



WHITE PAPER SERIES

03

**Stakeholder
Integration as a
source for value
creation**

Stakeholders Integration as a source for value creation



Stakeholder
Integration

One of the four basic principles of Conscious Capitalism is Stakeholder Integration. Stakeholders are all entities that impact or are impacted by the business and play a key role in the value creation and sustainable success of an organization. However, to strengthen value creation, it is necessary that today's leaders are conscious about the importance and influence that stakeholders have on the system and make the most of their experience. To this end, it is essential to develop creative strategies of value creation for each of them in pursuit of mutual benefit.

"We try to make all our stakeholders feel like they're part of the tribe. Transparency, great customer service, highest quality, environmental activism—all of those things matter to employees and customers and all of our other stakeholders. We really don't see any difference across our stakeholders, and we treat them all as one."

Casey Sheahan
CEO Patagonia

Conventional business vs. Conscious business

From the perspective of Conscious Capitalism, conventional businesses are treating stakeholders as the means to reach the ultimate purpose—profit maximization. Good managers in these types of organizations are seen as those whose exchanges are advantageous for certain stakeholders (investors, stockholders), and are characterized for being a zero-sum: some win and others lose.

However, Conscious Capitalism proposes a different approach to make businesses: conscious businesses. These kinds of businesses are characterized by dealing with the needs of all stakeholders as an end in itself. Conscious business is the ultimate positive-sum game, wherein it is possible to create mutual benefit between every stakeholder. Conscious businesses create a system in which key stakeholders are aligned among each other and to the higher purpose of the organization.

From this point of view, all stakeholders must function as the organs of a body. They must all be valued, respected and integrated towards the operation of the company. If a stakeholder is elevated differently regarding the others, this can create a dynamic capable of destroying harmony and the sense of unity of the system. However, when focus is oriented towards value creation for each of them, they are all aligned in the same direction and they move in harmony, generating minimal friction in the system.

The key point when thinking of stakeholders as a source of value-creation consists in looking at the business as an ecosystem comprised of stakeholders that cooperate among each other to maximize value creation. No system can prosper if a group member benefits constantly at the expense of another. It is essential to have a systemic and long-term view, where the interests of stakeholders are prioritized over short-term profit maximization. Through the creation of a value proposition of mutual benefit for all of them, the organization will be able to reach higher business results in the long-term.

Achieving objectives...indirectly

John Kay, Economist and external professor of Economics at the London School of Economics, has dedicated part of his work to develop what he calls "obliquity": the principle that complex objectives are better reached indirectly.

Though it may seem paradoxical, John Kay argues that when facing geographical obstacles, winning decisive battles or reaching financial objectives, these types of goals are better reached in an indirect manner. For example, if you want to go in one direction, the best road may mean heading in another direction.

"Obliquity gives rise to the profit-seeking paradox: The most profitable companies are not the most profit-oriented."

John Kay
Obliquity, 2004

Such is the case, that John Kay indicates why the happiest people are not necessarily those who focus on happiness, or the most successful cities are not necessarily the most projected ones. The same happens with companies whose principal objective is financial profitability for their stakeholders. That is, companies oriented towards financial results as the main objective, are not generally the most profitable ones.

As Jack Springman explains in his article “Implementing a Stakeholder Strategy” published in Harvard Business Review, making financial results the most important priority may not be the best way to improve profitability. It is fundamental to create a value proposition for each of the stakeholders that is mutually beneficial. The value proposition can be: financial (price, volume, ROI), functional (increase stakeholders’ productivity, offer options or flexibility, make the job easy, and provide an agile service), and emotional (provide safety to generate trust and encourage a sense of wellbeing).

Therefore, the key is to achieve sustainable superior profitability thinking in the long-term, instead of trying to maximize it in the short-term.

What are Stakeholders?

In their book *Conscious Capitalism*, John Mackey and Raj Sisodia refer to stakeholders as the essence of the organization. Stakeholders include all individuals who impact on the business and who are impacted by the business. From the perspective of *Conscious Capitalism*, every stakeholder contributes to value creation and all of them are important (although some are more critical than others for the organization’s success).

