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1

Introducing This Book and Humanistic Management

Ernst von Kimakowitz, Michael Pirson, Claus Dierksmeier, Heiko Spitzeck, and Wolfgang Amann

It seems virtually impossible today to open a newspaper without finding articles about corporate predators stalking the planet with unethical and sometimes bluntly illegal acts. Companies are involved in human rights violations, environmental degradation, bribery, excessive executive compensation, misleading corporate communication, and spying on employees or competitors; the examples are too numerous to list. Have corporations become more ruthless in the means they use to seek ever-greater profits, or have society and the media become more sensitive to corporate misconduct? While the truth may well lie in between, the number of publicized cases that undermine what we believe to be ethically sound corporate conduct has reached unprecedented levels.

Making corporate misdemeanor public should be welcomed, as it allows consumers, business partners, employees, and other stakeholders to make better informed decisions on where to spend their money, who to do business with, where to work, or how to appraise a corporate citizen.

There is one risk from the vast publicity corporate misdemeanor currently receives, though: some people may be led to believe that such are the ways of business, that is, that companies and executives have no alternative but to compete on questionable grounds, since it's a competitive, dog-eat-dog world out there. Companies that are exposed for unethical behavior are really only doing what everybody else does; they were just unlucky enough to get caught, but they're no different from the rest, one might think.

However, such a view is not only rather cynical, it is also wrong – on two counts. First, it would mean that executives have little responsibility for misconduct under their reign, for one cannot be held responsible for actions to which there is no alternative. Managers do have choices, though; our economic activities follow man-made rules, not laws of

nature, which is why managers should be perceived and act as *decision-makers*. For the most part, managers do have occasion to evaluate the ethical content of their decisions – even if, at times, they seem to lack an inner compass to guide them in evaluating the ethical dimensions of their business decisions.

Second, this view fails to recognize that the vast majority of the world's business activities are conducted in line with what is ethically justifiable; some companies even excel at ensuring that their business is aligned with societal aims. From telegraphy to mobile telephony, from the automobile to every step towards emission-free individual mobility, from book printing to personal computing, and from coal-fired power plants to renewable energy generation, in many cases great business leaders and inspired entrepreneurs have stood at the helm of developments that have greatly benefited humanity. Some of the companies providing us with innovative products and services go even further: they also focus on *how* they produce what they offer, paying close attention to how they interact with and impact on all of their stakeholders.

This book aims to unearth accounts of businesses that excel at doing well and doing good. They make products and services that address genuine human needs and they do so in ways that equally respect all stakeholder concerns. This book also follows the *Humanistic Management Network*'s previous book, *Humanism in Business*,[1] in which we laid the theoretical foundations for a more life-conducive role of business in society. The book you are now holding in your hands provides concrete examples – proof of concept, as it were, that business success and societal benefit can very well go hand in hand.

What you can expect from this book

We set out to collect evidence of businesses that stand out by demonstrating that managerial freedom includes the option to align societal purpose and business success. We wanted to demonstrate that it is not only possible for companies to earn healthy profits when putting people first, but that those who do, deliver outstanding results to their owners *and* to society.

The *Humanistic Management Network* has selected 19 case examples of companies from around the globe, in a variety of industries, and with different ownership structures and sizes. These cases explore the principles of humanistic management and examine its theoretical merits by assessing its practical feasibility. They show how businesses can unite social value generation with financial success. One general prerequisite for managing

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a business along humanistic principles is the emancipation from a sole focus on maximizing profits. What these companies share is that they are managed as an integrated and responsive part of society by:

- Seeing that their organizational raison d'être includes the promotion of social benefit, for which business methods and market mechanisms are a means to support a specific end, rather than an end in itself.
- Submitting to the necessity of earning at least a sufficient income to be a self-sustaining organization but without succumbing to profit maximization as a normative criterion.
- Maintaining the liberty to opt out of the application of market rationality where this would conflict with or decrease the social benefits the organization seeks to create.

All these cases, which we present alphabetically, are independent accounts. You may choose the order in which you want to read them, and the following table provides a handy overview of the cases.

