# How Virtuous is Your Firm? A Checklist

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## Abstract

Scholars are noting a change in the way business is being conducted. Many firms --one scholar estimates the number at 15%-- are concerned about values rather than focusing exclusively on maximizing profits. This new kind of capitalism considers factors such as societal needs, quality, needs of employees, and environmental sustainability in business decision making. In addition, a large number of consumers (approximately 70 million Americans), known as values-driven consumers, prefer doing business with companies that have values. This paper provides a checklist that can be used by firms to determine whether or not they are indeed virtuous; if they are not, the authors provide reasons why they should change.

## Keywords

Business ethics, corporate social responsibility, virtuous firm, servant leadership, workplace diversity, spirituality

A sea change is occurring in the corporate world. Many businesses are no longer seeing themselves as organizations that should only be concerned with profits but, instead, are now concerned about values (Batstone, 2003; Greider, 2003; Hindery, 2005; Hollender and Fenichell, 2004; Kotler and Lee, 2005; Mitroff and Denton, 1999; Paine, 2003; Pava, 2003). One researcher feels that approximately 15% of firms understand this and are proactive; "They put people first, safety next, customer service third, and profits last" (Walker, 2002).

This number should continue to grow. Patricia Aburdene, a renowned trend watcher and author of Megatrends 2010, asserts that spirituality in business is "converging with other socioeconomic trends to foster a moral transformation in capitalism" (Lampman, 2005). Corporations are becoming more sensitive to the needs of the community and less concerned about "profits at all costs." Aburdene (2005) notes that we are moving towards "conscious capitalism" a new kind of capitalism which not only focuses on profits but which considers factors such as social, environmental, and economic costs in business decision making (Lampman, 2005). Some of the major social trends identified by Aburdene include "the power of spirituality," "the dawn of conscious capitalism," "spirituality in business," "the values-driven consumer," and the "socially responsible investment boom" (Aburdene, 2005). This transformation is also on the consumer side; as many as 70 million Americans — Aburdene refers to them as "values-driven consumers" — prefer buying from firms that have values.

According to Business Ethics Magazine, "The best managed firms today —in this era when societal expectations of business are rising — can no longer focus solely on stockholder return. Companies that aim to prosper over the long term also emphasize good jobs for employees, environmental sustainability, healthy community relations, and great products for customers" (Business Ethics Online, 2006).

Smith (2005) observes that the ethical malfunctions we saw in the business world, such as Enron and Worldcom, were not due to a shortage of ethical theories or confusion on the part of management as to which theory to apply. Rather the breakdown in business ethics was due to "a failure to perceive the transcendent" and because the literature on normative business ethics "is deficient in its failure to consider the spiritual aspects of management and ethics in particular." More and more organizations are talking about values, virtue, and spirituality.

The business model that focuses solely on maximizing shareholder wealth is becoming obsolete, and is morphing into one that is concerned with all the stakeholders including employees, customers, suppliers, government, the community, and society (including the effects on the environment). Pava, an accountant whose research compared socially responsible firms with those that were not, came to the following conclusion (Pava, 2003:62): "Much to my surprise, we were unable to uncover any cost of social responsibility. In fact, the evidence suggested that there might even be a financial advantage for the companies carrying out these projects." Hollender and Fenichell (2004: 26-27) assert that there is a strong positive correlation between being a value-driven firm and financial performance. Firms that make virtue part of their culture have done much better in terms of long-term financial performance than those only concerned with profit maximization. It does not matter whether virtue leads to profit. In fact, one can say that looking for a profit motive in acting virtuously cheapens the latter. For the values-driven firm, it is about doing the right thing.

## Corporate Social Responsibility

Firms that wish to succeed will have to focus on corporate social responsibility, not on maximizing shareholder wealth. Our definition of corporate social responsibility (CSR) will be the one cited in Hollender and Fenichell (2004, p. 29):

> … an ongoing commitment by business to behave ethically and to contribute to economic development when demonstrating respect for people, communities, society at large, and the environment. In short, CSR marries the concepts of global citizenship with environmental stewardship and sustainable development.

