

The New Capitalism: The Greater the Compassion, the Greater the Profit

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An organization not showing compassion, that does not look to what its workers really need in terms of their basic psychological drivers, will never get the support needed for cost containment or any major strategic initiative. Most research shows that between 70% and 90% of all strategic initiatives fail. The failure rate is high not simply because the strategy is wrong, or because there were 'unforeseen circumstances' which derailed it; rather the reasons for this failure are most often an organizational culture which is antagonistic to change, a lack of trust and a leadership style that is not suited, or flexible enough, to allow for change.

Capitalism, as we have known it, may have run out of steam. Driven by the market pressure to produce ever more profits and growth in a problematic economic environment, and to do so faster with less, businesses are creating fear, disengagement, rigidity and illness— just the things that they claim they want to avoid. Organizations are creating stress by treating people more and more like computers. Yet the human organism can only withstand only so much pressure before it breaks down, bringing down the health system with it. Already 80% of all visits to physicians have their origin in workplace stress.¹ And work stress in

the US already costs businesses over \$300 bn a year, or over \$2,000 per employee.²

Perhaps, as few as 15% Fortune 500 companies will exist in an economically significant form in 10 years' time (Stangler and Arbesman, 2012). Some of this attrition will be due to the need to consolidate through M&A activity. Most, however, will be due to peoples' inability to innovate and adapt, which is the result of poor leadership and fear. On top of that is a massive disengagement and alienation that prevents people from working at their best or even, particularly in the case of clever Gen Y people, from wanting to work for these organizations at all. They do

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¹ "Health, the United States, 2011", National Center for Health Statistics, 2011.

² OSHA, 2012.

not believe that these businesses care about them, they do not trust the leadership and they want more out of life than just working to make other people, especially Fortune 500 CEOs and shareholders, rich (Caldicott, 2011).

I rather think that the future belongs to organizations that can effectively practice what has come to be called 'Compassionate Capitalism'. In the days of the Soviet Union, when Stalinism had been dispensed with, people used to talk of 'Communism with a human face'. Now, perhaps it is time to talk of 'Capitalism with a human face' and that is what Compassionate Capitalism really is. It is profit with a conscience. I believe that leaders who bring compassionate capitalism to their organizations will be richly rewarded, not only in profits but in the survivability of their organizations.

I also believe that compassionate capitalism is inevitable for three reasons, which I hope to prove: The system of free enterprise will be allowed to survive without it; compassion and profit go hand in hand; and only this way of operating will foster the capacity to adapt that the future requires.

Compassionate to Whom?

The phrase 'compassionate capitalism' has become very trendy of late. Compassion is the understanding or empathy for the suffering of others. The term Compassionate Capitalism was originally coined by Amway co-founder Richard DeVos in his 1995 book of the same title (DeVos, 1995). Basing his book on a set of Judeo-Christian moral precepts, he declared that while remaining a capitalist, one can also care about the planet, have a conscience and heart, and reach out to serve others.

Traditionally, this has not been the long suit of senior management, although there have been many instances of individuals who were both capitalists and philanthropists. Bill Gates and Warren Buffett are prime examples. There are also instances of corporations such as Wal-Mart,

UPS, McDonald's and General Electric, who are major donors to a variety of good causes. Most of this, though very laudable, has perhaps more to do with corporate image and PR than with a genuine sense of compassion.

Of course, since DeVos' book, there have been as many definitions of 'compassionate capitalism' as there are of capitalism itself, and that is one of the problems with the concept. For the purposes of this paper, I want to confine the idea to an organization's compassion towards its own employees. Without giving first priority to those who work for that company or firm, any ways in which it tries to show compassion to others—the community, charities, the environment or whatever—will be merely window-dressing of no substance.

But you might ask, how can companies be profitable if they focus on being kind? Business is about profit, not welfare. In the end, a corporation or a partnership is there to make money, to take capital and labor and combine them to add value. And this is perhaps true. But a close look at the research shows that real empathy can be directly linked to increases in productivity, adaptability, innovation, engagement and profits (Bruzzese, 2012). Compassion which does not add to profit is of no use—even to the organization's employees. I want to break this compassion down into its component parts and demonstrate exactly how being fair and compassionate to its people increases a business' bottom line.