Company	**Location**	**Size**	**Industry**
1 ABN Amro Banco Real	Latin America (Brazil)	Big / National	Services
2 AES Corporation	North America (USA)	Big / Global	Industrial goods
3 Broad Air Conditioning	Asia (China)	Big / Global	Industrial goods
4 Brummer and bracNet	Asia (Bangladesh)	Small / National	Services
5 Cascades Pulp and Paper	North America (Canada)	Big / Global	Industrial goods
6 dm	Europe (Germany)	Big / National	Services
7 Grameen Danone	Asia (Bangladesh)	Small / National	Consumer goods
8 Hongfei Metal Limited	Asia (China)	Small / National	Industrial goods
9 Level Trading	North America (Canada)	Small / National	Consumer goods
10 Micromatic Grinding Technologies	Asia (Based in India)	Big / National	Industrial goods
11 Mondragon	Europe (Spain)	Big / National	Conglomerate
12 Novo Nordisk	Europe (Denmark)	Big / Global	Consumer goods

13 Sekem	Afrika (Egypt)	Small / Regional	Consumer goods
14 Semco	Latin America (Brazil)	Big / National	Conglomerate
15 Sonae Sierra	Europe (Portugal)	Big / Global	Industrial goods
16 Tata Group	Asia (India)	Big / Global	Conglomerate
17 TerraCycle	North America (USA)	Small / National	Consumer goods
18 Wainwright Bank and Trust	North America (USA)	Small / National	Services
19 Zipcar	North America (USA)	Small / National	Services

In the concluding observations we then revisit the cases and provide a brief reminder of their central messages followed by an examination of what can be learned from these examples. The lessons we suggest are, on the one hand, of a general nature and relate closely to the guiding principles of humanistic management as outlined on the following pages. On the other hand, we deduct more concrete lessons by looking at how the examples in this book demonstrate that humanistic practices can generate managerial success. In doing so, we trust that we can assist other companies that are seeking to adopt more humanistic practices.

We hope that these cases will stimulate alternative perceptions of managerial and organizational success, of what makes a company a corporate citizen that one would want as a neighbor. Enjoy the read! We trust that you will find these accounts thought-provoking and inspirational.

What is humanistic management?

We understand humanistic management on the basis of three interrelated dimensions. First, that unconditional respect for the dignity of every person is the foundation for interpersonal interaction, including any interactions taking place in business contexts. Second, that ethical reflection must form an integrated part of all business decisions. Third, that seeking normative legitimacy for corporate activities is crucial for assuming corporate responsibilities. This third dimension, which is to be understood as the dialogical extension of ethical reflection on corporate conduct, allows for the aligning of good intentions with activities that have the potential to produce good outcomes. Taken together, these three dimensions promote human flourishing through

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economic activities that are life-conducive and add value to society at large. Submitting business decisions to these three guiding principles is what we call humanistic management.

Unconditional respect towards human dignity

Part of what makes us human is our shared vulnerability. Investigating humanistic management is therefore based on the fundamental acceptance that the *conditio humana* entails our shared need for protection of our human dignity. Respecting every human being, in all its depth and complexity, as individually unique and collectively worthy of unconditional protection against exploitation is a shared endeavor of societies and all their institutions. As Immanuel Kant noted, every human must always be seen as an end in itself, and never as a mere means:

> Everything has either a price or a dignity. Whatever has a price can be replaced by something else as its equivalent; on the other hand, whatever is above all price, and therefore admits of no equivalent, has a dignity. But that which constitutes the condition under which alone something can be an end in itself does not have mere relative worth, i.e., price, but an intrinsic worth, i.e., a dignity. (Kant, 1785)

This presents a challenge to how we generally define managerial tasks. Managing is traditionally viewed as the task of achieving predefined objectives effectively and efficiently. Effectiveness is attained when the objective is achieved (i.e., output-oriented), and efficiency is attained when the objective has been achieved without wasting resources (i.e., input-oriented). This input–output orientation entails a tendency to objectify human beings (as human resources); managers influence the managed in favor of predefined objectives, thus turning them into a means to achieve an end, reducing people to little more than the equivalent of a piece of machinery.

If humanism demands seeing every individual as an end in itself, while managing people implies turning people into means, instrumental to achieving predefined objectives, is *humanistic management* even possible? Is it not an oxymoron?

The problem is that, for as long as we continue to base the manager's role on utilizing *human resources*, as which people are merely a means of production rather than embraced as ends in themselves, humanistic management is not possible, as it remains fraught with contradictions. Humanistic management is, therefore, much more than just a checklist

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for treating employees or other stakeholders *nicely*; it demands a fundamental paradigm shift away from the objectification of human beings within economic activities.