Corporate social responsibility is often a broader and richer concept than business ethics alone. It certainly includes business ethics but also takes into account such concepts as helping one's community and global citizenship. Lantos (2001) asserts that there are three types of CSR: ethical, altruistic, and strategic. All organizations have to advocate ethical CSR, which is concerned with avoiding societal harm. On the other hand, one can argue against altruistic CSR since helping others can reduce the profits of the firm and thus hurt the shareholders. Strategic CSR focuses on doing good in a way that benefits the firm.

Porter and Kramer's classic paper (2006) demonstrates how CSR can be used in a strategic manner to benefit all stakeholders, not only shareholders. They believe that CSR has to do with the fact that business and society have shared values; CSR is a win-win for both. Asongu (2007) posits that "strategic CSR should not be seen as a type of CSR but as an essential component of every CSR program." Asongu (2007) cites a survey he conducted that indicated the following: 83% of Americans prefer to buy from a company that has an active CSR program as long as the product was comparable in price and quality to competing products. On the other hand, 51% were willing to boycott a firm that was not socially responsible, even if the product sold was superior or less expensive than others.

A socially responsible firm benefits in numerous ways. These include: increased sales and market share, strengthened brand positioning, enhanced corporate image and clout, increased ability to attract, motivate, and retain employees, decreased operating costs, and increased appeal to investors and financial analyst (Kotler and Lee, 2005: 10-11). Virtuous firms with values quite likely have a competitive edge over firms that do not have values. Studies of numerous industries demonstrate that virtuous organizations experience increased levels of customer satisfaction, product quality, productivity, employee satisfaction, and profitability (Brady 2006; Paine, 2003:53). Two companies that measure and track 'corporate citizenship' have found a relationship between stock market returns and virtuous behavior (Dvorak, 2007).

## The Checklist

It is becoming clearer that we are witnessing a moral transformation of capitalism. Many organizations claim to be socially responsible and values-driven. The checklist in Figure 1 is a useful device enabling an organization to test whether or not they are indeed virtuous or are just fooling themselves.

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| 1. How serious have you been about hiring the disabled? |
| 2. Have you encouraged diversity in the workplace? Are you serious about supplier diversity? |
| 3. Are you a learning organization? Do you empower employees? Are you treating your employees well? |
| 4. Does top management believe in the importance of integrity and honesty? Have conflicts of interest in the organization been eliminated? |
| 5. Are leaders seen as servant leaders? What is the ratio of CEO pay relative to the pay of the average worker in your organization? |
| 6. Have you helped the local community in which you conduct business? Are you helping public schools by partnering with them and/or providing internships for students? |
| 7. Is customer satisfaction important to your firm? Do you have a procedure for dealing with client complaints? Do you apologize when you make a mistake? |
| 8. Have you been showing concern for the environment? |
| 9. Are you engaging in corporate philanthropy? Have you made the world a better place? |
| 10. Does your mission statement discuss values? |
| **Figure 1. The Checklist** |

## 1. Hiring the Disabled

Friedman, Lopez-Pumarejo, and Friedman (2006) believe that marketers should not overlook the disabilities market, a group that consists of about 20% of Americans and will double in size within fifteen years. It has an aggregate income of over one trillion dollars. The major causes of disability are arthritis and rheumatism; back and spine problems; heart trouble and atherosclerosis; lung and respiratory problems; and deafness and hearing problems. Disabled employees in the workforce can help the organization generate and develop ideas for new products and services. Firms that have employed autistic individuals and those with Down's Syndrome have found that they are hardworking, dedicated, and loyal employees (Friedman, Lopez-Pumarejo, and Friedman, 2006). Whether a company makes more of a profit or not in hiring the disabled, it happens to be the right thing to do. Moreover, in some cases there may be legal issues — e.g., it may be a violation of the Americans with Disabilities Act if a firm does not make their organization disabled-friendly.

