

An excerpt from

Values-Driven Business

How to Change the World, Make Money, and Have Fun

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So, why are you in business?

Perhaps you run a business of your own. For years, you've been working impossible hours, neglecting family, friends, and the activities you really enjoy.

Maybe you're convinced that a business shouldn't have to treat customers and employees as expendable, ignore the needs of the community where it's located, or pollute the air and water.

Or maybe you've been working for a company that's making use of few if any of your talents. You're a cog in someone else's machine, and you don't get the respect you deserve. Yet you've plugged away, year after year.

Questions about the purpose of life and the meaning of work are certainly not unique to people in business. But they take special shape in the business world. The circumstances that so often lead people in business to wonder about life's meaning are themselves special.

For one thing, business is commonly regarded in our time as a way to pursue the accumulation of money, pure and simple. Loud voices in the business establishment, in academia, and in government insist that's so. Sometimes they go much further, asserting that making profits is the only legitimate purpose of business.

This view gained prominence in the twentieth century. In a typical business, it's now often felt that life is life and business is business. Whether you're an employee, a manager, or an owner, you're expected to draw a sharp line between the two. And if you exercise authority over others—as a supervisor, manager, executive, or owner—the prevailing logic of business implies that you must reinforce this schizophrenic mindset by requiring it of those who work for you.

Nonsense.

Living a life of purpose and fulfillment

Why does business have to be exclusively about making money?
Who says so, anyway?

Why can't work be pleasant and rewarding? Why can't it be fun? Indeed, why can't we be passionate about our work, not just every once in a rare while, but most of the time?

Why can't business seek to make positive contributions to society—even if a particular decision isn't based on the least-cost solution?

Why can't employees be treated with genuine fairness and respect?

Why can't companies contribute to the health of the communities where they do business? In fact, why can't business help narrow the inequities in our economy rather than increase them?

Why can't business recognize that the resources of our planet are limited and that unending growth will lead only to catastrophe for the entire human race?

In fact, hundreds of businesses are based on the belief that a company can answer some or all of these questions in the affirmative.

Most Americans believe their lives as individuals have a spiritual dimension. When a group of people get together as a business,

does that spiritual dimension simply disappear? We think not. The spiritual law of “as you give, you shall receive . . . as you sow, so shall you reap” can work just as well in business as in a person’s life. Take ShoreBank, for example.

ShoreBank

The Little Bank That Could

Founded in 1973, ShoreBank is the nation’s first and leading community development and environmental bank. With headquarters in Chicago, it has banking operations in Detroit, Michigan; Cleveland, Ohio; Ilwaco, Washington; and Portland, Oregon. ShoreBank invests in people and communities to create economic equity and a healthy environment. The firm considers itself a triple-bottom-line company that equally values profitability, community development, and conservation.

“Our job is to free the energies and resources of our customers,” says Jean Pogge, senior vice president of mission-based deposits. Most of those customers are low-wealth members of African-American communities. The bank’s home base is twenty minutes south of Chicago in a community that experienced neglect and the migration of residents and jobs in the late 1960s and early 1970s. “The area was redlined. There weren’t any loans being made here at all,” says Pogge. ShoreBank purchased a failing local bank in 1973 and turned it around in eighteen months.

“We’ve proven that when you understand particular areas and needs, you become the bank of choice,” says Joel Freehling, manager of triple-bottom-line innovations at ShoreBank. “By focusing on lending to individuals, small businesses, and mission-based organizations in distressed neighborhoods, we’re in a position to forge new development opportunities that catalyze positive social change and build strong, vibrant communities. They support us as we support them.”

ShoreBank provides loans to those who wish to revitalize neglected houses or multifamily buildings or to build on abandoned lots. It also lends to nonprofits with capital needs, including churches, civic-oriented organizations, and neighborhood groups. “Due to the destructive nature of the racial change process in the late 1960s, the South Shore community of Chicago would probably have ended up as just another blighted neighborhood with abandoned lots if ShoreBank had not shown confidence in the future of the community by making loans to those who in the past had been denied access to credit,” says Pogge. “Now it’s a vibrant, mixed-income community of choice—a place where people are choosing to live and work.”

Promoting conservation and environmental improvement is an integral part of ShoreBank’s work, accomplished both through its intrinsic efforts to support local people in restoring neighborhoods and through the incentives it provides residents to incorporate energy-saving elements into their renovations. ShoreBank provides free energy-efficiency evaluations to help loan recipients understand how to reduce utility expenses and improve the comfort of their homes and offers an Energy Star-qualified refrigerator from Sears to those who invest in more than \$2,000 worth of energy-efficiency work. “We’re hoping to create converts to the energy conservation movement,” says Pogge.

“For us, community development, profitability, and conservation are compatible,” she adds. “We believe that trying to do all three makes us better at all of them. As we increase community development or conservation output, we make more money.”

