BUSINESS WORTH DOING

A BALANCED STAKEHOLDER BUSINESS SYSTEM

AN ESSAY ON WHOLESOME CAPITALISM

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AND

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PREFACE

The world's economies continue to struggle, with the exception of a few countries. The after-effects of the recent global recession of 2008 are still being felt. Concerns about the impact of greed, short-termism, and unsustainable business practices still persist.

The stock markets have rebounded and corporate profits are high, but unemployment and the after effects of austerity lingers, with the middle class still appearing to be under threat in the western world. Terms such as income gap and restricted economic mobility are receiving increasing exposure. Productivity in traditional businesses may be leveraged to the max, and most easy cost reduction opportunities in old models are near exhaustion. With fast-moving and aggressive global competition, coupled with likely continued slow growth opportunities, executives face real challenges in choosing how to run their businesses.

There's a clear need, and maybe an appetite for a new business system approach. A system that helps leaders install a new way of building businesses that deliver long-term sustainable value and results that benefit all stakeholders.

We present such a business system and explain the language and philosophy that is behind it. We briefly provide evidence that this system works. We also provide encouragement on how to get it started with an outline methodology to follow.

We are hoping that it provides enough support for leaders that want to re-commit to Business Worth Doing that delivers businesses that works for all.

Patrick Hehir and Tony Petrella

DEDICATION

This book is dedicated to all the people that get up and go to work every day committed to doing their best for making every tomorrow a little better than yesterday.

ACKNOWLEDGMENTS

We would like to thank the many people (too numerous to mention) that have enriched our working lives and allowed us to be a part of their learning journey. We continue to be inspired by the great efforts and commitments made by people. Many work in Corporate Businesses and often face challenges. Yet they continue to face down inner dragons in order to keep a healthy form of capitalism alive.

We also thank all the great thinkers and authors that have helped shape our thinking to date. We want to contribute a verse to continue the conversation.

There were many people that invested much personal time in reviewing and giving specific feedback to us on earlier drafts of this work that has shifted from being a larger book to a smaller paper or article and back to a small book.

These include Jeevan Sivasubramaniam at Berrett- Koehler publishers who delivered some much appreciated tough love. Lisa Bassi who edited and provided much encouragement and idea development. Nancy Depper for copy editing. Conor Hehir for copy editing and demonstrating to us that some of the school fees were a good investment.

To Naomi Fein for her energy and effort on the illustrations and flow.

To our trusted publisher Virtualbookworm who is committed to supporting positive virtuous messages in the world.

To Michael Simpson for his unsolicited and timely note about an event that happened over ten years ago.

To both our wives Bernie Hehir and Linda Thorne for continuing to tolerate all the endless conference calls and incessant ruminations about whether anyone might find this work valuable.

INTRODUCTION

Having been actively involved in many differing capacities supporting or enabling the growth of countless global businesses over the past 30 to 40 years, we have been a part of some tremendous examples of both success and failure. During that time there has been an increasing set of pressures that are tipping many business systems out of their natural balance. There is much debate about this in recent years and no doubt there will be many more to come. At this stage, we felt compelled to make our contribution to these discussions, to add a verse so to speak, but from a solution-oriented mindset.

We are practitioners from the real world, as opposed to academics that study success after the fact and then write about it. We have scars on our back as well as stories, ideas, and constructs that we leverage from the learnings we have had with all of our co-workers, clients and teachers. We believe these constructs and ideas can be of value to all businesses and to all of their stakeholders.

During the last 30 to 40 years we have observed that there has been an increasing pressure to take a short-sighted view of business success. That pressure mostly begins in financial markets; places that are more and more dominated by speculators and get-rich-quick chicanery. We believe that this short-sighted view significantly raises the likelihood of long-term failure.

In this essay, we examine what this philosophy has done to the way businesses are run and how people behave within them. Then we introduce an alternate philosophy with some fresh new language, coupled with a simple process methodology to follow. We believe that our proposed approach is pragmatic, timely and already well proven to deliver superior results over the long term.

Currently we feel that many executives are coming under significant pressure from many differing angles. We want them to know that there IS an alternative approach that could relieve much of that pressure. We write this essay with those executives in mind.

This material is rooted in many apparently simple concepts, but most are profound in nature. The book is written for all leaders involved in business and that care about engaging in business that is worth doing. While we originally wrote much more extensively on many elements, we condensed most of them for this project. We quite simply did not want to further add to the time burdens of the already pressured Executives. We wanted the leader to have something of portable size and that could be read on a moderate duration domestic plane ride.

