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It's Not Share of Wallet Anymore; It's Share of Heart

This book is not about corporate social responsibility. It is about sound business management.

It is a book that owes much to the ideas of R. Edward Freeman, who in 1984 made a strong case for a stakeholder-oriented business model in his book *Strategic Management: A Stakeholder Approach* (Pittman Publishing). As management professor Ronald W. Clement wrote in an article examining stakeholder management theory, "Freeman was the first management writer to so clearly identify the strategic importance of groups and individuals beyond not only the firm's stockholders, but also its employees, customers, and suppliers. Indeed, he saw such widely disparate groups as local community organizations, environmentalists, consumer advocates, governments, special interest groups, and even competitors and the media as legitimate stakeholders."[1]

Firms of Endearment had its origins in discussions among the authors about writing a book on the topic of how marketing has lost its way, consuming ever-more resources but delivering less in terms of customer satisfaction and loyalty. One title tossed out was

In Search of Marketing Excellence. However, as we continued exploring the topic and identifying companies that spent less but achieved more with marketing, we found increasing support for the more holistic perspective that customers are best served by companies that enjoy good relationships with all their stakeholders—employees, suppliers, the communities in which they operate, and of course, their stockholders. This line of thinking led us to the work of Prof. Freeman, who, among other distinctions, heads the Center for Applied Ethics at the University of Virginia's Darden School of Business.

Since the publication of Freeman's seminal book on stakeholder-biased business models, a flood of articles and books have examined the issue and argued for or against the stakeholder approach to business management. Our driving mission in this book is to present evidence that supports Freeman's ideas about stakeholders in a way that inspires business leaders to turn their companies toward a stakeholder relationship business model, as Timberland CEO Jeffrey Swartz did after experiencing a life-changing event. We say more about that later.

In *Firms of Endearment,* we issue a clarion call for companies—indeed, organizations of every stripe—to reorganize and become vehicles of service to every stakeholder group. We offer a substantial volume of case-based evidence that companies that hew to a *stakeholder relationship management* (SRM) business model develop a significant and lasting competitive advantage over their counterparts who subscribe to the more traditional shareholder perspective. Intriguingly, the companies we examine have rewarded shareholders well above the norm.

What we learned in the research behind this book emboldens us to predict that SRM business models will increasingly be seen as the most efficacious way to achieve *sustained* superior business performance in years to come.

To understand that prediction, one must reflect on the profound changes taking place in the cultural bedrock of U.S. society as well as in every other developed nation. The aging of developed societies is a major factor in these changes. With the majority of adults now 40 and older, the worldviews, values, and needs of the young no longer have the influence on society they once had. Instead, the worldviews and values that developmental psychologists have generally associate with midlife and beyond have become more influential on culture than ever. Recent surveys by consumer trend watchers such as the *Yankelovich Monitor* bear this out. Myra Stark of the global ad agency Saatchi & Saatchi, in an essay titled "The State of the U.S. Consumer 2002," wrote the following:

> *It's as though the consumer is asking, "What really matters? What do I really care about?" That's what's behind "reprioritization" and "resurgent patriotism," and the "reaffirmation of family, home and community," as well as the need for balance in work and home lives. In the face of threats to our safety, our way of life and our economic stability, Americans have pulled back from many of the things that seemed to matter in the '90s —materialism, career, the celebrity culture, the affluent attitude — and are rethinking how they want to live and work. Daniel Pink, author of* Free Agent Nation, *calls this new seriousness "the flight to meaning." "In turbulent times," he says, "people get serious about finding meaning"*[2]

The meaning of life—and the meaning of one's own life in particular—is a perennial issue in midlife and beyond, but its influence on society was far less when the young were the majority. However with the adult majority now consisting of people over the age of 40, the search for meaning has a major influence on the ethos of society at large. We see this playing a big role in reshaping corporate culture as well.

It is common for people nearing or just beyond the career-building and family-raising years to ask, "What am I going to do with the rest of my life?" This self-query arises from a sense that one should be doing more than serving just one's self; one should begin thinking about "giving back."

We discovered many business leaders who have asked themselves a similar question: "How are we going to make this company an instrument of service to society even as we fulfill our obligation to build shareholder wealth?"

As we discussed in the prologue, we have entered a new era, the *Age of Transcendence*. This term signifies a fact supported by numerous consumer surveys showing that people are increasingly looking for higher meaning in their lives, rather than simply looking to add to the store of things they own. This is a signature trait of people in midlife and beyond who are not battling basic survival issues, either materially or emotionally. The search for meaning is changing expectations in the marketplace, and in the workplace. Indeed, **we believe it is changing the very soul of capitalism**.

