau/wp-content/uploads/2010/07/matzdorf_mueller_final_pdf2.pdf

Chapter 6

Profit

The Principle of Prosperity

David Smith

Old-fashioned people think you can have a soul without money. They think the less money you have, the more soul you have. Young people nowadays know better. A soul is a very expensive thing to keep: much more so than a motor car.

George Bernard Shaw, Heartbreak House

Money earned is proof of value provided. Money earned is proof of worth recognized.

Hendrith Smith

Ours is not an anti-profit philosophy. On the contrary, we believe that one of the greatest contributions of business is the generation of wealth. Wealth raises the standard of living in communities. Wealth provides opportunities to create jobs, sustain livelihoods, and make resources available to others who share an entrepreneurial spirit.

Economic sustainability is the ability to financially support the needs and goals of an organization's mission and purpose for its intended duration while simultaneously distributing prosperity and value—tangible or intangible—ethically and fairly to all stakeholders.

Having money can dramatically increase the amount of good you can do in the world. Making money is vital to continued operation. Sacrificing value, values, and shared prosperity can turn the generation of wealth into a vice, but a recognition of money as a means to generate value—and not the other way around—can maintain profit motives as a healthy component of mission fulfillment.

The problem is that a focus on financial wealth can erode the deep truth: The only good thing about money is that it allows us to purchase some things that we value. In other words, money is always a mere means to an end. Sacrificing values in order to make money is a deep irony that erodes the core of the economic soul. Because as we are all aware, not everything of value can be purchased with money. In the words of Clare Boothe Luce, "Money can't buy happiness, but it can make you awfully comfortable while you're being miserable."

Economic sustainability is imminently consistent with the principles of a virtuous organization. The organization needs to create and distribute value in order to be virtuous, and in many cases the best way to provide that value is to ensure that the organization continues to survive for the intended and reasonably expected life of the purpose it serves.

Not all organizations need to be sustainable indefinitely in order to be virtuous. Nor do all organizations need to close their doors. As with all other principles in support of the virtuous organization, the most important thing is the fulfillment of the organizational mission.

Give the shareholders what they want

Let’s get this out of the way right at the outset: We do not believe that corporations exist solely to maximize profit for shareholders, nor that the law compels organizations (or the people who run them) to sacrifice any other organizational interests in favor of dividend checks. We agree with the analysis of Lynn Stout, who wrote a compelling argument in the *Virginia Law and Business Review*, suggesting that any reference to case law requiring profit maximization was patently false.

In part, Stout argued:

“Different shareholders have different investment time frames, different tax concerns, different attitudes toward firm-level risk due to different levels of diversification, different interests in other investments that might be affected by corporate activities, and different views about the extent to which they are willing to sacrifice corporate profits to promote broader social interests, such as a clean environment or good wages for workers. These and other schisms ensure that there is no single, uniform measure of shareholder 'wealth' to be 'maximized.'”[1]

As even Milton Friedman—an economist famous at least in part for railing against corporate social responsibility—pointed out, shareholders are people. And they invest in ideas and philosophies and values as well as opportunities for financial gain.

There is a relatively large body of research that suggests that investments in social performance also increase financial performance. While the details of the mechanisms behind this phenomenon are still a matter of debate, one thing is clear: people (customers and investors) respond positively to opportunities to involve themselves with businesses that are interested in social value and not just financial value. Not everyone appreciates the specific social values espoused by some companies, and some people prefer companies that focus just on the (financial) bottom line. But there are enough investors and customers who do prefer that companies be socially and environmentally minded that many such companies continue to thrive.

This suggests that transparency is central to real fiduciary responsibility. So long as investors know what the company stands for and how it intends to spend their money, the choice of whether or not to invest—to risk their own capital—belongs to investors themselves.

The virtue of creating paydays

It is obvious that if we value people, we should value jobs.

Jobs allow people stability. They pay for meals and mortgages and college. They provide an essential fabric that is woven through our families and social networks and create the rhythm of our days and weeks. Jobs provide much more than just paychecks.

Jobs also provide paychecks.

The old adage suggests that money doesn’t buy happiness. But the more relevant question is whether or not money can help people to buy what they need. And for many types of need, the answer is yes.

Having commonly recognized currency that allows individuals to make complicated trades in a free market has exponentiated human growth, development, innovation, and prosperity.

With money, people can purchase what they value. They can buy food, shelter, medicine. Plane tickets to visit loved ones, or tickets to see *Hamilton*. If a person values a television or smartphone more than food one particular month, as Naimil Shah points out, she is free to buy it.[2]

This freedom to choose is one of the reasons money is such a close approximation of the *util*, which is economists' unit for measuring individual value preferences. The freedom to choose with one's own resources—assuming they have such resources—is a powerful force in support of self-actualization.

Most of us at some point in our life have been asked the question, "What would you do with a million dollars?" It wouldn't be surprising (especially since you a reading a book about virtuous organizations) to find out that you wanted to contribute some part of the allotment to a charity or socially good cause. Most, if not all of us, have an innate desire to do something "good" with our lives. We want to contribute in meaningful ways, leave the world a better place, help someone who is in need, alleviate some conflict. When we are asked the million-dollar question, we often see the money as a way to fill this need in our lives. Perhaps you recognize the thought in your own mind, "If I just had more money, I would do such-and-such great thing!" With the way the world works, we see money as an instrument for doing good.

While money is not required to do good in the world, it does enable us to do a few good things. First, it increases the variety of options we have to do good. Without money or other material valuables, the resources we have to do good are limited, and, in extreme cases, our only options might be saying kind words and volunteering our time.

With money, on the other hand, your options are much more broad. You might have money to feed the poor, shelter the homeless, or create a business with a socially good mission and that creates employment.

Reinvestment and value creation

There is value in working for pay that extends beyond the size of the paycheck. It is inexplicable that we frequently think of profit as antithetical to social benefit. The presence of such new business forms such as B-corps and LC3s suggests a belief that the pursuit of social welfare and profit maximization automatically live in tension. We believe that this is not naturally the case.

The social value of money is not to be underestimated.

In general, if you value something more, you are willing to pay more money for it. This suggests that if you make something people value, you can charge more money for it. There is a corollary even for charities: If you produce something of value, people will donate more money for the cause. In this way, the ability to generate wealth is itself a signal of social value.

And money attracts money: if you generate wealth—which can be a natural result of creating something of value that people will pay for—then your activities can be seen as a good investment. Being viewed as a value creator attracts additional money in pursuit of even greater value. This, in turn, fuels innovation, expansion, and quality improvement. Value attracts money, and money drives value.

Reinvestment in the activities of the organization is key to this virtuous cycle of value enhancement. Innovation, expansion, and quality improvement only result if the invested funds can be used to generate them through research and development, excellent strategy, and wise infrastructure investments. This sort of reinvestment in the organization's capacity is necessary for achieving expanded value from the organization. It's what is expected by investors. It's what they are investing in.

We borrow the term "reinvestment" here from the nonprofit sector, where there is no such thing as distributions to shareholders. By legal constraint, any profit earned by a nonprofit (the term "nonprofit" is such a misnomer! Well-run charities make more money than they spend!) must be reinvested in the firm. So the concept of reinvestment emphasizes that the value intended from this kind of capacity-building activity can be viewed as independent from financial returns on shareholders' investments.

A wise company takes investors' money and devotes it to increasing the firm's ability to create value. Not necessarily money. Value.

Optionally, organizations can sell the additional value they have created with investor's funds and do so at a profit. This results in additional financial resources that can, in turn, either be reinvested in the company or distributed to shareholders, owners, or other investors. It can also be distributed through corporate philanthropy.

If an organization is mission-focused and working toward its vision for the world, greater reinvestment can translate to real gains for society. An organization that is committed to such a vision will align their growth and innovation strategies with new, better, cheaper, faster ways to get things of value—things people need—to the people who need them.

That means more and better medicine. More shelter. More education. More art. Cleaner energy.

The value of markets

Markets are perhaps the most elegant value distribution function ever seen by humankind. We can track the growth and decline of human prosperity by tracking the sale of certain goods. We can predict hardships and buoyant circumstances by looking at the prices of milk and gas—we can tell at both individual and societal levels what we value by looking at what we buy, how much we buy, when we buy, and where we buy it from.

Markets are made up of people, and those people make choices. On a daily basis, we make dozens of decisions about what we want, what we need, and what we will buy. Milton Friedman suggests that this freedom of choice in the marketplace makes free competitive markets a natural precursor and necessary condition for political freedom. He writes,

"The world runs on individuals pursuing their separate interests. The great achievements of civilization have not come from government bureaus. Einstein didn't construct his theory under order from a bureaucrat. Henry Ford didn't revolutionize the automobile industry that way. In the only cases in which the masses have escaped from the kind of grinding poverty you're talking about, the only cases in recorded history, are where they have had capitalism and largely free trade. If you want to know where the masses are worse off, worst off, it's exactly in the kinds of societies that depart from that. So that the record of history is absolutely crystal clear, that there is no alternative way so far discovered of improving the lot of the ordinary people that can hold a candle to the productive activities that are unleashed by the free-enterprise system."