The goals of the essay are to:

i. Bring focus to some of the root causes for the capitalist system's recent decline and underperformance in building sustainable long term value creating businesses.

ii. Let the reader know that there are success stories that have used an alternate approach that delivers long-term sustainable value creation with superior results for all.

iii. Outline the philosophical underpinnings and language needed for a stakeholder management system approach.

iv. Present a process methodology for the installation of such an integrated stakeholder management system.

v. Provide some encouragement and hope to support people having the courage to commit to a new approach.

We are talking about a Balanced Stakeholder System and we refer to this approach as Business Worth Doing. After all if something is worth doing, it is worth doing well.

Economics and Capitalism have a storied history. We briefly explore some of the core elements of both in this chapter and we touch on what we believe has had a disproportionate negative impact on long-term sustainable capitalism. We also show evidence that with a slightly different approach, leaders have a tremendous opportunity to be a part of a very elite group where *their* business can become one of the few that deliver long-term sustained value creation.

PART OF THE PROBLEM

Milton Friedman famously declared that making a profit was the only purpose of an industrial or commercial enterprise. Unfortunately, he, with the help of Wall Street speculators and traders as well as many conventional economists, has helped cultivate and drive an unhealthy world-view of many modern corporate executives. Despite some success stories, we believe this world-view has had a ruinous impact on the underpinnings of the American economy and indeed American society. Furthermore, it has badly affected—or should we say infected—the way business is done in much of the rest of the western world.

Of course, industrial and commercial enterprises must make a profit—it is as vital as breathing is for a human. We are firmly in support of this premise. We are also fully supportive of the idea that people that do great work, ought to earn unlimited rewards, financial and other. However, simply making (or extracting) a profit in the short-term is often ruinous to the operation of a long-term and value creating business and usually only benefits a few.

Our views are not driven out of concern about elite groups, disparity of wealth or income inequality. There have always been wealth disparities in the world. We write this partly as we sense that what is concerning a lot of people and is the source of significant discontent, is a belief of a shrinking opportunity for many to accumulate wealth. An increasing proportion of the world populations are feeling that the capitalist system is becoming more and more stacked against them.

This then affects the psyche of employees and dampens their energy and contribution.

Regardless of what is or is not happening, businesses are feeling under pressure. The senior business executives of public companies today face increasing pressure to do whatever it takes to deliver rising profits every single quarter and that is having a big impact on how they lead.

They are pushed to go to extreme measures to continuously increase share price today. This pressure comes, to a large extent, from the financial markets that have become dominated by financial speculators (traders) rather than long-term investors.

These financial markets are predominantly driven by fear and greed. We all know this, but it still merits exploration and discussion. Speculators play on these two driving factors, and the result is a short-term game that turns the financial market into something akin to a casino.

There is little concern for the long-term success of the enterprise that is in play when operating in this mode. Speculators use an array of increasingly sophisticated practices, often with complex algorithms that enable automated computerized buy/sell activity. They can manipulate prices with pump and dump games as well as the traditional puts and calls. Some of these practices began as sensible risk mitigation efforts but they have gone too far. These speculators also constantly push the boundaries of what is legal and what is not. Speculators are exclusively interested in their own selfish short-term wins. (But to their credit most openly declare this). The short-term can be as brief as hours or minutes or even milliseconds as they try to make money for themselves and their clients. "High-speed computer trading accounts for roughly 50% of all trading" according to Maureen Farrell at CNN Money. We now have a new term called *Flash Crash* as a result of a 9% drop in the Dow Jones stock market index on May 6, 2010 at 2:45 p.m. This was the largest single intraday drop in the history of the index.

While this is hardly news to anyone, business leaders are vulnerable to the pressure this dynamic creates. As a result, executives often prioritize quarterly returns, and they become reactive to fickle stock price fluctuations. This then can drive them to make short-term business decisions and judgments that may be detrimental to the business in the long-term.

Figure 1 on the next page outlines the distinctions between speculators and investors. It is no surprise to see that there is a world of difference between them.

The current business environment has become so treacherous that executive compensation has accelerated partly to compensate for the significant career risk associated with being a leader in this cauldron of pressure.

Business leaders who want to build a successful and sustainable business enterprise must understand the potential negative impact of pandering to the speculators. They need to be aligned with the real investors. It needs to be said that the leader cannot totally ignore short-term feedback as sometimes it is helpful, but they should not be totally driven by it. The competence, confidence and courage to balance short-term views in the frame of a long-term strategic vision is exceptionally important—and all too rare today.