ShoreBank’s Chicago branch, for example, which accounts for 95 percent of the company’s assets, is a \$1.8 billion institution. Since its inception, ShoreBank has infused more than \$2 billion into communities across the Midwest that have helped

finance the purchase and renovation of more than 49,000 affordable housing residences and create more than 10,000 new jobs for local residents. Despite being mission-driven, ShoreBank's performance continues to exceed that of its peers among commercial banks with assets between \$1 billion and \$5 billion. In 2004, the bank awarded \$311 million in new community development loans and \$150 million in new conservation loans. That same year, the bank's losses were one-half of 1 percent. Those are exceptional figures.

The company also requires every employee to understand and implement the triple-bottom-line concept. Each person has performance goals relating to financial performance, community development, conservation, customer satisfaction, and employee satisfaction.

For example, folks who run the bank's statement processing division met their conservation goals by sending an e-mail to colleagues soliciting used cell phones and donating them to women's shelters. A customer service representative started a printer-cartridge recycling program for the entire bank. This year, with the squeeze on margins in the banking industry, employees were asked to come up with cost-saving ideas. Employees responded with an idea to cut back on paper usage.

"Anybody interested in combining the financial and social bottom lines has a long-term perspective and understands the necessity of staying the course," says Freehling. "That requires patience and diligence, and it takes more work. People have to be committed. It's harder to do business like this because markets are not set up to make it easy. For example, we were trying to decide what kind of deicer to put out in front of our building. We knew we could go to the local hardware store and buy one off the shelf, but if you are really concerned about the environment and the community, then you have to take more steps and do more research on what the most appropriate product is.

“It’s important to create networks,” he continues, “because a lot of these types of solutions come from trying different products. There are not a lot of places where you can go and ask, ‘What did you find that worked well, was cost-effective, and was socially and environmentally friendly?’”

Pogge adds, “To be a triple-bottom-line company, you really have to make all three bottom lines equal. It’s not an add-on. Corporate giving is not business. The social values have to be core to your operations. We do community development and conservation loans, and we make money doing it.”

For ShoreBank, then, values came first. They still do. Wild Planet Toys exhibits the same emphasis on values in a completely different industry.

Wild Planet Toys

“The Line You Won’t Cross”

Wild Planet makes innovative toys that appeal to both parents and kids. The company’s products are designed to spark children’s imaginations and provide positive play experiences. Wild Planet’s most popular brand, Spy Gear, offers all sorts of accoutrements necessary for the budding young espionage professional, including Night Vision Goggles that feature small flashlights on the sides of an edge-lit lens (perfect for investigating the backyard after dark) and a Laser Tripwire that sounds an alarm in one’s room when its invisible beams are broken by intruding younger siblings or the pesky family dog.

“What makes Wild Planet a social enterprise is how we started and the values to which we adhere,” says Jennifer Chapman, chief operating officer. “Most toy companies get started when someone has an idea for a product and needs a means to bring it to market. Wild Planet did not start with a

product; we instead began as a group of people with similar values, a shared vision, and the desire to develop a unique corporate culture.”

The company was founded in 1993 on the principles of integrity, imagination, openness, and respect. “We had a set of ideas about how we wanted to help kids experience the world,” says Chapman. “We wanted to give them toys that fostered play and imagination, respected their intelligence and creativity, and met them where they were.” The company was also committed to treating workers with dignity, encouraging open and effective communication, and being involved in the community, particularly through partnerships with children.

Wild Planet reaches out to kids not only from the toy aisle but also more directly through efforts such as the company’s Kid Inventor Challenge and Inventor Invasion programs. Kid Inventor Challenge is Wild Planet’s way of championing children and showing that kids’ opinions are important. The annual contest invites children from across the country to submit their ideas for new toys. From the thousands of entries received each year, Wild Planet chooses one hundred kids to serve as toy experts for twelve months and makes one of the top ideas into a real toy, which is then sold in stores worldwide.

The company has selected several of the resulting toys for full-scale production, such as a whimsical talking alarm clock and a playful hand strap that makes colored light beams emanate from the fingertips. “The kids receive royalties for every unit of their product sold,” notes Chapman.

The Inventor Invasion project is a smaller-scale program, designed specifically for low-income and at-risk kids in Wild Planet’s local community in San Francisco. Wild Planet employees host weekly invention sessions through a partnership with a local after-school center for the period of a semester. The initiative has proven successful in encouraging creativity, exercising

critical thinking skills, and boosting the self-esteem of its young participants. “Our contribution of time and teaching has a lasting positive impact on the children,” says Chapman.

For employees, the company encourages above all a fun workplace in which people have the opportunity to get to know one another through group activities. Workers enjoy flexible hours, generous vacations, early quitting time on Fridays, and four paid hours each month to volunteer at a local charity of their choice. “Because of the positive way we treat people, we’re a sought-after employer in the toy industry,” comments Chapman.