Many have long regarded capitalism as an economic concept without a soul; it is all about business and markets. Humanistics has no role in business. However, as we see it, the edifice of capitalism is undergoing its furthest-reaching transformation since Adam Smith published *Wealth of Nations* in 1776. The nature of the transformation can be summed up in one short statement: Companies are increasingly being held accountable for their humanistic as well as economic performance. Many institutional investors are playing a major role in this. With their own constituencies increasingly demanding accountability and social responsibility in their investments, many institutional investors are pressing companies in which they invest to account for their corporate social responsibility.

What we call a *humanistic company* is run in such a way that its stakeholders—customers, employees, suppliers, business partners, society, and many investors—develop an emotional connection with it, an affectionate regard not unlike the way many people feel about their favorite sports teams. Humanistic companies—or *firms of endearment* (FoEs)—seek to maximize their value to society as a whole, not just to their shareholders. They are the ultimate value creators: They create emotional value, experiential value, social value, and of course, financial value. People who interact with such companies feel safe, secure, and pleased in their dealings. They enjoy working with or for the company, buying from it, investing in it, and having it as a neighbor.

Numerous companies are successful and admirable in many ways but lack a strong emotive dimension. We argue that for the best prospects of success in the future, companies will need to combine an emotive dimension with operational efficacy. Some have called the emotive dimension the "soul of a company." Companies without soul face a doubtful future.

In recent years, Wal-Mart has become a lesson in what we are talking about. Many have come to view it as a company without a soul. According to a March 2004 article published by The Hartman Group, a market research firm in Bellevue, Washington, many frequent customers of Wal-Mart go there "because it is practical, not because they love to go there. Customers want to be in love, and if they don't find it, they'll settle for price and convenience. We didn't pave over paradise in the '50s and '60s; some smart business people recognized a need and they developed a very effective way to meet it. Wal-Mart is the logical consequence of a trend that began then, and it will continue to dominate the retail world until customers are offered something better."[3] Unless Wal-Mart changes in significant ways, it could just be a matter of time before its stakeholders start rebelling against it to a far greater degree than they have so far. As we discuss later in the book, there are some encouraging signs that Wal-Mart now recognizes its problems with various stakeholders and is starting to take steps to address them.

Of course, millions of customers do shop routinely at many other companies to which they feel no emotional attachment. Customers can be loyal in *behavior* to a company without being loyal in *attitude.* Attitudinal loyalty comes from emotional attachment, a force that causes a customer to drive past a Sam's Club near her home to shop at a distant Costco instead, for example.

The logical "left brain" says you should shop at Wal-Mart so that your shopping trip ends up saving a few bucks. However, the emotional right brain may not welcome the experience. Integrating the two sides is one of the secrets to Target's success. "Tar-zhay's" customers get low prices, as well as a pleasant experience and more-stylish products than they would find at Wal-Mart. Now consider the impact of these experiential differences from an investor's perspective: Wal-Mart's stock has been stagnant for the past five years while Target's has risen nearly 150 percent.

The social transformation of capitalism is being driven by cultural changes of tectonic proportions that corporations, governments, universities, religions, and just about every other kind of cultural institution ignore at their peril. This book examines the nature of this transformation, why it is happening now, and what it will take for companies to succeed in this new environment. Companies that ignore capitalism's "extreme makeover"—to borrow a recently coined term in television entertainment—could have a short life expectancy because the forces driving this makeover have been culturally legitimized. They cannot be stopped. They have become part of who we are in these times. A company has the choice of going with the flow of these forces and being lifted to new heights or being drawn under by the churning riptides of major historic change.

What Is a Firm of Endearment?

The title of this book testifies to deep-seated changes in how people see things in mainstream business culture. Consider the words *affection, love, joy, authenticity, empathy, compassion, soulfulness,* and other terms of endearment. Until recently, such words had no place in business. However, that is changing. Today, a growing number of companies—including every FoE cited in this book—comfortably embrace such terms. That is why we coined the phrase *firms of endearment.* Quite simply, an FoE is a company that *endears* itself to stakeholders by bringing the interests of all stakeholders groups into strategic alignment. No stakeholder group benefits at the expense of any other stakeholder group, and each prospers as the others do. These companies meet the tangible and intangible needs of their stakeholders in ways that delight them and engender affection for and loyalty to the company.