Pricing and the true cost of doing business

Markets are beautiful, elegant mechanisms for distributing value—except when they aren't.

Several specific types of institutional malfunctions can cause markets to behave in ways that create systemic problems for the maximization of social value and social wellbeing. These primarily result from ways in which the individualistic, competitive forces that drive prices down are not properly functioning. For example, if only a single organization produces a good, then there is no "market," so there is no competition. The lack of competition, in turn, decreases the incentive to innovate (thus reducing the incentive to increase value) and prices can be artificially inflated. Many characteristics of this kind of market failure—monopoly—are also present when barriers to entry are present. Barriers to entry describe situations (such as major infrastructure needs) that prevent competitors from entering the market.

The functioning of the market also presumes that consumers, when making their decisions about what to purchase and from whom, have good, fair, and honest information on which to base their decisions. When choice is manipulated by faulty information, freedom to choose means nothing. This problem of information asymmetry—in which firms withhold or manipulate information about their own products or services from customers or internal company information from investors—is particularly problematic when the hidden information relates to the possibility of harm. Harms can exist in the form of either products or byproducts. In either case, full disclosure is preferable.

We believe that it is the responsibility of organizations to not only actively research the impacts of their products and services on consumers and the world, but to share this information with consumers. This motivates organizations to remedy whatever harms they might identify.

In some cases, market failure results from the sum of individual biases in decision-making that ultimately lead to bad institutional results. Due to the natural limits and heuristics of human cognition, people sometimes make choices that are against their own long-term best interests, are biased in systematic ways, or harm others. When individual decision-making flaws are magnified by hundreds, thousands, or even millions of customers, even an “economically efficient” market can result in bad outcomes.[3]

We believe that a virtuous organization seeks to correct its own market failures.

Though correction of market failures has been commonly recognized as an important role for government, it is not always necessary for regulation, taxation, and subsidy to be imposed by an external force. Organizations can use pricing structures, information sharing, common access to infrastructure, and invitations to competition as tools to enhance the efficacy of the market platform in which they operate.

Pricing as a tool of virtue

Prices—particularly low prices—have been identified by some as an economic weapon to alter markets and destroy competitors. However, it is also true that in some cases, price adjustment can be a powerful tool for correcting market failures. This is particularly the case in the face of negative externalities, in which the costs of production—when accounting for the price of mitigating or addressing harms caused by generating products, products themselves, or byproducts—are higher than they might be in a distorted market. A virtuous organization prefers functioning markets because markets can efficiently distribute value. So a virtuous organization encourages or even self-imposes appropriate self-regulation or price increases that can account for these additional costs.

The fear is that investors might balk at such pricing decisions, particularly given the prosocial rationale of increasing customer prices to offset social or environmental harms that might results from the product.

Let the shareholders know that part of the cost of production—part of what they are investing in—is the need to overcome the externalities that are an ordinary function of doing business. Everyone knows that you need to pay for infrastructure, labor, and raw materials. There are also costs associated with other activities involved in fulfilling a value-driven mission. The cost of business also includes is the innovation, price adjustment, and other costs necessary for remedying the organization’s own market failures. While shareholders are hoping for returns—that’s why they are investing in your company in the first place—there is no shortage of investors who will knowingly, willingly, enthusiastically buy into your company without even knowing about your core value strategy.

So long as you have been clear with shareholders about your mission, and so long as you expend company funds in diligent pursuit of that mission, there is no reason to believe that shareholders—who can invest or divest monies at virtually any time—expect anything other than for you to do what your mission says you are going to do. Whether it brings financial returns or not.

Exploring the principle of prosperity

The first key to a virtuous perspective on wealth is equitable distribution of value or wealth. This does not mean that everyone gets the same amount. Rather, it suggests that consumers are receiving their goods or services for a fair price adjusted by efficient and proper market forces and that employers distribute wealth fairly to their employees and shareholders. Should the president of your organization make more than a front-line employee with a GED? It would be hard to make a valid argument against that. There is value in experience and level of responsibility that should be fairly compensated. Vertical equity suggests that gradation according to merit is to be expected. But should your front-line employee be struggling to make ends meet while the president takes a flight on his or her private plane to vacation on the family's private yacht? If that is the case, you might be missing the mark on equitable distribution. How much more a president should make than other employees is a complicated issue with many factors of varying importance unique to almost every organization, and honestly, the exact number isn't important. You can take steps today to move toward a more equitable distribution of value in your organization.

Imagine you work for a company that has wild success with profits through the roof. The company is making so much money that it can't grow fast enough. You've paid all your stakeholders well and you still have resources left over. What would you do in this situation?

There are several organizations out there with this kind of money, but one that seems to have a very public presence is Alphabet, the parent company of Google. This company has so much money that it can take on projects that very few have an opportunity to. One of their projects is to end human aging (Bylund, Hall, & Caplinger 2017)! This might be an extreme case, but it's important to recognize that there are several actions you can take when you have a profitable business and not all of them are of equal value.

The dangers of debt

Taking on debt as an organization is risky, but an appropriate amount of debt can leverage your company in a way that creates a tremendous amount of value. The appropriate amount of debt is up for debate among the financial experts. What makes organizations virtuous is when they are aware of the risks they are taking, whose money they are risking, and are honest and transparent about the risks involved to the stakeholders. Consider the big banks in 2008 who were irresponsible with debt and risk because they could be (Lenzner 2013). There was no one and nothing to stop them, police them, or hold them responsible.

History shows us that people are not always ethical or responsible. The path toward virtue is straightforward, but so many miss the mark. Like the banks, there are no laws requiring organizations to operate virtuously. The virtuous organization operates at a higher standard than the law. While straightforward, the path is not easy, especially when others don't play by the same rules.

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[2] https://medium.com/@naimilshah/why-poor-people-buy-television-45f9ebc91adb

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Chapter 7

Accountability

The Anti-Hypocrisy Principle

David Tensmeyer

It is not only what we do, but also what we do not do, for which we are accountable.

Molière

Accountability breeds response-ability.

Stephen R. Covey

When I'm at the bottom looking up, the main question may not be 'how do I get out of this hole?' In reality, the main question might be 'how do I get rid of the shovel that I used to dig it?'

Craig D. Lounsbrough

Let's face it: No organization is actually virtuous enough to call itself virtuous. Or, really, to live up to that name even if others called it virtuous. In fact, it seems that the surest way to expose an organization's flaws is to praise its goodness. Critics appear virtually overnight, out of nowhere.

All organizations risk hypocrisy precisely because they are organizations—made up of people with different ideas, experience, and values. No matter how many posters you make with the organization's mission statement emblazoned upon them, no matter how many times you hand out company swag and letterhead bearing the company's values, the individuals in your organization will make—at least to some extent—their own decisions about how to act.

It may also be that in the due course of business—risking and innovating in order to better achieve your mission—something goes horribly, terribly wrong. Something you couldn't predict and didn't intend.

How do you maintain accountability in the face of so much potential for misalignment? How do you assert your commitment to organizational virtue even when so many departments or people within the organization might not yet have caught the vision? How do you control the unknown and unexpected?

How can you use accountability to help bring alignment to your organization's people and processes?

In the context of creating the virtuous organization, accountability can be defined as a determination to accept open and responsibility for the actions of both the organization as a whole and of the individuals who act in its behalf.

Accountability does not define specific impact areas or goals for our organization; rather, it encourages improvement toward the goals we have already defined. Accountability involves introspection, enforcement, and putting values into practice. In other words, it's where the rubber meets the road.

Accountability can be one of the most difficult areas to navigate in creating a virtuous organization. Part of the difficulty lies in a fundamental tension between the need to admit mistakes and the desire to maintain appearances. If there is a hierarchy of virtuous organizational thought, the motivation to look good is the lowest form of goodness. The desire to do good is better; the desire to be good is best.

The paradox is that in order to be virtuous, you must admit the ways in which your organization is failing to achieve virtue. If you want to be good, you have to know how you are bad.

Accountability brings your organization into alignment and provides natural motivation to improve. It demonstrates to the public and to the people inside your organization that perceptions that lead to profit are less important to your organization than honesty that leads to the achievement of the mission.

Especially if we have made a commitment to be a virtuous organization, it can be difficult to admit our shortcomings to ourselves or to the general public. Accountability can also be difficult because it also involves change management. Aligning employee expectations, incentives, and even disciplinary actions with new goals takes time and consistency to yield results.

Being accountable helps the virtuous organization stay virtuous through tough times and builds its resilience in bouncing back from mistakes.