The most important stakeholders are those engaged in voluntary exchange with the organization for mutual benefit. The following is a brief description of each of them:

Customers

Customers are critical for any business, but many times they are surprisingly forgotten. Businesses that think of customers as a means to an end—profits—do not have the same level of empathy, commitment to service, and understanding of the customer’s needs that conscious businesses have. Conscious businesses treat customers as an end in themselves.

“In a typical company, if you have a meeting, no matter how important it is there is always one party who is not represented: the customer. So it’s very easy inside the company to forget about the customer”.

From the moment Jeff Bezos was aware of it, he started to put an empty chair in every meeting to remind everyone of this.

Jeff Bezos
Amazon Founder and CEO

Team Members

“The rate of heart attacks goes up dramatically on Monday mornings across the world”.¹ That is how John Mackey and Raj Sisodia mention it to state that many people live their work as a burden, they don’t enjoy it and even suffer it. At the same time, work is central in most people’s lives. Today, individuals are looking for meaning in their lives, they want their jobs to make a difference, and they are looking for a community of friends and opportunities that allow them to learn, grow and have fun.

Conscious businesses create work environments with a purpose, challenging and encouraging their team members to grow and learn. Conscious businesses understand the importance of creating self-managing teams that are also empowered and collaborative.

Gallup World Poll

- **Study on human happiness carried out in 155 countries.**
- **It revealed that the main determinant of happiness is not wealth, nor health, nor even family.**
- **The main determinant of happiness is: “a good job”. A meaningful job and done in an organizations where people care about each other.**

Source: *Conscious Capitalism*. John Mackey and Raj Sisodia.

Investors

For conscious businesses to evolve successfully, financial stakeholders must be more conscious and reconnect with their higher purpose.

Collectively, investors create great value for society. Without the loans, investments and financing they give to other stakeholders, most businesses wouldn’t be able to reach their absolute potential and it would be much harder for them to innovate, grow and create value.

Suppliers

As John Mackey and Raj Sisodia mention, it is impossible for a business to be successful if it doesn’t have a network of strong suppliers. Conscious businesses are those that focus in things that do well and leave the rest to their suppliers and partners.

Companies that do not have good collaborative relationships with their network of suppliers can become competitively vulnerable. Having good suppliers and keeping a healthy relationship with them is critical for having a competitive advantage and long-term success.

Community

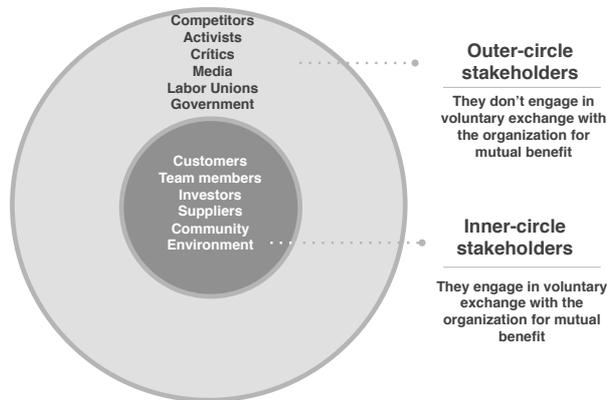
Conscious businesses have social responsibility. Such businesses exist within their local, national, global and virtual communities. It is unthinkable that conscious businesses see themselves as being separate from the rest of their communities. Therefore, conscious businesses behave as responsible citizens within their communities.

If a company duly complies with its obligations as a citizen, it creates value for the community, its customers, team members, suppliers and investors.

Environment

Conscious businesses consider the environment as the key stakeholder for the company and treat it with the same respect and attention they give to other stakeholders.

The environment is the only silent stakeholder; it doesn't have a voice of its own. Therefore, conscious businesses assume complete accountability for the consequences of their actions and look for creative and innovative solutions to minimize their impact.



All stakeholders are important, but some are more critical than others for the success of the business. The way in which a company prioritizes its stakeholders varies according to the kind of business.

Value creation: Real Cases

The experiences of human beings are central for creating value. Therefore, once an organization identifies its stakeholders, it is necessary that it integrates and involves them. Venkat Ramaswamy and Kerimcan Ozcan, in their article “CEOs Must Engage All Stakeholders” mention a series of real examples that illustrate the power of integrating stakeholders’ experiences for value creation.