FoEs connect with their stakeholders at a deeply emotional level. We know from recent brain research that loyalty is rooted in emotions, not reason. Neurologist Antonio Damasio, who heads the USC College Brain and Creativity Institute, has extensively studied patients with normal reasoning abilities who have suffered severe trauma to the right frontal lobe of the brain. Such an injury snuffs out the patient's ability to experience "secondary emotions," which are mediated by cortical processes in the right hemisphere of the brain. Primary emotions originate in the amygdala, located in the midbrain, and represent our most primitive emotions. We engage secondary emotions to hold primary emotions in check, an action frequently necessary in social interactions. Patients who can no longer experience secondary emotions suffer a severely impaired sense of self. This prevents them from "connecting the dots" between themselves and other people and objects, impairing their ability to sustain loyalty in relationships.[4]

During the 1990s, the mantra "go for share of wallet" was popular among marketers. What it stood for became the primary focus of so-called *customer relationship management* (CRM). However, the term signified an emotionally barren, largely quantitative view of customers. In fact, for the vast majority of companies, CRM has been more about deeper exploitation of customers through data management than about empathetically responding to their needs. Whoever coined the term customer relationship management would have been more on the mark had he or she called it customer *data* management.

FoEs have bought into a different idea; they strive for *share of heart.* Earn a share of the customer's heart and she will gladly offer you a bigger share of her wallet. Do the same for an employee, and the employee will give back with a quantum leap in productivity and work quality. *Emotionally* bond with your suppliers, and reap the benefits of superior offerings and responsiveness. Give communities in which you operate reasons to feel pride in your presence, and enjoy a fertile source of customers and employees.

And what about shareholders? Except perhaps among day traders and other short-term profiteers, most shareholders do enjoy feeling good about companies in which they invest. They want good returns, but they also take delight in investing in companies they truly admire. Most do not want to feel that they are supporting a morally deficient company. Of no little importance, institutional investors, such as university endowment funds and pension funds, have grown increasingly persnickety about the moral character of companies in which they invest.

The vast majority of companies cannot be described as firms of endearment. Many have enjoyed success in the past, but find themselves increasingly vulnerable and criticized from all sides. For many years, Wal-Mart was celebrated from Wall Street to business school campuses across the world as an extraordinarily efficient company that had redefined supply-chain management and manufacturer-retailer relationships. General Electric was renowned for its pragmatic, hard-nosed management and its record of earnings improvements. Microsoft was legendary for its ruthlessly hard-nosed management style, its ultra-competitiveness, and its pragmatism. General Motors was the unquestioned leader of the global automobile industry, with a broad product line that no other company could come close to matching.

Each of these companies is under pressure today, while their FoE competitors stand tall with all their stakeholder groups and are acquitting themselves with distinction in investment markets. Wal-Mart routinely experiences roadblocks as it tries to enter new markets. A relentless barrage of negative publicity concerning employee and supplier practices has helped keep its stock price stagnant over the past half dozen years or so, while rivals Target and Costco have thrived. GE's stock is down 40 percent over the past five years. Its environmental record has tarnished its reputation, although under current CEO Jeff Immelt, GE appears to be trying to reinvent itself as an FoE. Microsoft's stock has fallen 25 percent in the past five years as FoE Google presents it with some of the biggest challenges it has ever faced. GM is beset by unhappy customers, employees, dealers, and suppliers—and is being challenged by powerful FoE competitors Toyota, Honda, and BMW.

The message of this book for the future is clear: Providing that sound management is in place (no amount of moral correctness can save a badly managed company), **endearing companies tend to be enduring companies**.

FoEs share a distinctive set of core values, policies, and operating attributes. Here is a sampling:

- They actively *align* the interests of all stakeholder groups, not just balance them. Instead of trading off the interests of one group versus those of another (for example, higher wages for employees versus higher profits for investors or lower prices for customers), they have carefully devised business models in which the objectives of each stakeholder can be met simultaneously and are in fact strengthened by other stakeholders. The key to this "concinnity" is that the activities of FoEs are executed within a system that allows for the active alignment of stakeholder interests. That's why these companies can do seemingly contradictory things such as pay high wages, charge low prices, and get higher profitability.

Whole Foods captures this idea in its formal "Declaration of Interdependence," which acknowledges the idea that stakeholder groups constitute a family whose members depend on one another.

- Their executive salaries are relatively modest.