Accountability is the antidote to hypocrisy.

So how do we create a culture of accountability within our organization? This chapter lays out six key principles to consider when designing an accountability strategy, providing real-life examples and ideas for putting each principle into practice. Armed with a knowledge of our stakeholders and the key principles of accountability, we can create a roadmap for holding ourselves responsible and staying on the path of organizational virtue.

Letting the sunlight in

Louis Brandeis said, "Publicity is justly commended as a remedy for social and industrial diseases. Sunlight is said to be the best of disinfectants; electric light the most efficient policeman." Perhaps the most vital element of accountability is transparency. In practice, transparency takes on different dimensions according to an organization's sector, industry, governance model (e.g., private vs. public company), and stakeholder set. In general, though, the concept of transparency refers to the ability of relevant stakeholders to readily observe the decisions that drive an organization and the consequences of those decisions.

Transparency is valuable because if stakeholders are able to observe what is going on at all levels of your organization, they will create natural pressure to move toward agreed-upon goals. Having different people evaluate organizational decisions from diverse viewpoints can also help to surface problems and potential mistakes earlier rather than later.[1]

Consider the example of Zappos, an online shoe-delivery company now owned by Amazon.com. A key point in Zappos's value statement is the drive to "build open and honest relationships with communication."[2] The company puts this into practice through its Zappos Insights department, which organizes tours of facilities and open-invitation training sessions. Customers are even invited to schedule question and answer sessions with different departments within Zappos.

Zappos's practices are examples of how a company can provide transparency into supply chain, production, and marketing. Different—but related—practices may be needed to shed light on other areas such as finance and employee practices.

The power of apology

As long as organizations are composed of fallible human beings, they will continue to make mistakes. A virtuous organization, therefore, is not one that never makes mistakes, but one that responds to mistakes in accordance with its stated values and then actively learns from them.

When responding to mistakes, and particularly to ones that have already been made public, timeliness is key. While leaders can and should take the time to ensure they understand the circumstances of the misstep, they should also be urgent in responding.

Immediate responses are possible if an organization has a clear mission, vision, and values. These guiding principles allow the organization to say, “We are sorry for this problem, and we will make it right. This action was not in line with our mission, our vision for the world, or our values. We are working on a plan for providing restitution and preventing this from happening again.”

As much as possible given the information they have, leaders can lay out their plan of action. Beyond simply apologizing for any wrongdoing or negligence, they should outline a clear vision of how they will correct the problem going forward. This should include short-term steps to mitigate the immediate damage as well as long-term steps to prevent similar mistakes in the future.

On April 12, 2018, a Philadelphia Starbucks manager called the police to complain about two black men who had entered the store and occupied a table without buying anything. The men were arrested for trespassing, though no charges were filed and both Starbucks corporate headquarters and the Philadelphia prosecutor’s office later said that the men had done nothing wrong. Before issuing a public statement, Starbucks CEO Kevin Johnson met personally with the men who had been wrongly arrested to apologize and talk about their concerns.

“I’ve spent the last few days in Philadelphia with my leadership team listening to the community, learning what we did wrong and the steps we need to take to fix it,” said Starbucks CEO Kevin Johnson in a press release five days after the incident. “While this is not limited to Starbucks, we’re committed to being a part of the solution. Closing our stores for racial bias training is just one step in a journey that requires dedication from every level of our company and partnerships in our local communities.”

"The company's founding values are based on humanity and inclusion," said executive chairman Howard Schultz. "We will learn from our mistakes and reaffirm our commitment to creating a safe and welcoming environment for every customer."

In addition to the public apology, the Starbucks response exemplified accountability to a broad set of social stakeholders. In a Facebook post detailing the company’s response, Starbucks wrote, in part, “On May 29th, we will close our company-owned stores in the US to conduct racial-bias training in order to address implicit bias, promote conscious inclusion, and prevent discrimination so everyone feels welcome at Starbucks. The curriculum will be developed with guidance from national and local experts . . .These experts will hold us accountable by monitoring and reviewing the effectiveness of the measures we undertake. We’re ashamed and recognize that racial bias is a problem we need to—and will—address.”

For further examples in contrasting methods of responding to corporate mistakes, consider two American airlines: United and Southwest.

In April 2017, United Airlines came under fire after a video went viral showing a passenger being bodily removed—bloody and unconscious—from a United flight for which he had paid. That morning, United’s CEO issued a statement expressing regret for the “overbook situation” but not directly addressing the removal of the passenger.[3] Later in the day, United apologized “for having to re-accommodate these customers.” In the following days, the CEO also sent out a memo to employees saying that he supported them. Underlying all of this was the sense that United did not understand the gravity of the problem or feel that their process needed to be fundamentally changed in any way, despite the obviously traumatic experience for the customer who was removed from the flight.

Contrast this with Southwest Airlines, which in April 2018 experienced an engine failure on one of its flights that depressurized the aircraft and killed one passenger. Southwest's response was swift. Within an hour, "a plane full of specially-trained Southwest employees was dispatched to Philadelphia to take care of customers."[4] Another team of four was sent to help the family of the deceased passenger make travel arrangements. Southwest's CEO Gary Kelley issued a video apology, and the company continued to give frequent social media updates throughout the following days. "We are giving the National Transportation Safety Board our full attention and cooperation and support as they go about the important business of investigating this engine failure," Kelley said in the video. "The safety of our customers and our crew is always our uncompromising priority."[5]

While these examples show public companies dealing with public stakeholders (e.g., consumers, investors, and governments), the principle of taking responsibility for mistakes also applies in smaller organizations and in situations dealing with fewer public stakeholders (e.g., suppliers, internal managers, consultants, etc.).

Values in action across the organization

Too often we see organizations that have beautifully written mission statements and value statements, only to find that they simultaneously propagate internal incentives that teach employees that different behavior is truly valued. While an organization may have a robust social impact program, it cannot be virtuous if its leadership is unethical or it is lax about aligning incentives for valuing humankind. Virtue is a call to arms for a higher standard.

The end goal of organizational accountability is to ensure that the values agreed upon by leadership are actually being put into practice across the organization. This comprehensive view distinguishes the virtuous organization from one that simply engages in a number of disconnected virtuous practices.

A common approach that organizations use to promote their values is to run an initiative. Such initiatives may take the form of an internal informational campaign that educates employees about an issue and provides new regulations or procedures to change behavior around that issue. If executed well, a values initiative can be a very effective tool for engaging stakeholders in a conversation around one of the organization's values.

For example, consider Intermountain Healthcare, a not-for-profit system of hospitals and other healthcare services that is the largest healthcare provider in the American Mountain West.[6] It is often cited among the most cost-effective and patient-focused healthcare systems in the United States, including by President Barack Obama, who used Intermountain as an exemplar of quality care.[7]

Already known for its commitment to evidence-based best practices, in 2015 Intermountain launched a program called "Zero Harm."[8] As indicated by its title, the program had a goal of dramatically increasing safety for patients and employees within the system. In the long term, the goal was to reduce to zero instances of harm caused by operational mistakes and in-hospital contraction of disease. Key attributes of the Zero Harm Initiative were prevention, detection, and correction.

Recognizing that most medical errors begin as communication problems, Intermountain made clear communication a central part of the initiative. It implemented a "commitment to a pause,"[9] empowering caregivers to pose questions and seek feedback from colleagues before making a diagnosis or administering medicine. Intermountain also began posting signs and whiteboards in hospital rooms encouraging patients to ask questions about their care.

Although its long-term impact remains to be seen, Zero Harm has certainly been effective in communicating the desire for a cultural shift around safety practices.

Nevertheless, a simple program or campaign will never be sufficient by itself to effect lasting positive change in an organization's value areas. It is entirely possible for a program to improve culture in one region, department, or functional area of the organization while leaving other areas unchanged.

In order to ensure that values are being propagated consistently across the entire organization, leadership needs to engage the next principle of accountability: introspection and regular evaluation.

Introspection and regular evaluation

Just as individuals are prone to cognitive bias, often believing themselves to be more virtuous than they behave in practice,[10] organizations can fall prey to internal bias and complacency. And like individuals, organizations can work to overcome their biases by engaging in introspection and healthy self-criticism.[11]

An introspective organization takes a progressive approach, accepting that it will never reach perfection in any value area, but determining nevertheless to continue moving in a positive direction.

It is useful to draw a parallel here with the social entrepreneurship space, in which distinctions are made between outputs, outcomes, and impact.[12] Outputs represent easily countable units of a product or service provided by the organization, such as beds provided by a homeless shelter. Outputs may (or may not) produce outcomes, which are positive incremental changes in behavior related to the goal. Continuing the example of the homeless shelter, outputs here may represent beds used per night or the number of homeless individuals served over a month. Outcomes in turn may or may not create real impact. Impact refers to substantial, long-term progress toward the organization's vision for the world. For example, impact for the homeless shelter may mean a long-term reduction in homelessness in the area served.

