

## **Firms of Endearment**

### **How World-Class Companies Profit from Passion and Purpose**

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According to the authors, a historical social transformation of capitalism is under way. Companies are broadening their purpose beyond the creation of shareholder value. These companies are called Firms of Endearment (FoEs) and align the interests of all stakeholders in such a way that no single stakeholder group gains at the expense of other groups. FoEs outperform 'Good to Great' companies.

### **It's not share of wallet anymore; it's share of heart.**

The search for meaning has a major influence on the ethos of the society and plays a major role in reshaping corporate culture. This search is changing the very soul of capitalism because FoEs seek to maximize their value to society as a whole. They create emotional, experiential, social and financial value.

#### *What is a firm of endearment?*

Endearment: love, joy, authenticity, empathy, soulfulness ...

FoEs embrace these terms and they endear themselves to stakeholders by bringing the interests of all stakeholders groups into strategic alignment. The way they meet tangible and intangible needs of stakeholders engenders affection and loyalty.

#### *Firms of endearment that made the final cut.*

Jim Collins starts with financial performance and works backwards in order to define exceptional companies.

In FoEs humanistic performance and working forward is used.

The book claims to be an illustrative list of FoEs, acknowledging that none of the listed companies is perfect. All companies adopted the Stakeholder Relationship Model (SRM). Amongst the list of 30 identified FoES we find Amazon, BMW, Caterpillar, Commerce Bank, Honda, Timberland, Toyota, Harley-Davidson.

FoEs have a return of 1.026% over a ten year period (122% for the S&P 500).

### **New age, new rules, new capitalism.**

Consumer economy has been grounded in a materialistic *having* focus but is shifting to a *being* focus.

Stakeholders are demanding more socially aware management and consumers will push for this by closing their wallets to companies that don't comply.

Four existing myths related to change in behavior:

1. Fear is a powerful impetus for change.
2. Giving people objectively provable facts is an effective technique for stimulating change in behavior.
3. Slow change is more effective than sudden.
4. Past a certain age, people can't change.

*Changing to become a FoE.*

This change is only possible if companies recognize that all reality is personal and infused with affect.

### **The chaotic interregnum.**

The authors give here the example of Coca-Cola which is trying to regain its footing. A lot of companies like Coca-Cola are riding through the greatest storm of change and disorder since centuries.

*A solution to disorder: natural capitalism.*

FoEs transcend the tradition of hierarchical control-minded templates by tapping natural laws governing complex adaptive systems. These are self-organizing networks of entities that continuously form and reform in response to evolving needs and environmental changes. Their leadership is catalytic and inspirational.

*The communications challenge in the 'Era of Disorder'.*

The balance of information power is now in the hands of the masses. Conversations are more of an essential part of everyone's day (internet made this happen).

Four crucial principles for effective dialogue:

1. Establish a positive relationship (or reinforce an existing one) before getting down to business.
2. Show willingness to be vulnerable.
3. Foster reciprocal empathy, whereby stakeholders reciprocate the company's empathy.
4. Conduct conversations with genuine reciprocity.

## **Employees: the decline and fall of human resources.**

Today people want more than a paycheck, they want 'psychic income' as well. They want their work to fulfill social needs, work that engages them as a whole person and that is meaningful. Work is becoming a calling.

FoEs are attractive places to work for and can afford to be selective in their recruitment. A big motivator is also that executive leadership generally comes up through the ranks.

*FoE leaders understand the fine art of building trust.*

Four key elements to build trust with employees:

1. Respect the individual. See the employee as a whole person and encourage them to participate in the decision making.
2. Transparency: share information with all employees and all other stakeholders.
3. Team building: team participation is the key.
4. Empowerment: give authority and obligation to spend resources to make a customer happy or to fix a problem.

*FoEs put fun into the work environment.*

Three characteristics define a FoE work environment:

1. Fun.
2. Balance and flexibility.
3. Creative quality-of-life benefits.

*Training and development are high priorities.*

FoEs help employees maximize their potential through training, development and monitoring. They celebrate achievements and successes.

*The HR Department of the future.*

HR will focus more on strategic issues such as employee performance and retention.

*Benefits that flow to shareholders from doing it right.*

The two main indicators of strong employee equity are: low turnover and high productivity. Both are related to one another because low turnover leads to more experience which translates in higher productivity. Overall cost are lower, companies remain competitive while paying good wages and offering benefits.

Wealth creation runs through the vocational landscape of frontline employees: FoEs prove this.

### **Endearment as a business model.**

‘Heart’ (a symbol of empathy, nurturing, caring and giving) landed recently in the middle of mainstream business consciousness.

Most business leaders and many Wall Street analysts still think in terms of numbers and profit. For them love and profit is till an alien conjunction.

*The new marketing paradigm.*

In the 20<sup>th</sup>-century marketing consumers were the prey. Sellers objectives were put ahead of the real needs of consumers.

Now we start to talk about love in the marketplace and a holistic-based market strategy.

*The unspoken contract that FoEs honor.*

Two contracts bound up the company’s stakeholders:

- A legal contract: quantitative performance criteria (established by jurisprudence and the company itself). This contract is explicit.
- An emotional contract: qualitative performance criteria (established by stakeholders). This contract is implicit.

FoEs understand that business operations are defined by both explicit and implicit contracts.

### **Investors: reaping what FoEs sow.**

The authors prove their case by examples of FoE companies by quoting returns for investors.

### **Partners: the ultimate stakeholder.**

Organizations have to achieve the state of concinnity. Concinnity means: a skillful blending of the parts achieving an elegant harmony.

FoEs regularly take actions that produce quite different results from what conventional management logic would indicate.

Examples:

- They decentralize decision making but in a way that increases top executive influence at all levels.
- They pay frontline staff above norms but they reduce the % of revenue dollar going to wages.
- They don't depend on conventional marketing practices but grow due to the affection of their customers and the resulting word-to-mouth.
- They tend to be less influenced by expectations of Wall Street analysts.
- They operate with greater transparency and are less involved in litigation.

### **Society: the ultimate stakeholder.**

FoEs follow and letter and spirit of law. They see tax levies as fair pay obligations.

Some of the ways to fulfill societal obligations:

- Encouraging employee involvement.
- Nurturing local communities.
- Cultivating global community by using high environmental and safety standards.
- Improving competitive context by aligning social and economic goals.
- Focusing on sustainability.
- Cooperating with governments.

### **Culture: the secret ingredient.**

Passion, dedication, generous spirit and expansive creativity are products of their specific culture.

The three primary elements to this organizational culture are:

1. Organizational vision involving the creation of value for all stakeholders.
2. Organizational values to keep the organization centered and balanced.
3. Organizational energy to propel them at a steady speed. FoEs are high-energy organizations.

Five elements are shared in their corporate visions:

- A broader purpose than wealth generation.
- Dedication to servant leadership.
- Emotionally intelligent leadership.
- Commitment to exemplary citizenship.
- Recognition of being a part of an economic ecosystem with many interdependent participants.

#### **Lessons learned.**

1. FoEs freely challenge industry dogma.
2. FoEs create value by aligning stakeholder interests.
3. FoEs are willing to break traditional tradeoffs. They practice 'both/and' thinking instead of 'either/of'.
4. FoEs operate with a long term perspective.
5. FoEs favor organic growth to growing by merging and acquisitions.
6. FoEs blend work and play.
7. FoEs reject traditional marketing models.