  Costco co-founder and CEO Jim Sinegal's salary was $350,000 accompanied by a bonus of $200,000 in 2005—for heading up a company with sales of $57 billion while stock value increased 40 percent in comparison with a 7 percent decline in the value of Wal-Mart's stock over the two years ending in July 2006. The average CEO of a S&P 500 company received $11.75 million in total compensation in 2005.

- They operate at the executive level with an open-door policy.

  When **Honda** has a big problem, it implements *waigawa*—temporary suspension of social protocols based on rank—making it possible for workers on the lowest rungs to personally present a proposed solution to the highest executives involved. **Harley-Davidson** has a similar policy, except less ceremonial: Any employee on any day has access to the highest officers in the company.

- Their employee compensation and benefits are significantly greater than the standard for the company's category.

  Trader Joe's pay and benefits in the first year for "novitiates" or managers-in-training comes to $47,000, significantly above the U.S. average for retail store managers. The total compensation for store managers (known as Captains) comes to an average of $132,000.

- They devote considerably more time than their competitors to employee training.

  The Container Store's first-year employees get an average of 241 hours of training versus the retail industry's average of 7 hours.

- Their employee turnover is far lower than the industry average.

  Southwest Airlines's employee turnover is half that of other major airlines.

- They empower employees to make sure customers leave a transaction experience fully satisfied.

  A **Wegmans Food Markets** employee once sent a chef to a customer's home to overcome the customer's mistake and cook the Thanksgiving meal. Yes, Wegmans employs chefs, some from five-star restaurants.

- They make a conscious effort to hire people who are passionate about the company and its products.

  Patagonia tries to hire people who are passionate about mountain climbing. Whole Foods tries to draw as many employees as possible from the ranks of "foodies."

- They consciously humanize the company experience for customers and employees, as well as the working environment.

  Commerce Bank strives to give "Wow!" experiences to employees and customers on a daily basis. **Google** provides free gourmet meals around the clock for all employees.

- They project a genuine passion for customers, and emotionally connect with customers at a deep level. By earning a larger share of customers' hearts, they earn a larger share of customers' wallets.

  JetBlue's tagline is "We Like You, Too." CEO David Neeleman flies the airline at least weekly, walking the aisle talking to customers and discussing the JetBlue experience.

- Their marketing costs are much lower than those of their industry peers, while customer satisfaction and retention are much higher.

  Jordan's Furniture spends less than one third the industry norm on marketing and advertising (7 percent of sales versus 2 percent), while generating industry-leading sales per square foot that are more than five times the industry norm. **Google** has built one of the most valuable brands in the world in a few short years without any advertising.

- They view suppliers as true partners and encourage suppliers to collaborate with them in moving both their companies forward. They help suppliers reach higher levels of productivity, quality, and profitability. Suppliers, in turn, behave as eager partners, not as beleaguered and indentured servants.

  Honda is said to "marry suppliers for life"; when a supplier has gained admittance to the Honda family of suppliers, the company does everything it can to help the supplier improve quality and become more profitable.

- They honor the spirit of laws rather than merely following the letter of the law. They apply uniformly high operating standards across the world, regardless of local requirements that may be considerably less stringent.

  IKEA's policy is that if strict laws concerning chemicals and other substances are imposed in a country where it does business, all suppliers in all countries must conform to such laws.

- They consider their corporate culture to be their greatest asset and primary source of competitive advantage.

  Southwest Airlines has an elected "Culture Committee" of 96 employees charged with nurturing the company's unique culture.

- Their cultures are resistant to short-term, incidental pressures, but also prove able to quickly adapt when needed. As a result, they are typically the innovators and breakers of conventional rules within their industries.

  New Balance shuns the standard industry practice of paying star athletes for endorsements.

Although financial data surely is important in analyzing a company's strength and future prospects, qualitative indicators are no less important. In fact, we would go so far as to say that in many instances, qualitative factors may be more revealing than quantitative factors in drawing a picture of a company's future performance. As we observe in the next section, companies whose prospects look great based on financial indices in one year may present a sadder picture a couple of years later. Qualitative indicators, in contrast, tend to be more stable.

FoE Stakeholders

This book is organized around the five major stakeholders of modern corporations. As a memory tool, we have listed them below in a way that creates the acronym SPICE.