What Is Compassion to Employees?

Compassion in the workplace is the ability to recognize and correct those aspects of work that increase employees' stress and their mental or physical ill health or deprive them of pleasure, purpose or personal and social development. The starting place for giving real meaning to this rather

general definition is to look at the four main reasons why people come to work in the first place. According to neuropsychologists and behavioral scientists, these are (Nohria et al., 2009):

1. To Relate: People work for the same reason they join clubs or associations (Maslow, 1998), in order to form a social grouping with other human beings and avoid isolation.
2. To Acquire: This relates to money of course. But money is not enough, and above a certain level of income, it is not even a prime motivator. People look to acquire status (Frank and Heffetz, 2008).
3. To Learn: The brain is a learning machine, and it decays if it is not being stretched or continually discovering something new. So people come to work to learn, to prevent mental (and literally neural) decay (Maslow, 1998).
4. To Defend the Tribe: At first, this will be the tribe outside of work— for example, their family, or the lifestyle they have with their friends. But as relationships at work become more solid, the desire to defend widens to include the team at work and, by extension, the organization (Nohria et al., 2009).

If any of these needs are not met, employees will experience negative stress and, ultimately ill health. That in turn will reduce productivity and the profitability of the corporation or firm (Nohria et al., 2009). It is estimated that workplace stress in the US costs employers a total of nearly a half a trillion dollars a year in lost income once you add in reduced output and legal and healthcare costs.³ It is obviously good business to show compassion to employees by giving them the means to relate, learn, acquire and defend.

Being deprived of these opportunities is not the only cause of work stress. There are a multitude

of others and their effects vary among individuals, making it impossible to generalize and giving executives the excuse to do nothing.⁴ However, if these basic needs were to be met, the other stressors such as too much or too little to do and lack of control over one's work could be addressed and at least mitigated.

In order to ensure maximum benefit from addressing these powerful motivators— and knock on the head, once and for all, these ideas being dismissed as 'psychobabble' or, even worse, as merely 'soft stuff,' let us look at each of these more closely.

Relate to Others

Humans are fundamentally relationship-forming animals (Dijksterhuis, 2005). The need to form supportive relationships is built into our genes and our neurobiology; like eating and mating it is one of our primary drives (Baumeister and Levy, 2000). We get a powerful neurochemical reward when we receive or give support to someone with whom we feel a connection (Eisenburger, 2012). However, often workplaces are structured so as to make interpersonal interaction difficult, if not impossible. On assembly lines, there is too much noise; in call centers, there are too many restrictions on colleague to colleague interaction; even in open-plan offices, individuals can only overcome distractions by building psychological walls which drive them to communicate mostly by e-mail (which itself is a major stressor).

Executives and partners in law and financial firms are often pitted against each other through policies that foster internal competition. One major global law firm reacted to the GFC by tacitly dropping its attempts to develop better cooperation among its partners and aggressively encouraged them to compete against each other.

³ Up from \$200 bn in 1999, <http://www.fdu.edu/newspubs/magazine/99su/stress.html>

⁴ "Workplace Stress", American Institute of Stress, available at <http://www.stress.org/workplace-stress/>

Those who were not suited to this 'Darwinian' culture were dismissed.

According to new research, the move towards working from home, though generally supported by many workers, may in the end lead to more social isolation and more stress (Hazell, 2011). Recently, Yahoo banned its employees from working from home on the grounds that it was inefficient, reduced productivity and led to a reduction in idea sharing and thus innovation.⁵

A compassionate employer will increase the amount of time available for staff to interact and socialize and design the work space to encourage this. One good example of this in action is the Sydney, Australia, offices of Clayton Utz, a major law firm. Spread over a number of floors, the space has a large communal coffee/gathering place and kitchenette on each floor. A glassed internal atrium showcases these gathering places and creates the feel of openness and connectedness. A number of studies have shown that this sort of arrangement has several advantages for both employees and management. There is more face-to-face interaction and therefore increased innovation, more exchanging of ideas, greater output, increased job satisfaction and commitment to the organization (Rashid, 2009).

Acquire Status

We are all, to some extent, status seekers. In psychological terms, status means that people feel valued and necessary to those around them. We need a sense of status for emotional reasons, and to give us a sense of safety (Lochet et al., 2004). The more status we feel we have, the less likely we feel that people will ostracize or abandon us or withhold emotional and physical support.