Yet, surely, people need to be instrumental in production processes in order for a business to thrive; they need a place in the organization and to fulfill specific tasks. This is undisputed. Within humanistic management, though, people need to autonomously assume their roles as a result of a self-determined process. Only then are they not *instrumentalized* in their human capacity; instead, they are themselves *assuming an instrumental role* within their job. They are then offering their working hours, creativity, and commitment to achieve certain goals, to produce certain goods and services.

The utilization of people in humanistic management must therefore always be limited to the role a person assumes, never to the person himself or herself. It must result from the autonomous will of an individual to be instrumental, to turn himself or herself into a means. Within this understanding, people will only become instruments within businesses which they consider aligned with their personal values and congruent with what they perceive to be worthy of being instrumental to. A person will not autonomously choose to become a means to an end that is profoundly inconsistent with his or her values and aims.

The distinction between turning oneself into an instrument by assuming a certain role and being seen and defined as instrumental through the objectification of the whole persona is therefore more than mere semantics: it lays the foundation that allows the alignment of business goals and societal aims by respecting each person as an end.

Integrating ethical concerns into managerial decisions

The need for respecting people as ends in humanistic management leads us to the impact it has on the economy and society as a whole. In its broader context, humanistic management is based on the insight that claims of assuming corporate responsibility remain mere rhetoric without the integration of ethical evaluation into business decisions. If one follows through on unconditional respect for the dignity of all persons, one must accept that decisions that impact others must be examined in terms of their consequences for all those affected.

Humanistic management criticizes one-dimensional managerial objectives such as profit maximization. Economic rationality becomes incompatible with protecting human dignity whenever it leaves no room for the balancing of interests of stakeholders based on the quality

of the arguments articulated. When factual power overrides argumentative power – as any paradigm that proclaims the maximization of particular interests demands – those interests that cannot enforce their consideration are excluded and suppressed. This leads to situations where the interests of weaker stakeholders are disregarded and their vulnerability exploited. Therefore, we must formulate economic success criteria that no longer exclude respect for human values but are inclusive of them.

When one considers the role the private sector has been assigned in society, one finds such descriptions as: to supply goods and services that people want and/or need; or to generate employment opportunities and thereby sustainable livelihoods within an economy; or to be a source of innovation and creative solutions to existing problems.

It is, however, hard to find convincing arguments that define the role of business in society as an instrument to maximize monetary returns on investments for financiers or owners of businesses. Even the most hard-nosed proponents of shareholder value maximization ultimately argue that defining the raison d'être of a business organization through the maximization of monetary returns to its investors is right *because* it provides the greatest welfare gains for society overall. This argument presupposes that growing national incomes equal public welfare gains, which is not supported by either empirical findings or normative arguments. In addition, proponents of shareholder value generally remain silent on what findings support the view that maximization of financial returns to one stakeholder group automatically generates the highest welfare gains for *all*, as such views on public welfare are, by and large, blind to distributional questions.

Unsurprisingly, attempts to assign normative character to shareholder value maximization resonate strongly from many businesses and Wall Street agents that seek to *make money* rather than *make goods and services*. Unfortunately, this turns the underlying rationality about the role of business in society on its head. One-dimensional profit maximization is indifferent to the idea of businesses serving the interest of society and rewarding those people who chip in their money with a decent return for the risks they have taken. Instead businesses must strive to maximize the return for their financiers, and therefore need to offer goods and services for which they can generate demand. The difficulty with this reversed rationality is that different ends lead to different means.

A company driven by the maximization of financial returns is not overly concerned as to whether the needs it serves are genuine, as long as it can find a way to generate profitable demand. Such a company is

unlikely to have the capability for self-restraint when pursuing a growth opportunity means turning a blind eye to ethical or environmental concerns, for example. Nor can a purely profit-maximizing company afford to accept and act upon legitimate claims from weaker stakeholders if the result might be reduced earnings. It is therefore not difficult to find examples where market forces and societal gains are at odds, leaving little room to claim that shareholder value maximization is the best way to promote societal gains.

In short, a company that maximizes profit will not be able to integrate ethical considerations into all business decisions, as the maximization of the interests of one stakeholder group, superseding all others, excludes equal respect for other stakeholders. However, equally respecting all stakeholders is a necessary precondition of the unconditional respect for the dignity of all persons affected by a company's activities.