Stakeholder	Definition
Society	Local and broader communities as well as governments and other societal institutions, especially nongovernmental organizations (NGOs)
Partners	Upstream partners such as suppliers, horizontal partners, and downstream partners such as retailers
Investors	Individual and institutional shareholders, lenders
Customers	Individual and organizational customers; current, future, and past customers
Employees	Current, future, and past employees and their families

As Figure 1-1 shows, each stakeholder is important in its own right, and each is also linked to all of the other components. As with any good recipe, the individual ingredients come together to form something completely new; as the expression goes, the whole is greater than the sum of the parts.

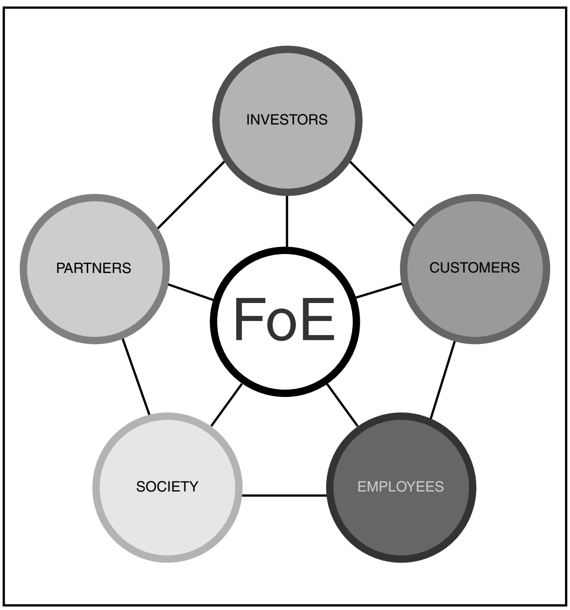

FIGURE 1-1 The SPICE stakeholder model

Each of these relationships is an essential piece of the puzzle, and each must be managed in a way that (a) a two-way flow of value exists between both parties to the relationship, and (b) the interests of both parties are aligned. This is the essence of great management. It is what all corporations should strive for. It is the way to maximize the returns to society of all the investments that flow into every organization. It is the *Firms of Endearment* way.

Identifying Firms of Endearment

Here is how we identified the companies featured in this book. Our process can be described as "organic and analog" rather than "mechanistic and digital." We were interested in identifying a representative sample of firms that met our humanistic criteria. We had no interest in conducting a statistical analysis of a plethora of companies in search of those whose financial performance supported the FoE hypothesis that companies can do well while doing good. Also, we did not want to exclude private companies from our analysis. As we demonstrate ahead, some of the best-managed companies from a stakeholder perspective are privately owned.

Whereas many companies we selected are well-known national and international players, others came to our attention because their names kept coming up when we asked people, "Tell us about some companies you love. Not just like, but *love.*" Well, who doesn't like to talk about their loves? We didn't ask people to identify companies that they loved as customers or employees, or because the companies did some great things in their community. We left the *reasons* for loving up to them. We asked for nominations from thousands of people all over the world, including business professionals, marketing professors, MBA students, and about 1,000 consumers. We generated hundreds of candidate companies, many that are household names and many that we had never heard of. We then put them through a screening process that assessed the quantitative and qualitative performance of each company for each of the SPICE stakeholders. We also probed for vulnerabilities, asking questions such as these: Would most people say that the world is a better place because this company exists? How extensive a track record have they built? Do they have intensely loyal customers? How well do they treat their part-time employees? How high is their employee turnover? Do they have a reputation for squeezing their suppliers? Do communities welcome them or oppose them when they try to enter or expand? Do they have a record of environmental violations? Do they follow uniformly high standards of conduct worldwide? How have they responded to industry downturns or crises of confidence? Do they waste money on unproductive activities (such as advertising sales every week)?

Most studies of corporate exceptionalism (or "greatness," to use Jim Collins's term) start with financial performance and work backward. We started with humanistic performance—meeting the needs of stakeholders other than shareholders—and worked forward (see Figure 1-2).