In a similar way, the virtuous organization is focused on total impact rather than on outputs or outcomes. Since the beginning of the "social accounting" movement in the aftermath of World War II, several methods have been developed to help organizations measure their impact across social and environmental goals.[13]

One of the earliest measures was the cost or outlay audit, which tracked the amounts allocated by the organization towards activities specifically related to their social impact goals. This approach was very crude, however, in that it only dealt with inputs, not outputs—much less outcomes or impact.

Following this came the stakeholder dialogue and community consultation movements, in which companies engaged outside stakeholders to help them design robust social metrics. From these roots sprang a number of approaches that have seen widespread adoption today: triple bottom line, B corp certification,[14] LC3 certification,[15] etc. Most recently, the Boston Consulting Group has developed "total societal impact" (TSI) methodology, which includes triple bottom line principles but also considers the intrinsic value or harm of the goods and services provided by a company.[16]

Implementing a system of social accounting such as those above can be very helpful in keeping an organization accountable. But whether standards of reporting are adopted from one of these approaches, hybridized from several of them, or a new and tailored approach to impact measurement, organizations should ensure that the metrics match their values and are accepted by senior leadership as well as middle management.

Enforcement and incentives

Members of the organization must be empowered to act according to the organization's mission and values and—especially when the mission or values are new to the organization—must be given detailed guidance on how the new approach will affect their performance evaluations, incentive structures, and day-to-day operations.

Once a system of regular evaluation has been decided, it is important to check that incentives for employees and leadership match the goals of the evaluation. If leadership has determined goals that are tied to the organization's values but has failed to put any incentives in place related to those goals, it is highly unlikely the goals will be reached.

Just as bonuses and other compensation can be tied to financial performance, they can also be tied to performance across metrics collected in the established social audit.

And incentives need not be limited to monetary compensation: evidence shows that non-monetary incentives such as promotion, prestigious work assignments, and recognition can have as much or more influence on employee behavior as simple dollars and cents.[17]

Taking responsibility for third party actions

Finally, the virtuous organization recognizes that living its values goes beyond the boundaries of the organization itself. Every organization exists within a network of outside stakeholders—including government, civil society, competitors, suppliers, and unions to name a few—and decisions made in one organization can have effects on many other stakeholders in the network.

For example, consider a car manufacturer that treats its employees very well and is committed to creating more sustainable, lower-emission transport options. If the company designs a new electric car but sources parts from foreign factories with little labor oversight, powered by coal-fired plants, it is acting inconsistently with its stated values.

So the virtuous organization must not only create a system of introspection, evaluation, and incentives for internal stakeholders but also for external stakeholders to some extent. Luckily, the modern organization need not start from scratch. Many tools exist to help companies source responsibly. Among these are Fair Trade Certification,[18] home-country diplomatic representation in the source country (e.g., U.S. State Department economic offices and private boards of trade), and responsible sourcing networks.[19]

In summary, the virtuous organization recognizes that accountability is key to aligning its day-to-day activities with its stated values. Accountability is a determination to accept responsibility for the actions of both the organization as a whole and of the individuals who compose it. Accountability involves introspection, enforcement, and putting values into practice.

Key principles to consider when assessing your organization's accountability are: transparency, taking responsibility for mistakes, putting values in action across the organization, regular evaluation, incentive alignment, and taking responsibility for third-party relationships.

Guided by these principles, an organization can begin to confidently hold itself accountable for living up to its stated values.

In this way, transparency, accountability, and apology can help an organization fight its own hypocrisy. Transparency helps the organization say, in effect, "These are our values. We are working hard to honor them. Our vision for the world is aspirational, and our mission is ambitious. We're not there yet. But we are committed to everything we say we are committed to. Here is exactly where we fall short. And here is what we are doing to try and be better."

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[19]https://www.sourcingnetwork.org

Chapter 8

Power

The Principle of Great Responsibility

Anne Sophie Ranjbar

The engine of profit may be one of the few things alongside governments that have the scale to fix the world's problems.

Afdhel Aziz

With great power comes great responsibility.

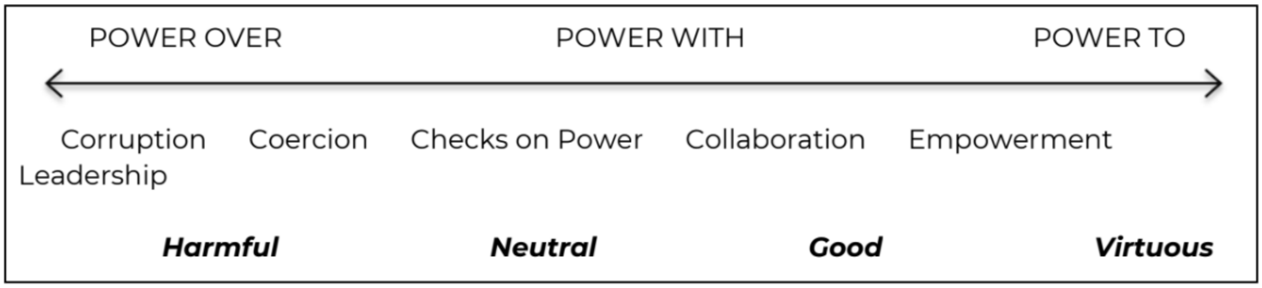
Thomas Francis Gilroy

Exxon Mobil has annual revenues larger than the economic activity in the great majority of countries.[1] DuPont created a chemical compound that has since made its way into the blood of 99% of Americans.[2] Walmart purchases from over 40,000 suppliers, many of which are dependent on Walmart's business to remain profitable and who have set up offices next to Walmart's headquarters.[3] Amazon is able to regularly take on billions of dollars in shipping cost losses, thus enabling them to set new delivery expectations among the half of American households that have an Amazon Prime membership.[4] Google has over one billion users of its search function, four times that of any of its competitors (Statista). Starbucks employs 238,000 people and recently made a public commitment to provide jobs for 10,000 refugees.[5] Harley Davidson's customers are so invested in the brand that many of them get the company logo tattooed on their bodies. Even some of the small, local bakeries in the state of Utah have over fifty thousand followers on Instagram. These examples illustrate various sources of organizational power.

Organizations of all sizes can derive power from their resources, relationships, reputation, and reach. In this chapter, we will explore how to virtuously exercise that power. Then, given that power is inherently connected to your interactions with other organizations or individuals, we will dive deeper into how to use your influence within each of your stakeholder relationships to build or expand a virtuous system.

Understanding your organization's power and influence

Power can be organized into three prevailing types: power over, power with, and power to.[6] Each type is successively more virtuous than the one before (see figure below). As you read through this chapter, take the first step towards helping your organization use its power in more positive ways by conducting a thoughtful and comprehensive assessment of your organization's power.



"Power over" is the use of coercion to limit the choices of other organizations or individuals. It is relatively easy to obtain as one gains control over resources that others are interested in or even dependent on. You may not be fully aware of your control over others, so ask yourself the following questions: Am I trying to compel people to do something against their will or against their knowing consent? Am I using my control over others to promote my own self interests at their expense?

Alternatively, you may be motivated to wield this type of power to create a positive impact beyond your organization. This form of "benevolent paternalism" is still tainted by the forceful and transactional nature of coercion, but it may also be a necessary step forward when working in an unvirtuous system. For example, in the fast-paced, highly-competitive tech industry, Microsoft uses its purchasing power to require its suppliers to provide subcontractors who perform work for Microsoft with 15 days paid vacation and sick leave and 12 weeks of paid parental leave. As a prominent leader in the tech space, Microsoft's action prompts its competitors, who have millions of subcontractors, to emulate this new norm, thus serving as a catalyst for a more virtuous system.[7] To evaluate whether you are only using coercion when necessary and in the most virtuous ways, ask yourself: When you use your power to require others to meet certain standards, are you working towards the greater good? Do they have the freedom to stop working with you if they do not want to meet those requirements? Does your organization have enough checks on power in place to prevent issues of self-interested coercion from occurring?

"Power with" is a more labor-intensive and enlightened version of power, in which a group works together to exercise influence to impact the entire group. By joining forces with others, you can fill gaps in your organization's power and significantly increase your potential for positive impact. This shared-power approach presents the challenge of aligning organizations' values and goals to form a multi-stakeholder agreement. While it is virtuous to sacrifice sole credit for action taken and solution achieved, it may also pressure you to abandon some of your company's key values, if those with whom you are sharing power do not share those values. As your organization collaborates with other organizations or individuals, ask yourself: Are they enabling me to have more positive influence, or am I helping to perpetuate a coercive or self-serving power dynamic created by others?