> Probably ***the*** most crucial management competence for a business leader is *Judgment.*

Leaders that are hired to deliver results over a time span of 1,3,5 or 10 years +, yet are pressured to make decisions that quickly impact the quarterly or annual results cycle, are highly likely to make errors of judgment for the long term. Part of the reason that leaders get significant higher multiples of salaries than the entry level worker is that it generally takes a lot of time before the result of their discretionary judgment is revealed. This is known as the '*Time Span of Discretion'*. Paired with judgment as another competence is his/her ability to handle cognitive complexity within a time horizon that is matched to the job scope. This is linked to '*right fit'* for the job.

Finding Executives capable of leading and delivering in this kind of environment is difficult. We want to shed some light on aspects that may enable more leaders to be better in this regard.

Figure 1

Traders vs Investors Comparison

	Trader or Speculator	**Investor**
Mindset	Short-term	Long-term
Time Horizon	Intraday to days and weeks	Quarters to years to decades
Methods	Ride on momentum	Monitor longer term company, and industry trends
Analysis	Mainly technical analysis	Mostly fundamentals with deep dive on 3 financial statements (Balance Sheet, Cash Flow and P&L) as well as industry analysis
Company Mgmt.	Usually have never met company management, but they read analysts' reports.	Spend time with the management, to get a better understanding of the company strategy and the management competency
Support	Are of no strategic support to the Company	Many times will have board seats and will be available to offer advice and support in overcoming obstacles
Strategy	May be somewhat industry agnostic and they use quick in and out approach with limits on downside.	**Value Investor** (Hunting for bargains where price is less than company is worth) **Growth Investor.** (Expansion and growth prospects look very bright)
Stakeholder Understanding	Only care about short term profit regardless of consequence or impact to other stakeholders	Have a balanced understanding that all stakeholders need to have their needs met. They see it as a risk reduction component, and part of what ensures the business can perform well
Sustainability	Not interested in the sustainability of the enterprise as long as they get their profits	Generally understand and are committed to maintaining the sustainability of the company.

It is vital that executives understand that marketplaces are not made up only of investors and primary stockholders—there are other stakeholders as well.

We define stakeholders as any person or group of people whose contribution enables a business to function.

In a traditional public corporation, the primary stakeholders are:

- The Enterprise
- The Customers
- The Investors
- The Employees
- The Suppliers

Coincidentally, the Ford Motor company via the leadership of CEO Alan Mulally and Chairman Bill Ford make specific reference to an additional three stakeholders in their published business plans. They are dealers, unions and the communities where Ford operates. The stakeholder list can expand even beyond that but in the interest of simplicity, we will only focus here on the 5 stakeholders listed above.

It is crucial to understand that money is not the only currency of value with the stakeholders involved in a business. Money at its basic level is a quantification or valuation medium that enables people to trade easily with each other.

Long-term, value creating, sustainable performance is primarily a matter of holistic relationships with stakeholders that go far beyond the simple exchange of money. The thing is that those that get it right, normally end up being the leaders in their industry.

Each stakeholder is a necessary contributor to the success of a business. They all contribute something to the enterprise and ought to reap a just and deserved reward for their contribution and the risk that they take. It bears reminding that all stakeholders are people. The customers are people, the investors are people, the enterprise has people, the suppliers are people and the employees are people. They are all emotional sentient beings with needs, wants, desires, hopes and dreams.

The long-term sustained value creating performance of any enterprise depends heavily on the voluntary and committed engagement of all these people. This engagement, which goes far beyond a short-term relationship for financial gain, is characterized by such things as commitment, trust, mutual respect, autonomy, meaning, authenticity, transparency, risk-tolerance, and loyalty.

Paying attention to why and how each stakeholder engages and participates in the system can lead to a business system that operates in a more balanced and scalable manner.

EVIDENCE THAT THIS APPROACH WORKS

There is ample evidence that this stakeholder approach works.

In many conversations where people are looking at long-term performance they often compare and benchmark their financial performance to other indices and companies to determine their level of relative success.

The Standard and Poor's 500 is probably the most common index used for US companies to compare against. Another popular comparison for companies is versus the group of 11 companies determined to have gone from Good to Great as outlined in Jim Collins 4 Million selling book of 2001 named 'Good to Great'.

Figure 2 and Figure 3 illustrate data taken from an extensive recent study conducted in support of the book Firms of Endearment (Sisodia, B.Wolfe, & Sheth, 2007). This book is one of the anchor works for the Conscious Capitalist movement. Their research demonstrates that utilizing a Stakeholder System approach to running a business delivers superior results.