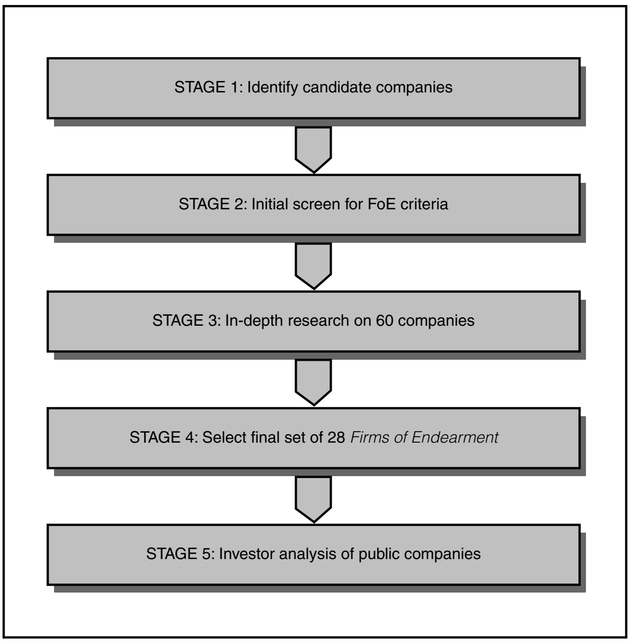

FIGURE 1-2 How we selected FoEs

We picked the most promising 60 or so of the companies that bubbled up through our exploratory research and assigned teams of MBA students to research them. We directed the teams to conduct secondary and primary research (through interviews with executives, employees, customers, analysts, and others) on the companies, covering all major stakeholder groups: customers, employees, suppliers, communities, governments, and investors. When each project was completed by its assigned team, the other research teams assessed the results to gauge the extent to which a company qualified as a company loved by its stakeholders (that is, was qualified to be called a firm of endearment). The projects were completed over a two-year period. Some companies were investigated multiple times.

It is important to point out again that what we have in this book is an *illustrative* list of firms of endearment, not an exhaustive or definitive one. One of the great pleasures of working on this project has been learning about many more such companies. In fact, if you would like to nominate a company that we should consider incorporating into this ongoing research project, please visit our website (www.FirmsofEndearment.com).

It is also important to point out that none of these companies is perfect; each has areas in which it is relatively weak or somewhat vulnerable. Generally, these weaknesses are confined to one or at most two stakeholder groups. On the whole, however, these companies are quite exemplary in significant ways. **And finally, we do not claim that when a company adopts the SRM business model that characterizes FoEs, that company will forever more be a great investment.** Even the fortunes of FoEs rise and fall due to any number of conditions. However, our research suggests (at least anecdotally) that FoEs tend to have quicker responses to challenges and weather changes in market conditions with less disruption.

At the end of this stage of the research process, we went through the findings again and selected 30 companies that we believed best exemplify a high standard of humanistic performance. Then, and only then, did we conduct a detailed comparative analysis of these companies from an investor viewpoint. Our expectation at this stage was that these companies probably performed better than the "average" company, but not by a huge amount. After all, they pay their employees exceptionally well, deliver great products and experiences at fair prices to customers, and spend significant resources in the community—surely, all this should lead to a reduction in profits and thus the stock price. As we are often reminded, there is no free lunch, certainly not in the corporate world.

The Firms That Made the Final Cut

Amazon	Honda	Southwest
BMW	IDEO	Starbucks
CarMax	IKEA	Timberland
Caterpillar	JetBlue	Toyota
Commerce Bank	Johnson & Johnson	Trader Joe's
Container Store	Jordan's Furniture	UPS
Costco	LL Bean	Wegmans
eBay	New Balance	Whole Foods
Google	Patagonia	
Harley-Davidson	REI	

How Firms of Endearment Perform

Imagine our surprise, then, when we completed our investor analysis. These widely loved companies (those that are publicly traded) outperformed the S&P 500 by significant margins, over 10-, 5-, and 3-year time horizons. In fact, **the public FoEs returned 1,026 percent for investors over the 10 years ending June 30, 2006, compared to 122 percent for the S&P 500; that's more than a 8-to-1 ratio!** Over five years, the ratio is even higher, because the FoEs returned 128 percent, while the S&P 500 only gained 13 percent. Over three years, FoEs returned 73 percent versus 38 percent for the S&P 500.

Note that the relative gap in performance over the past five years provides even more compelling support for the FoE hypothesis than the gap over a 10-year horizon. This is because the five-year analysis spans a period during which there was a deep recession in the United States (and worldwide, for that matter). This period started with the bursting of the dotcom bubble. The market has struggled to break even ever since. However, FoEs engender such loyalty and a sense of common cause with their stakeholders that they seem far better able to withstand market downturns than their competitors.