"Power to" is the empowerment to achieve objectives on one's own. While it may still incorporate some of the power that an organization has over or with others, it represents an ideal where the organization's disposition and capabilities open up independent opportunities for action.[8] What unique capabilities and opportunities to lead positive change do you see in your organization? This additional power comes with additional responsibility. When a company has the stand-alone power to take a stand on an important social or environmental issue, it should recognize and use that power for good. Doing so sets an important example. While this kind of power is individually initiated, organizations can invite others to join their efforts and thus create even more effective shared power to.

For example, with the vast majority of market share on internet search engines around the world, Google is currently in a unique position to either accept governments' demands for censorship and surveillance of content around human rights, religion, democracy, and peaceful protests or, on the other hand, to refuse to provide its services in countries that do not comply with its principles of free speech. Because of how visible the actions of this technology giant are, not consistently using their power to champion those rights would send a message to other companies and countries that it is acceptable to prioritize threats to a company's access to market over threats to press freedom for millions of citizens.[9]

Exercising your organization's power to enact positive change is particularly critical when you are embedded in a non-virtuous system. It takes courage to speak out against the status quo, but your actions can have ripple effects and may have the potential to spark a movement against issues such as income inequality, racism, sexism, environmental destruction, human rights abuses, or obesity. On the other hand, failing to act on this power can validate or strengthen the market failures of the non-virtuous system. Virtuous organizations demonstrate an overall systems mindset, in which they simultaneously check and use their power for the greater good—in their supply chains, competitive interactions, public policy, community involvement, customer interactions, and financial transactions. As the next step towards that goal, we will explore what this spectrum of power, and the corresponding balance of avoiding harm and maximizing positive influence, looks like across each of your organization's stakeholder relationships and its points of influence with the broader industry and community—using Patagonia as a case study.

Great responsibility in the supply chain

One common way your organization may be exercising "power over" others is through its supply chain. Evaluate any steps in your end-to-end operations and logistics in which you exploit others or are complicit in their wrongdoings. Are you forcing your suppliers to lower their standards in order to reduce your costs or to increase the speed through which you deliver your organization's products or services? Are you failing to exert your organization's power to demand higher environmental or social standards from your suppliers? Do you leverage your power over your suppliers to make them wait a long time to receive payments, putting them at financial risk while you make additional profits off the money due to them?

On the other hand, good organizations set a positive example for their suppliers and then use their influence and "power with" to invite them to follow suit. For example, Patagonia discovered the harmful effects of the chemicals used in the production of its products on its employees' health and on the health of the planet; they then investigated and prioritized the use of company resources to make changes to their supply chain, developing Fair Trade, organic, transparent operations processes with suppliers around the globe.[10] Furthermore, they provide a digital library full of information on their materials that other companies in the industry can utilize to achieve similar sustainability standards in their sourcing and manufacturing.[11]

Virtuous organizations stand out for incentivizing and inspiring, rather than forcing, suppliers to take positive action and providing hands-on support for them to develop into those capabilities. They choose suppliers who not only meet their desired criteria but who are also eager to catalyze reform further down the supply chain as well. Virtuous organizations work with suppliers to coproduce virtuous products and virtuous means of manufacturing those products. Together, you can develop more environmentally friendly packaging, improved customer experience, and even industry standards on issues of human rights. Your influence will expand as you make the effort to develop deep, long-term relationships with suppliers, and consistently demonstrate your commitment to the values you ask them to share with you. Integrating vertically with your suppliers and developing the trust and efficient flow of information that comes with such a structure can enable greater power with those suppliers to achieve the greatest impact. Finally, choose to proactively and continuously improve your supply chain, rather than waiting for situations to push you to implement that power.

Great responsibility in competition

As your organization achieves scale and leadership in market share, it develops power over other actors in the competitive landscape. Misuse of this size advantage and market power over others often takes the form of monopolistic practices: coercing less powerful competitors out of the industry through heavy-handed mergers and acquisitions, predatory low pricing, and collusion with other dominant players. An organization also fails to meet virtuous standards if they simply do enough to meet parameters set by antitrust regulations, while contributing to an oligopoly or being complicit in peer organizations' efforts to drive out other competition. By doing so, they may inadvertently impede consumer welfare, considering that a consolidated market can lead to reduced service quality, higher prices, decreased innovation, limited consumer choices, lower wages, and/or greater overall societal inequality.[12]

So how can a company remain competitive in the market, while still granting others the freedom to compete as well? Consistent fairness is key. Rather than looking for shortcuts to market leadership by taking advantage of or eliminating less powerful actors in the competitive landscape, virtuous organizations strive to differentiate themselves by meeting customers' needs in a truly innovative way. They grow their business in ways that encourage sustainable industry growth and/or improvement. Returning to our case study, Patagonia provides a unique value proposition through unparalleled commitment to environmental protection. The outdoor retail company not only exercises its power to reduce and offset the environmental impact of its manufacturing and distribution processes, but it is also empowering customers to join them in these environmental sustainability efforts, by ensuring to provide products with enduring quality, free product repairs, and channels to purchase used products.[13]

Furthermore, organizations can lead others towards great virtue in this area by publicly speaking out against anti-competition efforts. Look out for appropriate (and, of course, legal) opportunities to exchange information, ideas, and lessons learned with other organizations, so that you can collectively advance the industry in ways that improve the lives of your customers and community members. We can learn from the example of the technology industry, which encourages the sharing of open resources to help others discover issues in new applications.

Great responsibility in politics

Organizations also have tremendous power for good or ill through their involvement in political and civic affairs. On the negative side of the spectrum lies secretive political interference through unregistered lobbying of political figures to achieve your interests at the expense of others—trading livelihoods, and sometimes even lives, for increased profit.[14][15] Unvirtuous companies may also make unlawfully large donations to political campaigns, using their resources to gain further power with key decision-makers at the expense of democracy. More neutral organizations avoid political involvement altogether, or they only engage in legally registered lobbying activities that are fully documented and transparently disclosed to the public on websites like opensecrets.org. Despite the negative reputation typically associated with lobbying, lobbying can have its merits. On the more virtuous side of the spectrum, a company can provide useful information, expert insight, and diverse perspectives to policymakers on issues that have the power to improve the lives of their customers and community. They can set an example to other organizations by transparently accounting for all their political involvement on their website, as Microsoft does.

Corporate activism may take many forms other than lobbying—such as speaking out against public leaders' racism or intolerance, joining or stepping down from presidential advisory groups, challenging legislative requirements that clash with the organization's values, and terminating partnerships with groups that have adverse political affiliations.[16] Political freedoms and equal rights are fundamental aspects of a virtuous system, and inaction on political issues may mean that one is complicit in building a non-virtuous system.

Patagonia has taken political activity further than most companies, joining conservation groups and Native American tribes in suing the United States president for the reduction of federally protected lands.[17] The company views itself as "an emissary between environmental politics and [its] customers" and devotes prime space on its website and social media accounts to advocate for environmental issues, such as their one million dollar "Vote for Planet" campaign.[18] These actions are inherently somewhat partisan, and thus not everyone will agree that they are completely virtuous. Nevertheless, Patagonia serves as an exemplar for courageously standing up for its company values and the issues that it feels responsibility to act upon, even at the risk of losing some customers. Patagonia also serves as a leader in non-partisan political action: it recently announced that it would do its part towards improving voter turnout by providing a paid day off for all its employees to vote during the US midterm elections, published a Linkedin blog encouraging business leaders to take action as well, and then led the "Time to Vote" campaign with 150 companies participating in ways that align with their capabilities and goals.[19] Through these actions, Patagonia has taken responsibility for its sector's ability to prevent or enable employees to vote based on their work schedules, thus helping to remove a key barrier to democracy.