Like self-esteem, our sense of status depends largely on how we perceive others value us. We

constantly sift the environment for clues in the words and actions of those we deem important to us. That is why praise and meaningful public appreciation are so important. We are more likely to apply for jobs in organizations that we can boast about to our friends (even if the pay is less). We are motivated by those things which increase our sense of status. For example, being given more authority, even if there is no extra money attached to it. Being greeted by name by the CEO is a perceptual status booster.

Of all these, being given praise by a superior is one of the biggest status enhancers of all. But all praise gives the brain a shot of the reward of neurochemical dopamine. It makes a person feel better about themselves, their environment and their lives. Research by Gallup organization has shown that a culture of praise can raise the productivity and profitability of a firm by some 20% (Robinson, 2006). One of the reasons for this is that in addition to being the "happiness neurochemical", dopamine makes the brain work smarter and more creatively and increases short and long term memory. Good stuff.

The odd thing, as the Gallup people point out, is that praise is so rarely used. My colleagues and I often ask people in organizations how many times in the last five working days they have been praised at work. Surprisingly, often the answer is zero and rarely is it five times or more. Yet an employee who has been praised less than once a day by someone whose opinion he or she values is likely not to be engaged.

Consistently withholding praise is not just poor management, it is a form of bullying as it creates a lack of safety and the opportunity to learn and grow (Heretick, 2011). There are so many opportunities for positive comment: a job well done or something new tried, or effort.

⁵ For the story see <http://www.smh.com.au/comment/yahoos-have-little-to-cheer-as-ban-hits-home-for-mothers-20130228-2f959.html>

Considering the enormous value and lack of downside of positive reinforcement (it costs nothing and can be done by anyone with vocal cords or at worst a keyboard) it is sad that managers still need persuading. Many in fact confess to us that not only do they fail to give adequate recognition at work, but, more often than not, they withhold it from their families. Managers themselves are often the most deprived. Praising upward either does not occur to their reports or they fear to be seen as 'sucking up.' Even senior leaders seem to believe that the higher you rise the fewer acknowledgements you need. Yet these are the very people whose hands are on the tiller and whose brains need to be working most strategically and innovatively! Compassionate capitalism would do well to begin with establishing a multidirectional culture of praise.

Learn and Develop

For some time, it has been known that there is a strong link between engagement and what is called 'continuous learning.' An organization that is a learning environment is more likely to produce engaged, committed and productive employees (London, 2006).

Manuel London in his book, *Life in a Day* (Emerald, 2006), looks at individuals, groups and organizations as living systems and writes that "living systems can learn in three ways: they can adapt, they can generate, and they can transform" (London, 2006). Unless suppressed, there is a readiness to learn in any system. An individual or a group denied the opportunity to exercise and stretch their minds is being denied one of the fundamental human drivers. Organizational learning involves creating a culture that encourages innovation and adaptation, and the opportunity to transform, whether that transformation is of the individual, the team and the way it operates or the organization itself. Learning without the right or opportunity to make use of that learning

is frustrating for the individual and detrimental to the organization.

In my experience, real organizational learning is rare. I recently talked to a number of junior IT managers in a large consultancy who had been to a leadership program where they had learned the leadership techniques to drive innovation. These included praise, emphasizing relationships rather than 'stretch goals' [which most research has found to be useless (Kerr, 1995)] and individual coaching (Linkner, 2011). They then found that their own superiors and the firm's senior management actively discouraged them from using those skills. As a result, they became disengaged from the organization and a number of them subsequently left.

Another problem is that too often employers limit learning to the technical skills of the trade or the profession. Though this is obviously important, it does not feel compassionate to employees and, in itself, will not increase engagement or attract the most talented people (Gaffney, 2005).

Defend Their Tribe

Leaders of course come to work for the same reasons as employees. A good leader satisfies her own need to defend the tribe— to look out for their welfare as well as the success of the company. And her people respond in kind, wanting to support the organization's— and the leader's— vision and goals. A leader's highest accolade is for her leadership style and decisions to be backed by her people, who also feel safe enough to question decisions that they think are wrong. Such a leader gets her team committed to the relationship with her and, by extension, to promoting the success of the team. When employees are really committed to their team, department or organization, when they are prepared to sacrifice their time, devote more energy, or take on more responsibility— even

without extra pay— then a leader has truly succeeded in her prime task (Nohria et al., 2009).