If this is not a "feel good" story, we don't know what is. In fact, it is much more than a feel good story—we find it to be a deeply inspirational one. Apparently, these companies have figured out that not only can you have your cake and eat it too; you can also give some to your friends, donate some to a soup kitchen, and help support the local cooking school. How is it that these companies can be so generous to everyone who costs them money (customers, employees, suppliers, communities) and still deliver superior (some would say spectacular) returns to investors? **The answer to that important question is what this book is all about.**

Firms of Endearment vs. *Good to Great* Companies

We were interested in one more comparison. Jim Collins's bestselling *Good to Great* identified 11 companies that it described as going from "good" to "great" by virtue of their having delivered superior returns to investors over an extended period of time. (The companies had each delivered cumulative returns at least three times greater than the market over a 15-year period.) We compared our set of publicly traded FoEs with the 11 *Good to Great* companies. This is what we discovered:

- Over a 10-year horizon, FoEs outperformed the *Good to Great* companies by 1,026 percent to 331 percent (a 3.1-to-1 ratio).
- Over five years, FoEs outperformed the *Good to Great* companies by 128 percent to 77 percent (a 1.7-to-1 ratio).
- Over three years, FoEs performed on par with the *Good to Great* companies: 73 percent to 75 percent.

Note that none of the *Good to Great* companies made our cut, though one (Gillette) did come close. We also have a semantic disagreement with that book when it comes to defining "great." To us, a great company is one that makes the world a better place because it exists, not simply a company that outperforms the market by a certain percentage over a certain period of time. By our criteria, therefore, a company such as Altria (formerly Philip Morris) cannot be considered "great" even though it may have performed handsomely for investors. With a broader, society-level accounting, Altria's value is considerably diminished.

Great companies sustain their superior performance over time for investors, but equally important in our view, for their employees, customers, suppliers, and society in general. We are confident that the companies you will read about in this book will stand the test of time. If you are looking for a meaningful and deeply satisfying career, take a look at the opportunities these companies offer. If you are a potential customer, compare their offerings to others. If you run a business, consider partnering with them. If you represent a community, try to attract them to your neighborhood. If you are a business professor, get this affirming message out to your students. You will not be disappointed.

The FoE Way

FoEs take an expansive worldview. Instead of seeing the world in narrow, constricted terms, they see its infinite positive possibilities. They believe fervently in the scenario of a constantly rising tide that raises all boats to benefit everyone. Faced with a competitive threat, they don't look to cut prices and costs and employees, but to add value.

FoEs are bathed in the glow of timeless wisdom. Their "softness" in a hard world comes not because they are weak or lack courage, but from their leaders' knowledge of the self, psychological maturity, and magnanimity of the soul. These companies are forceful and resolute in standing up for their principles. FoE leaders have the courage to defend and act decisively on their convictions: Bezos at Amazon, Sinegal at Costco, Brin and Page at Google, Neeleman at JetBlue, Barry and Eliot Tatelman at Jordan's Furniture, Davis at New Balance, Kelleher at Southwest, Swartz at Timberland, Mackey at Whole Foods, Askew at UPS—the list goes on and on. These FoE leaders are building extraordinary, industry-transforming companies despite carping from some Wall Street critics who reflexively view capitalism with a human face as a threat to shareholders' interests. The view that competitive advantage can be gained through a business model whereby all stakeholders add value and benefit from gains in value simply runs counter to the views of many analysts. Such critics are myopic in the extreme; they tend to view any stakeholders other than stockholders as net drainers of value, rather than a broader and deeper set of resources that can be leveraged to create even greater value than a company could otherwise create on its own.

To be best prepared for doing business in the twenty-first century, business executives, especially those of companies that are leaders in their categories, would do well to ask themselves the ultimate existential question: "What are we here for?" They should ponder such nontraditional (in business) propositions as, "We are not here just to enrich investors; we have no culturally legitimized license to corrupt minds, bodies, and the environment; we cannot justify under the rubric of capitalism actions that are intended to tempt, seduce, mislead customers into doing what can harm them; we have no right under any legitimate credo to dehumanize employees or to squeeze the financial life out of suppliers with unreasonable demands." As leaders of FoEs do, companies of every type and size should consciously shape their cultures around the idea that they are here to help others live their lives with greater satisfaction, to spread joy and well-being, to elevate and educate, to help employees and customers fulfill their natural potential. As leaders in companies—and other institutions of public purpose—is it too much to accept as one's mandate the obligation to listen and to see, to open eyes and minds, to help people focus on what matters most? These sentiments are captured in our own words, but they are the sentiments of the leadership in every FoE.