To increase the validity of your organization's involvement in political affairs, exercise this power collectively with a diverse coalition of other organizations and with strong support from citizens.[20] For example, dozens of large, cross-sector U.S. corporations and nonprofit organizations have produced joint communications urging the president of the United States to maintain involvement in the Paris Agreement and encouraging Congress to prioritize passing immigration legislation that protects "Dreamers." Rather than just appealing to their interests, the organizations cite data demonstrating the benefits that the proposed actions would have on the broader business community, the U.S. economy, and their customers, investors, communities, and suppliers.[21]

Great responsibility in community well-being

Organizations should respond to the increasing internal and external demand to use their "power to" to positively influence critical social issues. According to a recent survey, 78% of Americans believe it is important for companies to stand up for pressing social and environmental issues, and 70% believe that companies have an obligation to do so, even if the issues are not relevant to their everyday business operations.[22] You can positively influence important issues by leveraging your access, visibility, industry leadership, resources, and social capital to raise awareness and call others to action. Such action helps demonstrate that you live your values.[23]

There is a lengthy list of community challenges to address, including climate change, refugee integration, racial equity, women's rights, cost of higher education, data privacy, gun control, LGBTQ+ rights, community safety, and wage gaps. One cannot sit at every table and solve every problem, so virtuous organizations must prioritize which issues they take a stand on. To do so effectively, take stock of all the various opportunities for impact, and then review where you can make the greatest impact—based on the nature of your organization's resources, your influence among decision-makers, and where there are gaps in the efforts of others. For example, Levi Strauss decided to take action after a serious school shooting, because they felt that it was important to their community and their customers' well-being. They partnered with a group of business leaders for gun safety to set up a one million dollar fund for nonprofits and youth activists working to end gun violence.[24]

To be virtuous, corporate activism must be genuine. Community interests should be the priority. Smaller organizations may actually have an advantage in this aspect of the work, because while they may have less access to decision-makers, they typically have greater access to the community members that they are advocating for. Regardless of size, virtuous organizations take the time to evaluate whether their messaging furthers the intended mission of the cause in an appropriate and sensitive way or if there is a risk of co-opting the cause to increase their profit. For example, Pepsi published an ad featuring a supermodel offering a Pepsi to a police officer to quell tension at a protest. While they claimed that they were trying to promote global "unity, peace, and understanding," they were ultimately capitalizing on the currency of public protests to sell soft drinks.[25]

More virtuous organizations stand up for specific issues in campaigns separate from direct sales efforts. Patagonia illustrated this principle when they ran a full-page newspaper ad on Black Friday with the message "Don't Buy This Jacket," encouraging readers to consider the environmental impacts of their consumption habits.[26] One way to assess how invested your organization is in a cause is asking by whether it measures the social impact of the awareness campaigns or only the increased sales and positive brand image that it brings. This will look different for every organization. Evaluate whether your organization's community involvement is founded on an in-depth understanding of the cause, thoughtful consideration of the best approach, and collaboration with other relevant stakeholders.

Great responsibility in protecting client data

Your customers rely on you to not only provide safe products or services but also to protect the personal data that they have entrusted you with. Facebook used this power for ill when they used phone numbers that users provided for security reasons to target them with ads.[27] Virtuous organizations go beyond just following legislation on this topic: they are transparent with customers about how they are using their information, establish necessary controls, and seek consent before monetizing that data. Evaluate how you can shift from exerting "power over" your customers to empowering them. Do you only collect and store data that you actually need in order to deliver and improve the customer experience?[28] Do you respond to customer concerns, whether they were expressed publicly or privately, with prompt action? Do you conduct risk analysis on behalf of your consumers, as well as the organization itself?

Great responsibility in financial investment

Organizations also have great "power to" invest their funds in socially responsible causes. When making investment decisions, virtuous organizations not only factor in short-term financial rewards, but also the potential to strengthen social ventures that are building a more virtuous system in the long term. For example, Patagonia established a "$20 Million & Change" internal venture fund "to help like-minded, responsible start-up companies bring about positive benefit to the environment."[29] The highest version of this investment portfolio selection includes both positive and negative screening processes. It requires transparency around the strategy, composition, and weightings of the socially responsible investment portfolio to ensure that it fits with Patagonia's values and ethics.[30]

But what if you represent a company that is still an investee, and does not yet have the resources to invest in others? This is a critical moment for you to virtuously distribute power within your organization. If you are a private company, carefully evaluate those who offer to invest in your organization: Do they respect your values and allot you enough remaining power to do what you think is right? If you are a public company, carefully consider how you distribute your stock options: Do you concentrate power in the hands of a few individuals at the top, or distribute ownership broadly throughout the company?[31] For example, Airbnb requested that the SEC amends its policies to enable the company to offer partial equity to individuals that serve as hosts on their site—thus building stronger "power with" some of its most vital stakeholders.[32]

Regardless of your organization's size or structure, you can evaluate your organization's power and ensure that it uses that power for good: to create a more ethical supply chain, healthy competition, civic freedom, and social well-being. Consider if there are any other types of stakeholders, unique to your organization, with whom you should explore these power dynamics. This virtuous use of power, will, in turn, enable you to gain greater community trust, be seen as a quality company, reduce risk, and increase innovation through collaboration. Most importantly, it will enable you to help shift the system to work towards improving the lives of people in your community and the world.

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Chapter 9

Leadership

The Exemplar Principle

Samuel Allan

Nothing is so contagious as example; and we never do any great good or evil which does not produce its like.

François de La Rochefoucauld, Maximes, 1665

Volumes have been written on what it means to be a virtuous leader, an ethical leader, a responsible, conscientious, benevolent leader; and research continues to examine various specific individual virtues that make people more effective in serving in positions of leadership. While our intent is to draw on this rich philosophical material to capture some of the key traits of good leaders, our central premise is much more simple: Leaders should embody the characteristics and traits they want to inspire in their organizations.

This is the heart of the exemplar principle: being a good leader is more than employing good management skills or having a command of a particular field or endeavor. Being a good leader includes being a person worthy of admiration, a person striving to be her best self. A person aspiring on behalf of all the people in her employ to make the world better not only through her organization but also through her personal actions.

This means that the virtuous leader is a microcosm of the virtuous organization. Like the virtuous organization, it is not necessary for the virtuous leader to be infallible or perfectly praiseworthy from the outset. Rather, the virtuous leader seeks to increase her capacity to personally exhibit the characteristics we have outlined as important for the organization throughout this book. Leaders need to be accountable, conscientious, humanizing, persevering, and empowering—and a leader who possesses these qualities is likely to be prosperous and respected by her employees. Measuring the quality of a leader, however, is not about measuring the leader’s success but measuring the success of those she leads.

This chapter is about how you should prepare to change yourself. We believe it is fundamentally about two things. First, preventing a hypocritical misalignment between the leader and the change they are trying to create. Second, applying each of the book's principles to the leader as an individual—perhaps even before he or she tries to apply it to the organization they are part of, the people they manage, or the resources they steward.

Good intentions are often not enough to solve the challenges leaders face daily. But that isn’t to say good intentions aren’t needed. Indeed, intention precedes motivation and action. Additionally, good intentions increase perspective and raise awareness of where good can be done, and those intentions enable people to reflect on their actions and identify better ways of acting in the future.

Becoming a virtuous leader and leading others in virtue has largely two steps: purifying your thoughts and intentions (inner self) and purifying your actions (outer self). Bringing harmony between your intentions and actions will produce a marvelous change in yourself and those around you. All of us have strengths and weaknesses embedded in our nature. Virtue demands that we learn new habits and unlearn bad habits—it takes courage but is a process everyone can successfully undergo.

Leading with humility

Taken from the Latin words *humilis*—meaning low or small—and *humus*—meaning ground or floor, earth or soil—humble leadership is literally about leading from the ground.[1] More importantly for our conversation, humble leadership is first, a recognition that everyone comes from the same soil—that even the tallest and strongest trees grew out of a small seed—and second, keeping this grounded perspective even when no other tree is as tall or strong as yourself. Leaders and followers grow and change daily, on their own personal journeys through life. As some scholars describe, "Leader humility involves leaders modeling to followers how to grow and produces positive organizational outcomes by leading followers to believe that their own developmental journeys and feelings of uncertainty are legitimate in the workplace."[2]

Many people are familiar with the story of President Kennedy's tour of the NASA space center, and though the specifics of the story are lost either to the annals of history or myth, its influence lives on: In 1962, President John F. Kennedy toured the NASA space center. During this tour, he came across a janitor and asked him what he does at NASA, to which the janitor replied, "I'm helping put a man on the moon."[3] The janitor could have said he sweeps the floors, maintains a clean environment, or earns a living for his family. Instead, the janitor realized and embraced a higher purpose. The janitor's mission was NASA's mission.

Humility is shown in the acceptance of this janitor—scientists, engineers, and senior management are also in the group of individuals who are "helping put a man on the moon." Virtuous leaders accept all employees as equal and show gratitude for them and their contributions, regardless of where those contributions are.