## 2. Diversity in the Workplace

Workforce diversity helps create a work environment in which female, minority employees, the disabled feel welcome; even customers will feel more welcome in such an environment. The demographics of America are rapidly changing, and workforce diversity is vital for firms that desire to thrive in the future (Friedman and Amoo, 2002). Diversity may help an organization flourish but it is also the right thing to do. Furthermore, diversity is important if one wants to create a learning organization (Checklist Item #3). It is also important to help promote supplier diversity by doing business with firms that are owned by women and minorities.

## 3. Respect for Employees

As far back as the 1950s, Peter Drucker felt that employees should not be seen merely as factors of production that could be discarded like worn-out machinery. He saw the corporation as an organization "built on trust and respect for the worker and not just a profit-making machine" (Byrne, 2005). Seeing employees as partners is the way to build an organization with values. Harrington, Preziosi, and Gooden (2006) insist that it is clear that workers wish to experience "real purpose and meaning in their work beyond paychecks and task performance." They maintain that corporate America is responding to this need.

Pfeffer (2002) cites numerous studies that show that "organizations that have and live by their values, that put people first, and that manage using high commitment work practices outperform those that don't." Whether profit is increased or not, Pfeffer (2002) makes a point that all moral organizations must heed: "An individual's desire and right to be treated with dignity at work, to be able to grow and learn, to be connected to others, and to be a whole, integrated person can not simply be sacrificed for economic expediency."

In the corporate world, many firms are recognizing that the ability of an organization to learn is the key to survival and growth and "organizational learning" has become the mantra of many companies (Argyris and Schoen, 1996; Senge, 1990). What is organizational learning? Garvin (1993) believes that a learning organization is "an organization skilled at creating, acquiring, and transferring knowledge, and at modifying its behavior to reflect new knowledge and insights."

What should we find in a learning organization? Much of what we expect to find requires empowered employees that work together and share knowledge. Thus, learning organizations have an infrastructure that allows the free flow of knowledge, ideas, and information; there are open lines of communication making it easy to share knowledge. There is an emphasis on team learning where colleagues respect and trust each other. It is an organization where one employee will compensate for another's weaknesses, as in a successful sports team. Employees learn from the experiences and mistakes of others in the organization. There is a tolerance for failure and a willingness to experiment and take chances. Diversity is seen as a plus since it allows for new ideas. Employees are committed to lifelong learning and growth. They have the ability to adapt to changing conditions and the ability to renew, regenerate, and revitalize an organization.

## 4. Ethics and Integrity

There is no question that integrity and honesty must start at the top of the organization. Bell, Friedman, and Friedman (2005) believe that conflicts of interest have caused many of the serious ethical lapses that occurred in the last decade. Before a company can improve its ethical behavior, it must remove all conflicts of interest. Excessive compensation of executives (and backdating of options) was at least partially due to the existence of ties between members of compensation committees and CEOs. It is important for executive compensation to be fair. There is evidence that paying executives outrageously excessive salaries while cutting the pay of employees will result in reduced productivity and lower product quality. Employees have no choice since they need their jobs; they can however become indifferent to the quality of what they produce if they feel that they are not being treated fairly (Bernasek, 2006).

## 5. Servant-Leadership

Bebchuk and Fried (2004:1) note that the ratio of CEO pay at large firms relative to the pay of the average worker has grown to 500:1. Samuelson (2006) found that from 1995 to 2005, median CEO compensation increased 151% ($2.7 million to $6.8 million); median salary increases for all full-time employees increased only 32%. In addition, the ratio of median CEO salary/median worker salary rose from 94 to 179 in the same time period. It is becoming quite apparent that executive compensation is not tied to company performance. It is not surprising that CEOs have lost their credibility in the United States.

According to a Watson Wyatt survey, approximately 90% of institutional investors believe that top executives are dramatically overpaid (Kirkland, 2006). Warren Buffet asserted that ensuring fair pay for executives is the "acid test of corporate reform." The latest scandals involving backdating of options has made it obvious that executive pay has little to do with superior performance. Jeb Bush, governor of Florida, contends that "… if the rewards for CEOs and their teams become extraordinarily high with no link to performance —and shareholders are left holding the bag— then it undermines people's confidence in capitalism itself" (Kirkland, 2006).