If FoEs can be described by any one characteristic, it is that they possess a humanistic soul. From the depths of this soul, the will to render uncommon service to all stakeholders flows. These companies are imbued with the joy of service—to the community, to society, to the environment, to customers, to colleagues. The leaders of great companies, as we define "greatness," intuitively recognize the inherent need that most people above subsistence level have to serve others. FoE leaders facilitate, encourage, reward, recognize, and celebrate their employees for being of service to their communities and the world at large, for no reason other than that it is the right thing to do. The best form of corporate social responsibility is not making monetary donations to charities, but the dedicated involvement of everyone in a company in meaningful pursuits that transcend the bottom line. In FoEs, it is common to see executives, managers, and frontline workers working shoulder to shoulder, forging unshakeable bonds through shared service to others in all stakeholder groups. This fosters a sense of cooperation and support within the company. It gets employees to help each other rather than view each other as rivals for advancement.

These companies—their leaders, their people—have the courage to buck hallowed traditions in capitalistic theory. They are succeeding, even thriving, sometimes against long odds in the face of rapacious and unscrupulous competitors and increasingly ruinous health-care costs imposed on them by a dysfunctional system. They are holding on to their humanity in the face of overwhelming short-term pressures. We should rejoice in their success and spread their message of caring for their fellow beings and their bottomless optimism far and wide. We have written this book in furtherance of that objective.

Overview of Chapters

Here is a preview of the journey you have just embarked on:

- In this chapter, we introduced the FoE business philosophy and summarized its astonishing performance in today's challenging business environment.
- Chapter 2, "New Age, New Rules, New Capitalism," discusses the new rules for playing the game of business in the Age of Transcendence and offers the unconventional idea that an increasing number of companies are behaving in ways that mirror the growing influence of self-actualization needs and processes that derive from our aging society.
- Chapter 3, "The Chaotic Interregnum," discusses how and why the social transformation of capitalism that is underway is happening and shaping up to be a huge ideological change in capitalistic theory and practice.

  We now start looking at how FoEs manage their relationships with each stakeholder group.

- In Chapter 4, "Employees—The Decline and Fall of Human Resources," we look at how these companies deal with their employees, creating happy and productive work environments in which employees are highly motivated, valued, and well rewarded.
- Chapter 5, "Customers—The Power of Love," addresses customer relationships, describing the new marketing paradigm that is emerging in the Age of Transcendence. This includes honoring the legal as well as the unspoken emotional contract that companies have with their customers, and indeed, with all stakeholders.
- Chapter 6, "Investors—Reaping What FoEs Sow," deals with investors. We show how companies can and must relate to their investors in financial as well as emotional terms.
- Chapter 7, "Partners—Elegant Harmonies," addresses business partners, including suppliers, distributors, retailers, and others. As companies outsource more and more value creation, business partners are becoming increasingly crucial to success. This chapter shows how FoEs manage these vital relationships in a symbiotic and mutually beneficial way.
- Chapter 8, "Society—The Ultimate Stakeholder," deals with how FoEs relate to the world at large, including the communities within which they operate, competitors, governments at all levels, and nongovernmental organizations. We view society as the ultimate stakeholder because it subsumes each of the other stakeholders within it. The key message here is that FoEs are enthusiastically welcomed into the communities where they operate and view governments as partners in value creation rather than adversaries.
- Chapter 9, "Culture—The Secret Ingredient," addresses issues of leadership and corporate culture.
- Chapter 10, "Lessons Learned," summarizes what we have learned about the FoE way of doing business.
- Chapter 11, "Crossing Over to the Other Side," concludes the book with a vision of the "simplicity on the other side of complexity" that describes the FoE management philosophy.

Endnotes

[1] Ronald W. Clement, "The Lessons From Stakeholder Theory for U.S. Business Leaders," *Business Horizons,* (2005) 48, pp. 255–264.

[2] www.saatchikevin.com/workingit/myra_stark_report2002.html, 2002.

[3] "Where Wal-Mart Can't Dance: Changing the Rules of the Game," *HartBeat*, March 25, 2004 by The Hartman Group, Inc.

[4] Antonio Damasio, *Descartes' Error: Emotion, Reason and the Human Brain,* Grosset/Putnam, 1994, especially Chapter 3. Damasio describes his emotionally-deprived patients as "cold-blooded," meaning that they are incapable of "assigning different values to different options" (page 51). Thus, lacking normal emotional functioning in the brain's right hemisphere, these patients are unable to conduct the qualitative assessments that lead to bonded relationships despite retaining their ability to conduct quantitative assessments. The product of quantitative assessments apparently must be validated by emotionally mediated qualitative assessments before a bond of loyalty can take shape and be sustained.