Financial Performance Comparison

Stakeholder Companies vs S&P 500 Companies

Figure 2

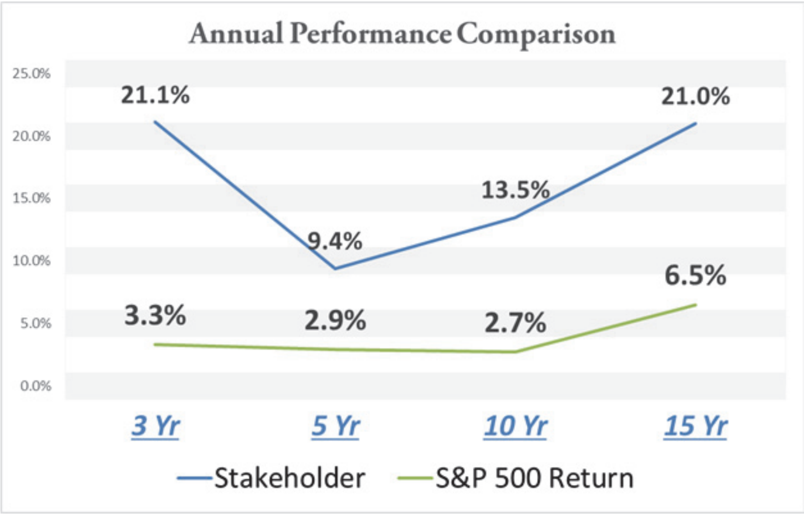

Figure 3

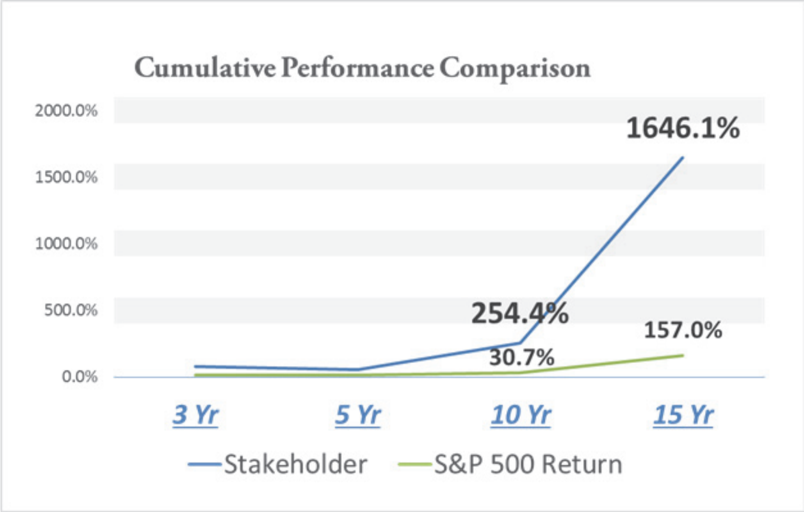

Figure 4

Cum - Cumulative; **Ann** - Annualized								
	15 Year		**10 Year**		**5 Year**		**3 Year**	
	Cum	**Ann**	**Cum**	**Ann**	**Cum**	**Ann**	**Cum**	**Ann**
FOE Return	1646.1%	21.0%	254.4%	13.5%	56.4%	9.4%	77.4%	21.1%
GTG Return	177.5%	7.0%	14.0%	1.3%	-35.6%	-8.4%	-23.2%	-8.4%
S&P 500 Return	157.0%	6.5%	30.7%	2.7%	15.6%	2.9%	10.3%	3.3%

Figure 2 compares annual performance and Figure 3 compares the cumulative financial performance of companies that use a Stakeholder System similar in philosophy to what we are outlining in this book. They compare their results over four time periods: 3, 5, 10, and 15 years. The results show that companies using a Balanced Stakeholder System approach do in fact deliver superior performance over all time periods.

The table in Fig 4 presents the same data in tabular form. The term FOE (Firms of Endearment) represents companies using the Balanced Stakeholder System and GTG represents 'Good to Great' companies.

The conclusion is that a business that uses a Balanced Stakeholder Business Management System has the highest likelihood of delivering superior and long-lasting sustained value creation.

However, these kinds of results are rare.

Bain Capital studied companies in 12 countries across a broad base of industries over the past two decades to show that over a 20-year period a miniscule 12 to 14 percent of the companies delivered what they call "sustained value creation." (See Fig 5) Sustained value creation refers to financial returns where revenue and profit grow more than 5.5% per yr. and the company consistently earns return greater than their cost of capital.

Fig 6 shows the results for 2002 to 2012 and the percentage actually has dropped to 12%. To us this represents a massive opportunity for leaders to go to work on the 88% that can improve in this regard.