Therefore, it clearly *does* make a difference whether the role of a business is to maximize return on investment or to create value for society. While the latter includes responsibilities towards financiers, it also includes responsibilities towards other stakeholders. Without an inclusive relationship between ethical reflection and business decisions, humanistic management is simply unachievable, as managers would be precluded from equal respect for all stakeholders.

The dialogical extension of managerial ethical reflection

The integration of ethical reflection into business decisions alone can be seen as a monological process in which the decision-maker might, in all sincerity, fail to see the concerns of others, leading to what we may call honest mistakes. Therefore, the third guiding principle – seeking normative legitimacy – is necessary to ensure that the outcomes of (monological) ethical reflection are tested by entering into a dialogue with those who may challenge any aspect of a business's conduct. The solitary managerial decision about whether a certain action is ethically sound is thereby transferred to the "moral site" of stakeholder dialogue, where the manager shares the responsibility with the stakeholder to embark on a course of action that is acceptable to both parties. This is how businesses gain normative legitimacy.

Legitimacy can be considered the general recognition of an entity's conduct as desirable or apposite within a system of norms and values. This definition leaves much room for interpretation.

In management studies, legitimacy is most widely seen as bestowed by self-interested, calculating stakeholders who legitimize an organization

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on the basis of their perception of receiving some kind of utility gains. For the company, this instrumental or pragmatic understanding translates into a desire to be regarded as legitimate (only) by key stakeholders, since transactional processes depend on trust, and trust will only arise when an organization is perceived as legitimate. Consequently, pragmatic legitimacy is all about the "business case" for legitimacy, encouraging organizations to manage legitimacy by providing certain stakeholders with tangible rewards as a lubricant for building trust.

Such a view is incompatible with unconditional respect for human dignity, as it turns legitimacy into a profit-enhancing resource to be obtained from society based on a cost–benefit analysis. Such a view seeks to substitute the need to gain legitimacy from all stakeholders with a reductionist concept of wanting to be perceived as legitimate only by those stakeholders powerful enough to cause harm to a business. In this view, even those stakeholders that are the putative beneficiaries, those upon whose trust a company depends, are effectively instrumentalized as a means for that company's profit-oriented aims. The moment the cost of obtaining legitimization from certain stakeholders exceeds the benefits the company derives from it, these stakeholders will cease to be seen as worthy of the company's efforts to gain their legitimization.

In contrast, humanistic management bestows legitimacy if the normative evaluation of an organization and its activities results in the perception that it is "doing the right thing." This clearly differentiates *normative legitimacy* from *pragmatic legitimacy*, as the former is based on values and reason rather than mere self-interest and strategic business calculus. Arguments that create legitimacy must be normative; they must be able to ethically justify why a certain course of conduct is considered desirable or apposite.

Legitimacy that equally respects all stakeholders thus cannot be gained if ethical reasons for justifying corporate conduct cannot be established. As Max Weber pointed out, seeking legitimacy helps determine the choice of means for an exercise (Weber, 1978, p. 214).

The sincere seeking of legitimacy therefore forces a company to continuously assess its conduct, to rationally justify its behavior and compare it to expectations and the desirability of its impact on society, which is best achieved in a dialogue between all those affected.

In short, humanistic management is the pursuit of strategies and practices that seek to create sustainable human welfare. Humanistic management derives its legitimacy from preserving human dignity in business through submitting its practices to societal critique. By engaging in an open dialogue about the values that should serve business as criteria

to assess managerial success, corporate decision-makers realize that the value proposition of business is ultimately to serve people rather than to make money. The shift from one-dimensional profit maximization towards a multidimensional and value-integrative understanding of corporate success is as necessary today as it is imminent.

Why humanistic management is the way forward

The fundamental reason why humanistic management is beneficial to all stakeholders is that it has a profoundly liberating effect on a company and, consequently, on all – internal as well as external – stakeholders.

The debate about corporate responsibilities is primarily framed as a sacrifice that companies should make in order to be good corporate citizens. This proceeds along the lines that a company would be better off without all those less desirable stakeholders who demand proper conduct but do not generate revenue. These stakeholders have gained sufficient power, though, to seriously harm a company, so it must pay attention to how it is perceived by the public; it must invest in gaining and maintaining an image of moral integrity.