Humble leadership requires much more than just appreciating dedicated employees. It includes listening to them, seeking their feedback, and implementing their ideas. Google believes its employees have more to contribute than what their managers think best. Google rolled out an initiative, "20 percent time,"[4] where employees can work on a Google-related project they feel passionate about. This initiative has led to the creation of Gmail, Google Maps, Google News and more. But even before Google encouraged its employees to create, other companies also allowed their employees to make contributions unrelated to main objects. Post-it Notes, for example, were created by Dr. Spencer Silver, a 3M scientist that was tasked with researching "bigger, stronger, tougher adhesives."[5] His newly discovered weak adhesive (the miracle that makes Post-It Notes work) was none of those things. Had 3M leaders not been willing to accept new ideas from their employees, Post-It Notes may never have made it out of Dr. Silver's lab. The research on Post-It Notes still continues, and now its Super Sticky Notes are made with a plant-based adhesive.[6]

Prideful leaders who feel they became the leader because only their ideas are the best, only they are the smartest, only they should set the company's agenda may miss many new opportunities, cause others to leave due to the stagnant environment, and overall stifle company growth. Margaret Heffernan speaks to this point in a story about an evolutionary biologist named William Muir.[7]

> *He wanted to know what could make his chickens more productive, so he devised a beautiful experiment. Chickens live in groups, so first of all, he selected just an average flock and he let it alone for six generations. But then he created a second group of the individually most productive chickens—you could call them superchickens—and he put them together in a superflock and each generation, he selected only the most productive for breeding. After six generations had passed, what did he find? Well, the first group, the average group, was doing just fine. They were all plump and fully feathered, and egg production had increased dramatically. What about the second group? Well, all but three were dead. They'd pecked the*

rest to death. The individually productive chickens had only achieved their success by suppressing the productivity of the rest.

Humility is the remedy that heals such harsh competition. Celebrate the success of others and learn from them, even if they have less experience, tact, or education. Every person has a lesson to share and a lesson to learn if you are teachable. Be willing to listen. Take notes when you listen. Demonstrate to others you hear them and want to find a mutually beneficial solution to their concerns and your own.

Integrated goodness

At the individual level, integrated goodness includes both an awareness of your own actions and how your actions influence other entities (people, departments, the organization as a whole, etc.). Actions should be based on accurate evidence and have a clear, documented process for making decisions. Doing so will eliminate biases that are detrimental to employees' motivation and keep you and the organization protected against lawsuits. A paper trail (a clear, documented process) also helps identify where the process needs to change—making it easy for others to identify where things go wrong and offer a possible starting point to fix it.

For example, the recent development of body cameras for police officers have helped bring awareness and enhanced conscientiousness to law enforcement. Now, when a complaint against an officer's behavior is filed, the officer's body camera is inspected to see and hear the actual event. This type of data provides a clearer picture of the actual event apart from internal biases and emotions.

Documenting and being transparent about decisions is beneficial for many reasons: recording thoughts and decisions will help you reflect on the quality of decision you are making, it makes your decision more concrete in your own mind, it enables others to process your decision and understand it for themselves—which they can then offer their own feedback—and it helps justify your action in case of a lawsuit. This process forces leaders to be explicit in their motivations behind acting. This process requires honesty and humility but will help leaders make better decisions, both at work and at home.

Your example to your employees will signal to them where your true values lie. How you speak, reward, discipline, and praise others will influence the culture of your organization. Research shows that if employees do not believe they are being treated equally (or if they believe others are not being treated equally) they are less likely to follow their leaders' goals; when employees believe their leader is fair, employees will have higher satisfaction, be more committed to the organization, and trust their leaders more. When there is a sense or perception of fairness, then employees are more willing to follow and sustain their leaders.[8] There are many ways to assess the influence you have on others: the easiest way is to simply ask them to repeat back what you said or did. When a leader is humble, others will be willing to give direct feedback.

Often, leaders are expected to make a decision without proper time to consider its consequences. Elon Musk reportedly smoked marijuana during a podcast with Joe Rogan, which is legal in California where the podcast took place; however, since the podcast was largely about Musk's work, Musk's actions may be seen as representing his company, so many considered smoking a violation of Tesla's values which states, "Employees should report to work without being under the influence of illegal drugs or alcohol. The use of illegal drugs in the workplace will not be tolerated."[9] Musk's failure to consider the message this would send to investors and employees showed a weakness in character. His casual attitude toward smoking could possibly be interpreted as either 1) he is above the code of conduct for his company or 2) the values and code of his company do not need to be taken seriously. Either proposition is dangerous and signals to his employees that rules and integrity do not always apply or matter.

Avoiding mistakes like this are difficult—leaders cannot prepare for every scenario that life throws at them. Leaders should practice virtue, making it an integrated part of each day. Values must always remain with you—there is no difference between your business ethics and your private ethics. As discussed in the CSR chapter, businesses are now engaging in doing good aside from doing their normal business efforts—likewise, a truly virtuous leader doesn't just lead virtuously at work but also at home and in the community. True virtuous leaders are virtuous everywhere, not just when others are watching or when they are representing the company.

Humanizing interactions

Organizations need to stay competitive to continue doing good in the world, but growth and profit should not take priority over the emotional and physical health of their employees. What is the point of endless money if lives are destroyed in the process? People spend a significant portion of their lives at work. Humanizing interactions is about making work a place people want to be, a place people feel safe, a place that adds joy and fulfillment. Employees perform better when they know their leaders understand them as a person with wants and needs and when they know mistakes do not mean being fired. Virtuous leaders try to make their interactions with all people more humanizing.

What exactly is meant by humanizing actions? Immanuel Kant believed we had a duty to treat others as an end in themselves—that people have worth regardless of their skills, wealth, or status, or lack thereof.[10] When people and companies overlook the inherent worth and dignity of individuals, they often make grave mistakes. For example, smoking cigarettes leads to serious health issues that can end in death. Smoking increases health costs and smokers die, on average, seven years earlier than the average nonsmoker. This means that smokers will have less opportunity to receive Social Security benefits. Philip Morris, a cigarette company, went so far as to calculate the cost (benefit?) of smokers dying early. In its calculations, the company reported to the Czech Republic that premature deaths due to smoking would save the Czech government around $148 million.[11]

Ford came across a similar issue when it ran a cost-of-life analysis on its Pinto cars. In the 1970s Ford came out with a car designed to be cheap and fuel efficient. The problem, however, was that when rear-ended, even at low speeds, the Pinto would burst into flames. Ford knew there was a problem and left with a choice: How much is safety worth? Ford ran its own calculations and priced new safety measures at $11 per car, totaling approximately $113 million overall. On the other hand, Ford could pay out damages when the cars did explode, accept loss of life, and be expected to pay approximately $49 million to families. In one of the most memorable and devastating decisions, Ford chose profits over human worth.[12]

Both cases illustrate a time when companies treated human life as a commodity ready to be bought, sold, and traded. The value of human life, human interaction, were discounted and neglected. People were mere statistics. There are good companies that understand that employees are more than a machine to develop, sell, and consume products. Zappos has a record of building relationships with customers, even if that means ten-hour phone calls. Similarly, under Paul O'Neill's leadership, Alcoa increased its safety record tremendously. Focusing on others as people helped the company increase revenue as well as change the culture of the whole company. Every conversation, meeting, and training session discussed safety for safety's sake; people knew that the organization wanted them to stay safe. It wasn't a ploy or a PR stunt. It was genuine. And as a result, the workers had more motivation, time, and commitment to ensure the company functioned well.

So leaders should humanize their employees, their clients, and others by treating them respectfully and knowing their names. Make each member feel valued and give them opportunities that don't waste their talents but help them feel fulfilled. The key to learning how to make every interaction humanizing is empathy. Virtuous leaders learn to feel and connect with the emotional turmoil happening in the lives of their employees.

The principle of prosperity

In order for a leader to ensure that she is able to maximize her own contributions to the organization and the good it seeks to do, she must invest and conserve her own resources wisely. This includes her resources of time, energy, skill, etc. Stephen Covey referred to the principle of "sharpening the saw," and Arianna Huffington frequently talks about the shift she made in her own thinking toward a greater sense of investment in her own personal wellbeing after she injured herself after falling asleep on her desk after weeks of sleep deprivation. Just as companies need to invest in their own future, and leaders must also invest in themselves if they are to be as efficient as possible.

CEOs have a duty to their shareholders—they need to bring in money. Unless CEOs are putting the necessary resources into themselves, however, they will be unable to function properly. There are many ways to increase productivity other than working longer hours. Taking vacation time, spending time with family, enjoying a hobby, and even learning new skills and increasing their education. These activities actually improve efficiency and motivation, along with keeping people happier. There is a practical reason for taking time off and recharging one's batteries.

Obviously, if the leader sets the pace and if the leader is always working, it sends the signal to employees that they should not take time off to be with their family or recharge themselves. Leaders have to be sensitive to how their example is being received. Organizational culture starts with the leader.

Organizations need to provide for their long-term effectiveness and ensure their business model does not create a tragedy of the commons. Similarly, virtuous leaders need to invest in the long-term success of their companies, themselves, and their employees. This includes helping create a work culture that values work-life balance, diligence, and putting off short-term rewards (which often incentivize doing unethical or damaging things in the short term).