And that reputation goes around the globe. With thirty of his ninety employees in Hong Kong, company founder Danny Grossman is particularly committed to helping promote, both in-house and in the industry more broadly, the International Council of Toy Industries’ code of conduct, which rallies for fair labor treatment and healthy work conditions in manufacturing facilities. “Given that all of our toys are produced in China, this is an issue about which the company is particularly passionate,” says Chapman.

Wild Planet sells its toys in mass and specialty markets in more than fifty countries, which, in the United States, means its toys can be found in places such as Target and Wal-Mart. “We made a decision that we wanted our toys to be available to a broad group of kids. We didn’t want to make products just for the elite,” Chapman says. “My advice to any social venture is that you clarify your priorities early on and determine where the line is that you won’t cross. You don’t have to be perfect. Just be bold—embrace change and take chances.”

Both ShoreBank and Wild Planet started small, of course. By the standards of most people in business, neither one is small any longer. So you might well be wondering whether your company could adopt similar policies and practices and still make money.

Can you make money in a values-driven business?

If you run your business in accord with your personal values, will you make money? Or will you simply drive yourself into bankruptcy in a self-indulgent attempt to do right by everyone in sight?

After all, everyone you turn to—your lawyer, your accountant, your uncle who owns a dry-cleaning shop—is probably telling you that the secrets to running a successful small business are to keep costs as low as possible and never take your eyes off the cash. They’re right, of course—up to a point. And that’s the point at which the principles of values-driven business depart from conventional wisdom.

Values-driven business is based on five fundamental premises:

- Employees work more productively and pay more attention to a company’s profitability when they’re working for something they believe in, are treated with respect, are well paid, and receive a share of the profits. They also tend to feel better if the owner or top managers aren’t making out like bandits by comparison.
- Customers are more loyal and willing to forgive errors when a company’s dedication to quality products and services is obvious and when they deal with highly motivated employees—especially when employees are allowed to take the initiative to apologize and make things right.
- Consumers often show a strong preference to do business with companies that demonstrate a commitment to their community and to the environment—and are sometimes disinclined to patronize those that don’t. Values alignment between a company and its customers builds loyalty.

Customers are more forgiving of mistakes and less apt to buy from a competitor when its goods are on sale.

- Your business will be better prepared for the future and more likely to survive inevitable disruptions if you build stronger relationships today with your employees, your customers, your suppliers, and your community. And the planet we share will be more likely to survive the ravages of the human race if you do everything in your power to lighten your footprint on the environment. In other words, to use the contemporary jargon, your business will be more *sustainable*.
- You—as the company’s owner or manager—will live a less stressful and more fulfilling life if you look at your employees, customers, suppliers, and the community as partners rather than adversaries.

No doubt you can point to many exceptions to each of these statements: highly profitable sweatshops where employees are coerced into working hard; companies that manage to sell defective products year after year; customers who return again and again to businesses with a well-known history of exploiting their employees, destroying communities, or polluting the air and water. There’s no denying that today’s business climate, with its single-minded focus on profits, encourages bad behavior of all sorts. Increasingly, though, companies that rush after short-term gains to the exclusion of all other considerations are having a hard time. From the biggest businesses to the smallest, they’re learning that the expectations of employees, consumers, and communities alike are evolving. Business as usual doesn’t work so well anymore. Of course, it’s still possible to make lots of money without adopting socially responsible policies and practices. But that’s becoming tougher as time goes on.

You might be wondering about those nasty articles that seem to crop up in the business press from time to time. They make the case that socially responsible business practices are misguided because they increase costs and reduce profits. The implication of many of these articles, and of their counterparts in the academic business literature, is that socially responsible businesses are *uncompetitive*.

Fortunately, the critics of socially responsible business, loud and well connected though they may be, have many counterparts on the other side of the argument. In fact, a prizewinning 2004 “meta-analysis” of fifty-two inquiries into the relationship between corporate financial performance and corporate social performance across industries found a statistically significant correlation between the two.¹ Investment advisory firms such as Innovest, a company that evaluates securities for mutual funds, pension funds, and other big investors, have reached similar conclusions in recent years.² Socially responsible policies and practices are good for business—and well-informed investors are waking up to this reality.

Our own experience confirms these findings. In the early days of Ben & Jerry’s, Ben spent a lot of time trying to convince his board that engaging in activities that were of benefit to the community didn’t detract from the company’s for-profit business mission. Later, he spent a great deal of time trying to make the media understand that the socially beneficial steps the company was taking weren’t just marketing activities designed to increase business. Much later, when Ben & Jerry’s had become a \$270 million business, there was no doubt in anybody’s mind that the company’s social activities drove the business and generated sales and profits. At Mal Warwick & Associates, the experience was similar. It took years for the company’s stakeholders to understand that the firm’s socially responsible policies and

practices weren't just products of Mal's whims but integral to the success of the business.