While this view confirms that a negative image can cost a company dearly, its reasoning is flawed. In this view, ethical corporate conduct is an investment in reputational risk avoidance in order to steer clear of the costs that may result from a negative image; it is not motivated by normative, ethical evaluation or the outcome of stakeholder dialogue; it is not rooted in wanting to do what is right.

Humanistic management means getting the priorities right from the outset and emancipating the company, first, from the restraints of a one-dimensional goal set – profit maximization – and, second, from the permanent apprehension of being exposed to the harsh public response that may follow losses of legitimacy.

Freedom from a one-dimensional goal set

The strict application of economic rationality as foundation for the shareholder value – the profit-maximizing objective function – undermines sustained business success. Shareholder value is a resultant benefit of providing products and services that address genuine needs, and producing them in ways worthy of normative legitimization. In other words, *shareholder value is not a strategy*. Companies that fail to see this will find their employees disengaged, their customers disloyal, and their public reputation at risk. Most stakeholders regard shareholder value maximization

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as inherently opportunistic, and with good reason, for it is normatively wrong. While those stakeholders that could pose a threat to a company's financial success receive great attention, all others are neglected, regardless of the ethical weight of their concerns. The translation of economic rationality into the profit-maximizing company creates a situation in which rational arguments can be stonewalled by company power.

The profit-maximizing objective function inevitably leads to situations in which asymmetric power relations between a company and its weaker stakeholders result in disrespect for weaker stakeholders' moral right to have their human dignity protected.

Humanistic management acknowledges these shortcomings and enables managers to remove the blinkers that make their vision one-dimensional; it lets *human rationality* prevail over *market rationality*. Humanistic management thus enables managers to maintain their personal integrity, employees are free from working in companies whose primary aims they do not share, and all stakeholders are liberated from corporate citizens that, ultimately, follow the logic of "might is right."

Freedom from losses of legitimacy

Humanistic management substitutes *maximized profits* with *legitimized profits*. Moral or normative legitimacy thus becomes a *pre*condition for profit-oriented goals. A company is enabled to share responsibility with its stakeholders, as the balancing of conflicts is transferred from the (monological) executive decision to the (dialogical) "moral site" of stakeholder dialogue.

The commercial risks of losing legitimacy are clear from the possible repercussions of a negative public image on a business. The real reason for seeking moral legitimacy is not commercial risk avoidance, though, but its normative foundation. A company must seek legitimacy to ensure that it does not act against the moral rights of others, that it does not exploit human vulnerability or instrumentalize people following profit-enhancing aims. Thus, gaining legitimacy is a *pre*condition for all company activities, an end in itself rather than a means. The commercial benefits that may result from bestowed legitimacy are a bonus for having done what is right, rather than the reason for seeking legitimacy in the first place.

Kant's principle of *publicity* (1795), according to which an action that affects the rights of others is wrong if its maxim cannot be declared publicly, provides the ground rule for principled openness for engagement with all stakeholders. This is how a company obtains its "public

license to operate," and, if it understands stakeholder dialogue as an ongoing form of legitimizing corporate conduct firmly embedded in the organizational culture, it renews this "license" continuously – free from the constant pressure to manage reputational risks and strategically influence public perceptions.

In return, internal as well as external stakeholders can derive meaning from and find purpose in a company's activities that create value for society, making them loyal customers, engaged employees, long-term-oriented investors. Stakeholders are then also more forgiving if things do occasionally go wrong. In humanistic management, normative legitimacy becomes the decisive source of societal acceptance while simultaneously enabling managers to maintain their personal integrity as well as the organization's.

Humanistic management thus frees the company from the constant pressure of losing legitimacy and the need to manage reputational risks, as it has made moral legitimacy the unconditional platform of activities within the market environment. Humanistic management makes moral legitimacy the yardstick for measuring the right or wrong of its conduct.

Kant's definition of enlightenment as "man's leaving his self-caused immaturity" (Kant, 1784) serves to describe the emancipation from a profit-maximization focus and an instrumental view of legitimacy. In Kant's definition, immaturity is the incapacity to use one's intelligence without the guidance of another. For managers, enlightenment is being freed from a restrictive economic rationality as the source of indisputable guidance that prevents them from exercising their intelligence. Therefore, managerial enlightenment is the emancipation of managers from self-imposed restraints that curtail the intuitive scope and the moral depth of their rationality.

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