There is currently a trend among CEOs — it does not appear to be a fad— towards being likable. Executives are becoming warm, responsive, caring, and humble (Brady, 2006). According to Brady (2006), "positive energy" is popular with CEOs today and they are learning to reach out to stakeholders and the media. Engardio (2006) asserts that we are seeing what is called "karma capitalism" or "inclusive capitalism." Indeed, many firms are interested in pursuing the goals of value creation, virtue, and social justice. Leaders are supposed to be fair, show compassion, and be sensitive to all stakeholders.

Many CEOs are interested in becoming servant leaders. Servant-leaders empower others and are facilitators; they are not concerned with personal aggrandizement. The servant-leader is the antithesis of the autocratic, authoritarian, leader who is primarily concerned with power and wealth; he cares about people and wants them all to be successful. Spears (2004) finds ten characteristics in the servant-leader:

- Listening intently and receptively to what others say. This, of course, means that one has to be accessible.
- Having empathy for others and trying to understand them.
- Possessing the ability of healing the emotional hurts of others.
- Possessing awareness and self-awareness.
- Having the power of persuasion; influencing others by convincing them, not coercing them.
- Possessing the knack of being able to conceptualize and to communicate ideas.
- Having foresight; which also includes the ability to learn from the past and to have a vision of the future.
- Seeing themselves as stewards, i.e., as individuals whose main job is to serve others.
- Being firmly dedicated to the growth of every single employee.
- A commitment to building community in the institutions where people work.

Spears (2004) lists a number of companies that either include the principle of servant-leadership in their mission statement or corporate philosophy. These include firms such as ServiceMaster Company, Southwest Airlines, Toro Company, and Men's Wearhouse. It does not necessarily have to be servant leadership. There are other models of leadership that are quite similar and are appropriate for firms that wish to be virtuous. Pava (2003) speaks of "covenantal leadership"; Covey (1991) of "principle-centered leadership"; and Blanchard (2007) of "leading at a higher level." All require leaders that care about values.

## 6. The Local Community

A virtuous firm should establish and maintain strong ties with the local community in which it conducts business. It should hire employees from the local community and do business with local companies. After all, many of a firm's customers will come from the surrounding areas. Also, if the local community thrives, it can only benefit the businesses that are based there. No one wants to run a business in a dying community on its last legs. Some hotel chains have developed a new workforce by offering training to the unemployed in local communities—a win for everyone.

Wal-Mart Watch (2005) lists seven principles that it believes define an organization's obligations to the common good. All are derived from ideas expressed by Sam Walton in his book Made in America. One of the principles is: "Buy local first." It is based on something Sam Walton stated: "For Wal-Mart to maintain its position in the hearts of our customers, we have to study more ways we can give something back to our communities" (Wal-Mart Watch, 2005).

Improving the schools is a practical way of ensuring that a firm will have an adequate supply of dedicated, competent, and literate employees. School reform is a win for society and for business. Kanter (2003) describes how a partnership between the corporate world and the public sector can benefit both. Companies such as IBM and Bell Atlantic have helped public schools while at the same time benefiting themselves.

## 7. Customer Satisfaction

A virtuous organization truly cares about its customers and clients. No one will consider a company that purposely sells defective or dangerous products as virtuous. Many firms today believe that customer satisfaction is the most important measure of business performance; it is even more important than profit and market share. Indeed, a survey of major business leaders who attended the World Economic Forum were asked what was the major measure of success. Only 20% mentioned profitability. The majority mentioned the reputation of the corporation, integrity, and high quality products (Hindery, 2005: 10).

It is difficult for a firm to fail when it is obsessed with providing customers with the best products in the marketplace. On the other hand, it is difficult to succeed when a firm's products are substandard and not designed to provide value. The attempt to cut costs at Home Depot, Dell, and Northwest Airlines may have reduced costs but had disastrous effects; a reduction in customer satisfaction that quickly translated into reduced market share (Hindo, 2006).