One of the dangers to keeping strictly set schedules without taking time to relax and recharge is an issue termed ego depletion. Ego depletion is where a person's ability to maintain control is slowly weakened due to intense mental and physical strain. A lack of mental energy has many negative consequences, including discriminating against employees, discussing private and confidential information with unauthorized employees, and theft of company property. Self-control refers the ability to override or refrain from acting on impulses. Ego depletion is the process of self-control slowly withering away due to daily overload.[13] Counteracting the effects of ego depletion include taking time off, resting before making crucial decisions, exercising, and eating healthy foods. If leaders fail to act ethically—which can happen without leaders noticing or intending to—their example will bleed over to their employees, who may lose trust in their leaders, become bitter, and lose motivation for their own work. Take the needed time to recharge and encourage your employees to do the same.

Accountability

Leaders need to be accountable for their own actions and be accountable for the actions of those whom they employ. Here, the definite quality of a virtuous leader is responsibility and dedication.

The Forest Service is a prime example of accountability gone wrong. For nineteen years, Darla Bush worked in the federal Forest Service where she made sacrifices to serve others and be at a job she loved. Her satisfaction, however, was suppressed multiple times by a series of discrimination and sexual harassment incidents. She was given odd jobs in unsanitary places—jobs no others were expected to complete, and when she became pregnant, her boss told her that she was now "useless."[14] Filing a complaint at the Equal Employment Opportunity (EEO) office did little to help. The regulations surrounding how to file, how early a complaint had to be made, and more created barriers to seeking justice. She continued to endure poor treatment, even after being reassigned to other positions and locations. The problem was systematic.

Those who had the power to help refused responsibility. There are many common ways to explain away responsibility. These ways are commonly known as rationalization techniques and fall under research on moral disengagement. Leaders in the Forest Service and in the EEO may have felt that Darla Bush brought the problems upon herself—that she deserved poor treatment—or maybe they felt she was not qualified for the job she had or that the workplace would be better without her. There are many ways to rationalize away treating others poorly, and many of the ways are common enough to be convincing. One virtuous leader, however, has the power to make a difference. Had she known she had an ally in the process, things would have been much easier. Tragic as it is, there must be, undoubtedly, some virtuous leaders in the EEO and Forest Service, and unless these good people are actively reaching out to others, good will be left undone.

How can leaders be accountable? Well, it takes information—accurate information on the current situation. And this type of process cannot be done without others, or else it will be limited in scope and subject to biases. The first step to being accountable is being humble. With humility, you will be prepared to take responsibility for your mistakes. Next, you need to be conscientious about your actions and role in whatever situation presents itself. Humanize others by getting to know the story from their side and understanding why they feel the way they do. Then, gather the resources you need to make the best judgment possible—taking adequate time and rest to allocate enough energy to get the task done properly. Once that is done, be accountable. Take responsibility for your action, stand by it, and evaluate how effective your decision is. Follow up with others to ensure the situation was handled appropriately and has the desired effects. Be willing to apologize and change if necessary.

Sometimes the best decision is not the most financially viable or the one that can be explained monetarily, like the cigarette and Pinto examples. A simple way to assess the effectiveness and goodness of your action is to do two simple things. First, ask yourself, “What would the best person do?” This is a lofty goal, to be sure, but if asked honestly, it can lead to grand results. Continuously asking this question and practicing implementing the best ideas will lead to a more virtuous and wholesome life and organization. Second, try the “sleep test.”[15] At night, after the day is over and everything is quiet, ponder the days events and conversations. How does it feel, what could have gone better? How easily can you sleep? And then make plans to improve upon your specific actions or how to do better in the future. Showing up to work the next day ready to apologize and repair a relationship damaged the day before will bring yourself and others closer to the goal of a satisfying and fulfilling life. Acting virtuously takes courage but is a reward in and of itself.

The deep why

Implementing the principles above will help keep your actions consistent with your organization and your personal beliefs. You will be above suspicion and compassionate in your actions. These principles will govern your day-to-day life if you let them. While we are confident that these principles will help you become a virtuous leader, all leaders are different, and being virtuous is often context specific. The strongest leaders shape out for themselves a legacy to leave for others to follow—values so important that they become the hallmark of the leader. O’Neill left a commitment to safety as his legacy, and Bill Gates has left a legacy of charitable giving through the Giving Pledge. As you read through the chapter on Value Philosophy, consider what personal code of ethics you could create for yourself, and design a personal mission, vision, and values that you are seeking.

Leaders who can define themselves in terms of morality are better able to withstand ego depletion,[16] have a heightened awareness of ethical issues, and make decisions ethically.

Enron is famous for its corrupt business practices, but what about its code of conduct? Take, for instance, its value of integrity, “We work with customers and prospects openly, honestly and sincerely,” or look at its value of excellence: “We are satisfied with nothing less than the very best in everything we do. We will continue to raise the bar for everyone.” Obviously, Enron’s code of conduct was in word only—pure rhetoric to attract consumers and shareholders. For your personal code of conduct to be powerful, it needs to become your own personal habit and your own personal mission, something people will come to know you by—indeed, your legacy.

Roger Boisjoly was an individual with strong, demonstrable values. His legacy is one of courage and perseverance. Many do not know his name; people are more likely to know what he could have prevented: the explosion of the Space Shuttle Challenger. Boisjoly was working as a mechanical engineer and knew that certain components of the space shuttle’s structure were prone to failure at certain temperatures. He reported the issue to his supervisor, warning against the potentially catastrophic dangers of the space mission. However, after over a month of protesting the mission, his supervisors ignored his reports and gave NASA a go recommendation. The Challenger exploded just a minute after take off.

During the investigation into its explosion, Boisjoly was called as a witness where he explained how he knew the mission was unsafe. In the aftermath of the hearing, he was shunned by his colleagues and ultimately resigned from the company. His courage placed him in an uncomfortable position, one that made him feel isolated from those he had trusted. In the face of this challenge and uncertainty, he held true to his values. Years later, he reflected on his decisions.[17]

> *I have been asked by some if I would testify again if I knew in advance of the potential consequences to me, my family, and my career. My answer is always an immediate yes. I couldn't live with any self-respect or expect any respect from others if I tailored my actions based upon potential personal consequences resulting from my honorable actions. I hope that your answer will also be yes.*

Developing a personal code of ethics that is ingrained in the fibers of your being takes time and practice. Once completed, your code should be able to inform you on how to make decisions. Consult it routinely. Place it where you can see it. Be open about your values with others and help them see the importance of uncompromising values.

The best life principle

Virtuous leaders are engaged in helping their employees become the best they can be. Virtuous leadership is outward focused. Virtuous leaders are less concerned about what others think about them, what will happen to them if they act a certain way, or if an action will benefit them personally and are more concerned with the dignity, wellbeing, and future of those around them—and it's not just those they employ but everyone in their community.

How do you empower others to live their best lives? What is your current practice? Many organizations try to motivate by using punishments—written reports, withholding benefits, etc. Others try to incentivize good behavior through end-of-year bonuses or extra perks. These types of rewards can be useful since they signal to employees what the organization values, but if done poorly can create perverse incentives and distort what makes an action good—choosing it for itself.

There are three main components to motivation: 1) autonomy (empowerment), 2) mastery (self-efficacy), and 3) purpose (sense of calling).

When people feel controlled by rewards, their intrinsic motivation decreases. Intrinsic motivation is realistically the only reason people act. Even the best of rewards can only hope to stir people's inward motivations to act. People want to create. They want to feel successful and be successful. This is why Google's 20 percent initiative is such a success. When people have some freedom and flexibility to use their own willpower to create something new, they feel more motivated. As people gain and develop mastery by increasing their personal skills and rising to meet new challenges, they feel invigorated. For example, when Betty Crocker cake mixes came out, they did not sell. Why? They were so fast and easy to make that people felt little reward for making something delicious.[18] There was no pride in the product. So, what changed, why are these quick bake-it-yourself cakes still on the shelves? The answer is simple. The company made you add your own eggs. Essentially, by making something harder, people were more likely to do it. Humans need to feel their work is meaningful. If the task is too easy, people begin to lose motivation. People crave purpose. Purpose gives resiliency to an otherwise dying cause. It also makes each day new, exciting, and full of potential.

Virtuous leaders serve their employees best when they help create an environment for people to act with autonomy, be challenged with difficult, but doable, assignments, and rally around a cause they believe important. Consider reviewing with employees their job descriptions, what they feel they could be doing to help the company in new ways, and enable them to find their own purpose in the organization—let them take part in "helping put a man on the moon."

Finally, empower others to become virtuous themselves. Provide them with the resources they need to be successful, which is more than simply providing them with office supplies. Employees need to make a living, not just to subsist, but to truly live. Create an ethical climate for people to work in so they can live out their lives with purpose and meaning. Trust in their abilities and help them see the power in virtuous living.

Virtuous leadership is delicate but always reparable. As you continue on your journey towards increased empowering others, first start with yourself. Consider how you can be more humble, grateful, patient, forgiving, and what you can do to remain consistent with your own personal principles. Be responsible for your own actions and do all that is in your power to help where needed. Above all, virtuous leadership is found in the flourishing of others.

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