Still, you might well be asking yourself whether any of this is really relevant to your own challenges in starting or running a small or mid-sized business. Theory aside, does it really make sense for you to build your business around your values?

The pros and cons of bringing your values to work

Is values-driven business the answer to all your prayers? Are you guaranteed success if you listen to your customers, share profits with your employees, support your community, respect the environment, and are nice to little children and small, furry animals?

Well, obviously, it's not as simple as that.

After all, embedding your values in your business does sometimes require additional *investment*. It may mean that you'll forego short-term profits for the sake of greater prosperity over the long haul. That's called an investment. It requires patience. It means that you have to be prepared to listen to employees you might prefer to ignore—not to mention unreasonable customers! Sometimes life may seem a whole lot easier if you close your mind, stop up your ears, throttle your conscience, and just go ahead and do whatever you please! (Of course, if you're like us, socially responsible business may be what you want to do!)

But before you pick a fight with a customer, dump toxic waste in the river, or fire an employee for mouthing off, ask yourself why you're in business in the first place. This may require that you take a deep breath and grit your teeth. But getting back to basics should do the trick. After all, you're running a values-driven business for some combination of the following ten reasons:

- You're passionately committed to your work, your customers, or both.
- You want to live a balanced life.
- You want to make your company sustainable for the long run, so it outlives you.
- You want to treat your employees as equals in a community or even a family.
- You want to build your business on a solid foundation, fostering loyalty among your customers and your employees alike.
- You believe it's wrong for business to enrich the few when so many have so little.
- You want people to enjoy their work.
- You want to share your good fortune with others.
- You want to contribute to your community in meaningful ways.
- You believe that every business must do its part to heal the environment.

Realistically speaking, every one of these ten ideals can cause trouble for you—big trouble. Check out the table entitled “No Good Deed Goes Unpunished.”

After a few years in any business, values-driven or not, you inevitably reach the conclusion that every ideal represents a trade-off between what you want to do and what reality will permit. Idealism is a wonderful thing. We recommend it highly. But we know that ideals frequently have to be tempered by pragmatic considerations.

Purists may do well in some fields—the arts, for example; the sciences, too. Business is another matter. And on that practical note, let's address some of those down-to-earth questions

No Good Deed Goes Unpunished

Your ideal

What can happen

You're passionately committed to your work, your customers, or both.

Your customers may not give a hoot for your passion. Maybe they just want to get what you're selling at the lowest possible price.

You want to live a balanced life.

Reality just doesn't cooperate. To succeed in business, you've got to work your tail off. And despite your best efforts to minimize stress, everything from impossible deadlines to uncooperative employees to financial pressures gets in the way.

You want to make your company sustainable for the long run, so it outlives you.

The bills pile up, but your customers are slow to pay. Before you know it, you're worrying about surviving today—never mind tomorrow.

You want to treat your employees as equals in a community or even a family.

Many of your employees just want you to pay them well, tell them what to do, and stop blathering about how you're all one big family. They'd never marry your sister, anyway!

You want to build your business on a solid foundation, fostering loyalty among your customers and your employees alike.

The young people you hire to ensure your future don't share your views about loyalty and staff turnover. Their jobs with you are just a stepping-stone to something better. Meanwhile, your competitors are hustling your customers. You can be sure they'll be able to sweet-talk some of them into leaving you!

No Good Deed Goes Unpunished, *continued*

Your ideal

What can happen

You believe it's wrong for business to enrich the few when so many have so little.

The time comes when you want to hire a new senior staff person. But your policy of keeping a lid on top salaries backfires because that prospective new hire won't work for what you want to pay.

You want people to enjoy their work.

It starts with the basketball net and the Quiet Room. Before you know it, people are having lots of fun. But they're not getting their work done.

You want to share your good fortune with others.

Five percent, 10 percent, or even 100 percent of zero profits is all the same. It's zero. You can't spread the wealth around if there's nothing to spread.

You want to contribute to your community in meaningful ways.

It starts as a way to boost employee morale as well as to help the community. But it gets out of hand when your top managers are spending more time in voluntary service on nonprofit boards—and the rest of your staff is racking up hundreds of hours as volunteers—and far too little on the job.

You believe that every business must do its part to heal the environment.

At first, you actually saved money by reusing and recycling materials and turning to energy-saving lighting and equipment. The trouble came when the staff insisted on making your workplace an environmental showcase, which you clearly can't afford.

that may be crowding into your mind. What does it take to integrate your values into your business? How much will it cost? Can you go it alone? Are you ready for values-driven business? Those are the questions we'll grapple with in the following chapter.