Organizations that care about their customers also want to hear what they have to say. Listen to them. Listening to customers, especially customer complaints, is a good way of coming up with ideas to improve products. It is also a simple way to determine whether or not customers are satisfied. Even the best of organizations will occasionally have an unhappy customer, whether it has performed poorly or not. Even at very high levels of quality, say, six sigma, there are 3.4 defects per million. Executives at companies such as Boeing now have two public blogs: an internal one to hear from employees and an external one to hear from the public (Holmes, 2006). Negative word of mouth can have a serious impact on sales. Even before the Internet, the belief was that unhappy customers would complain to as many as 10 people. Today, with the Internet, a dissatisfied customer can complain to thousands of people. Buzz marketing is just as effective for negative word of mouth as it is for positive word of mouth.

John P. Mackey, CEO and co-founder of Whole Foods Market, asserts that customer satisfaction is more important than profit maximization. He is an advocate for what is referred to as values-driven capitalism. His firm consciously works to improve society and does not rely solely on the "invisible hand" of the marketplace to achieve this result. In fact, the company stopped selling lobsters because it did not like the way the animals were treated. The company is also increasing its spending on its purchases of produce from local farmers (Nocera, 2006).

When an organization makes a mistake, it should not be afraid to apologize. Even apologizing correctly is an art that many do not perform properly. Friedman (2006) reviewing the work of many scholars in the field indicates that a good apology has four key elements: (1) acknowledging the offense; (2) communicating remorse and the related attitudes and behaviors such as, regret, shame, humility, and sincerity; (3) explanations as to why the offense was committed; and (4) an offer of reparations/restitution.

Virtuous organizations are not afraid to apologize and show remorse for mistakes.

## 8. The Environment

There are several reasons that the corporate world is going green. These include improving its image and competitive advantage; in fact, environmental stewardship is a way to differentiate a product or service and attract customers (Wald, 2006). A number of studies show that the public is very concerned about the environment and wants to do with business with companies that care, and avoid those that do not. One study found that 75% of consumers claim that their purchasing decisions are affected by a firm's reputation with respect to taking care of the environment (Kotler and Lee, 2005:12). This may help explain why a significant number of companies are promising that in the future they will be completely green, i.e., produce no waste and only use renewable sources of energy.

There is also a moral reason for being green. How much longer can the United States with only 5% of the world's population continue to use 25% of many critical resources? Because of pollution, it is unsafe to swim or fish in close to half of all American rivers and lakes (Markham, 2006).

Firms that see environmental issues as opportunities rather than threats are more likely to succeed by establishing a competitive advantage over the competition. Clearly, the public is hungry for products that are competitively priced yet do not harm the environment. Ecological sensitivity may not be an option in the future. Regardless of any marketing gains, a firm should be concerned about our planet. Planet Earth is all we have and we should take care of it.

## 9. Corporate Philanthropy

According to the Giving USA Foundation, companies donate, on average, a measly 1.2% of total corporate profits, nothing close to the tithe that many religions encourage (Business Week, 2005). Porter and Kramer (2003) feel that corporate philanthropy does not have to be seen as pure charity. It can be used in a strategic way to improve the competitive context — "the quality of the business environment in the locations where they operate"— of a firm. In other words, philanthropy may actually benefit the firm by ultimately increasing its long-term profits. For example, a firm could use its resources to improve education and the welfare of the area in which it operates. Done correctly, this can also benefit the firm. A virtuous firm does not necessarily think about future benefits from philanthropy. They engage in philanthropic acts because humankind has an obligation to make the world a better place. All of humankind gains if we eradicate poverty and war.