Apple. Steve Jobs.

He expanded value creation for all his stakeholders—including its customers, employees, partners, suppliers, investors—simultaneously. He achieved it through a strategic architecture of platforms based on experience, which he expanded from their physical and online stores, to products and services (iTunes, iCloud), where the applications’ development is open to everyone, including design and testing of all devices.

Starbucks. CEO Howard Schultz.

He achieved a fundamental spin in 2008, not only for redesigning the offering of products and services, through strategies based on customer experience, but also for obtaining information and ideas through an effective

dialogue with their stakeholders (through MyStarbucksIdea platform). This allowed him to find creative ideas and solutions at the same time, which he hadn’t achieved on his own until that time.

Local Motors. CEO Jay Rogers.

He implemented platforms based on experience, allowing the design of cars built through the contributions of stakeholders, and at the same time he created customized experiences in which people can even design their own cars.

Hospital Moinhos de Ventos (Brazil). CEO Dr. João Polanczyk.

Through the involvement of different stakeholders—patients, families, nurses, physicists, corporate customers and insurance organizations—he managed to revert a declining hospital into a highly successful business in less than 5 years and reached new and higher quality health services. He generated space for creative dialogue: he facilitated workshops where new ways to interact with each other could be conceptualized, new experiences they could produce, and the value that this could have for each one. He achieved a positive change in the system through these interactions, allowing reciprocal learning among stakeholders. Also, he obtained results in positive cash flow, 90% occupation, and higher satisfaction levels in customers and employees in 2010 (in comparison with the results of 2006, when he obtained a negative cash flow and a 60% occupation).

I see red, You see green

All businesses operate in a wider system with interdependencies. So, how can one be conscious of those interdependencies and therefore be conscious of the entire system?

Fred Kofman, in his book *Conscious Business*, mentions Jean Piaget, a Swiss philosopher who studied cognitive development. Through a very simple experiment, he was able to prove that only at 6 or 7 years of age, children develop the sense of perspective and the ability to consider a situation from another’s point of view.

Piaget handed a group of children a cube with one red side and another green side for them to examine. Then, he sat face to face with one child at a time. While Piaget looked at the red side of the cube and the child looked at the green side, he asked what color did he/she see, and the child correctly answered “green”. When he made the second question: “What color do you think I see?” results were emphatic. Most children under the age of five answered “green”, whereas children above that age correctly responded “red”.

Children under five years of age were not capable of seeing that the person on the other side of the table could be looking at a different color. On the other hand, the other children had developed the ability to consider a situation from a different perspective to theirs.

“Ontological arrogance is the belief that your perspective is privileged, that yours is the only true way to interpret the situation. While ontological arrogance is normal, even endearing in children, it is much less charming in adults—yet unfortunately, it is almost as prevalent.”

Fred Kofman.
Conscious Business.

Every business is more than the sum of its stakeholders. A business is also the interrelationship among its stakeholders, their interconnection, purposes and shared values that stakeholders co-create and co-evolve together.

If we are able to become conscious that “my truth is not the truth” (and avoid 5-year-old answers), it will then be possible to integrate stakeholders in a collective collaboration and creative process oriented towards the strategy of the business and value creation for every party with surprising benefits.

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*For more information, we recommend that you read chapter “Stakeholder Integration” in: *Conscious Capitalism* by **John Mackey and Raj Sisodia**.*

*And we invite you to watch the following video by **Dan Pink** “The surprising truth about what motivates us”:*

<https://www.youtube.com/watch?v=u6XAPnuFjJc>

*Also, if you are interested in knowing more about *Conscious Capitalism*, click [here](#).*

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- ¹ Research published in journals such as the American Journal of Hypertension and the British Medical Journal shows that blood pressure rises and heart attacks spike by 20 percent or more on Monday mornings. See “Monday Morning Bad for Your Health,” CNN.com International, February 3, 2005, <http://edition.cnn.com/2005/BUSINESS/02/03/monday.pressure/index.html>. Research also shows that the stress hormone cortisol peaks early in the day, around the time people head off to work. See “Amazing Facts About Heart Health and Heart Disease,” July 2, 2009, www.webmd.com/heart/features/amazing-facts-about-heart-health-and-heartdisease_?
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