How does a leader accomplish this? I have observed many CEOs and have been in the fortunate position to be able to correlate what they did as leaders with the consequences for their employees and their companies. Those who adopted what is commonly called a ‘transformational’ style of leadership attracted the most commitment. This style of management focuses on people rather than tasks, on relationships rather than outcomes. These leaders role model the behaviors they require of others, spend time coaching their reports, are clear about what they need and listen to others. They ask more than tell, and they show genuine interest in the people they manage. They use praise, they acknowledge, and they care. Their reports will try harder, achieve more, and be more innovative and adaptive— in other words, do all that is required to defend their leader and their team. Just what a hunter-gatherer would do to protect his or her band.

The leader’s compassion is shown by his or her style of leadership. A transactional, top-down management style says, in effect, “I don’t care about you, only what I can extract from you!” A too-hands-off laissez-faire management style can give the message: “You aren’t important to me, I don’t want a relationship with you.” That is not to say, of course, that these management styles do not have their place in certain situations, only that they are not a compassionate-seeming style to adopt as a leader’s modus operandi.

Compassion, Profits and Survival

In a highly competitive world, many CEOs and other leaders try to save costs by cutting the very programs that will make their organizations truly agile and competitive, such as leadership programs, coaching and assessment dialog training. They dismiss them as ‘soft’. As a result

of their cost control measures, they increase insecurity through layoffs and redundancies, when most of the research shows that these measures actually decrease productivity and profitability over the medium to long term (Rubin and Richardson, 1997). There is an old Wall Street maxim which says that when a company increases its profits by cutting costs rather than by increasing revenue, it is time to dump the shares. People will work hard for a while under threat, but overall they do their best when they feel safe and supported. They feel engaged and motivated. In my experience, and this is reinforced by a lot of recent research, a majority of managers seem unwilling or unable to halt the rising tide of employee disengagement (Perch and Slade, 2006).

Fortinberry Murray’s surveys, conducted in major organizations in Australia and Europe, show a sharp fall-off in the levels of employee trust between middle and senior management. They also show that one of the main components of this distrust is the sense that the leadership is not seen to look out for the welfare of the employees. Unfortunately, this is probably all too true in many of the largest corporations in most countries. At the moment, there is a race to the bottom in jettisoning labor and replacing people with digitized processes and machinery. Managements are also reducing spending on anything that is not seen as directly contributing to the bottom line— even when it is.

I recall Winston Churchill’s famous phrase about countries who sought safety in neutrality during the dark days of WW2: “Each one hopes the tiger will eat him last.” Now each corporation hopes that the tiger of reduced revenue will devour them last. I recall asking the CEO of a large US housing construction firm, which had just laid off 20% of its workforce, who he thought would buy his houses if everyone else followed suit? He had no answer beyond “Not everyone else

will lay off 20%.” Tell that to the people of Spain, or Greece where ‘everyone’ has done just that.

In the future, technology and other market forces will force every firm and corporation to radically change the way it does business. This will simply not be possible according to Deloitte, without ‘significant buy-in’ from their staff to new strategy and any new cost containment. The engagement they achieve and the supportive culture that goes with it will determine success or failure.⁶ The lack of that buy-in, that engagement with management, has already led to a 40% failure rate of current cost-containment measures.⁷

An organization not showing compassion, that does not look to what its workers really need in terms of their basic psychological drivers, will never get the support needed for cost containment or any major strategic initiative.

Most research shows that between 70% and 90% of all strategic initiatives fail (Kaplan and Norton, 2004). The failure rate is high not simply because the strategy is wrong, or because there were ‘unforeseen circumstances’ which derailed it; rather the reasons for this failure are most often an organizational culture which is antagonistic to change, a lack of trust and a leadership style that is not suited, or flexible enough, to allow for change (Gill, 2002).

Only compassionate leadership can enable companies to adapt, innovate and succeed and forge a sustainable enterprise system for the future: Compassionate Capitalism. ☺

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