Cause-related marketing (CRM) which involves contributing a part of every sale to a cause organization is another way of benefiting both the firm and the society (Kotler and Lee, 2005). Done right, it can improve the image of the company and the brand, increase sales, and help improve the morale of employees. American Express, one of the pioneers of CRM, used a campaign in which the company announced that it would donate 1 penny for every use of its card and $1 for every new card issued towards the renovation of the Statue of Liberty. The campaign helped American Express increase the number of card users and also raised money for the Statue of Liberty campaign. Volunteerism is another way to help others. For instance, Tom's of Maine encourages its employees to spend 5% of paid time acting as volunteers to the community.

## 10. Mission Statement

An organization that is interested in virtue must examine its mission statement. Mission statements should not only discuss profit and growth; maximizing shareholder wealth is not what it is all about. Corporate performance cannot and should not be measured by using only one criterion such as maximizing shareholder wealth or maximizing profit (Pava, 2003:8). A firm must consider the long-term and its mission statement should therefore consider the needs of the environment, society, employees, customers, suppliers, and government. The mission statement of the firm should say something about a firm's moral and ethical values and it should have something to say about all the key stakeholders, not just stockholders. The needs of customers, suppliers, society, employees, government, and the environment should be addressed in the statement.

The mission statement can and should be used to energize the entire organization and provide direction so that employees, customers, suppliers, investors, and other stakeholders know exactly what the organization hopes to achieve. Thus, a good mission statement will mention ideas such as producing high-quality products; the importance of integrity in business; providing employees with meaningful and fulfilling work that provides dignity and the opportunity to grow; respect and concern for the environment; cultivating positive relationships with suppliers and customers; helping the local community; and concern for society.

Many firms are publishing an annual corporate social responsibility report so that all stakeholders can see exactly what the firm is doing in order to conduct its business in a socially and environmentally responsible manner. Starbucks makes it Corporate Social Responsibility Annual Report available online (http://www.starbucks.com/ aboutus/ csrannualreport.asp). Starbucks uses key performance indicators such as partner satisfaction (they refer to employees as partners) and percentage of executives that are female and people of color to measure how well it is doing in maintaining its values. This is a good way to send a message to everyone that social responsibility is as important as profits and must be measured.

## Conclusion

It was not that long ago that Ivan Boesky told University of California students that "Greed is all right, by the way. I want you to know that. I think greed is healthy. You can be greedy and still feel good about yourself" and was wildly cheered (Lynn, 2005). Gordon Gecko, a fictitious corporate raider in the movie "Wall Street" also asserted that "Greed, for lack of a better word, is good. Greed is right. Greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit. Greed, in all of its forms, greed for life, for money, for love, knowledge, has marked the upward surge of mankind." Today, someone telling an audience that "greed if good" might be (deservedly) tar and feathered and chased out of town.

Milton Friedman's (1962, 133) view of the sole responsibility of business is also not very popular today. He stated: "There is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud." The public is more receptive to the beliefs of another Nobel laureate in economics, Robert Fogel. Fogel (2000) stresses the importance of spirituality in the new economy. He identifies 15 vital spiritual resources that include such concepts as "a sense of purpose, a sense of opportunity, a sense of community, a strong family ethic, a strong work ethic, and high self esteem." The implication of his view is that capitalism must consider spiritual values in order to survive in the new economy.

Porter and Kramer (2006) make the point that

"Successful corporations need a healthy society. Education, health care, and equal opportunity are essential to a productive workforce. Safe products and working conditions not only attract customers but lower the internal costs of accidents. Efficient utilization of land, water, energy, and other natural resources makes business more productive. Good government, the rule of law, and property rights are essential for efficiency and innovation."

The other side of the coin is that a healthy society also needs a successful private sector. "No social program can rival the business sector when it comes to creating the jobs, wealth and innovation that improve standards of living and social conditions over time" (Porter and Kramer, 2006). This is why it is important for the business world to work with government and try to improve the world and make profits. Maximizing profits while ignoring the needs of society may work in the short run but will be a disaster for both society and business in the long run. And, of course, while many of the ideas suggested in this paper may not only be costless to an organization but even produce additional profits in the long run, that is not the only reason to consider them. After all, for the virtuous organization, virtue is indeed its own reward.

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