An Introduction to Humanistic Management

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Introduction

This paper aims to lay out the main tenets of the humanistic management approach we have developed in the Humanistic Management Center. It is built on four main parts that will be briefly touched upon in this introduction before taking a more detailed look over the following pages. The four main parts of this paper are the global context, mental model, key drivers and management paradigm of a humanistic management approach.

The global context in which we are carrying out economic activities today shows a clear and urgent need to address the two main challenges we face as a global community. Those are on one side the environmental challenge and, on the other side, the distributional challenge. The starting point in the search for solutions that can successfully address these challenges is the mental model under which we view business and, more generally economic activities. Mental models are greatly relevant because they frame our vision and thinking about the world around us. The mental model in a humanistic management paradigm fundamentally views business as human interaction and therefore stands in contrast with more mechanistic views of the firm that are based on optimizing purely transactional processes. Business is people working with people to create value for people. Resulting from this mental model the core values this paper will introduce for practicing humanistic management are purpose and legitimacy, passion and integrity, and love. As the fourth part, the humanistic management paradigm is laid out as an anchor for reflection, that allows to analyze and evaluate business activities and to draw conclusions for how a business can enhance its positive contribution to the aforementioned global challenges. We have coined this management paradigm the Three Stepped Approach to Humanistic Management. It consists of firstly the unconditional respect for human dignity, secondly the integration of ethical reflection in managerial decision making and, thirdly, the active and ongoing engagement with stakeholders.
The following pages will provide an introductory overview of these four parts before a conclusion summarizes the main findings presented in this paper and provides an outlook.

**Global Context: The requisite transformation from the shareholder to the stakeholder economy**

One of the main presuppositions of our work at the Humanistic Management Center is that the combination of democratic government and market economies has had a hugely liberating and prosperity generating effect in many parts of the world. Simultaneously however, we can increasingly observe the limitations of theories, policies and business practices that are based on the belief that market forces automatically and autonomously deliver desired results. Thus, the job at hand is to become smarter in using markets and business for creating shared prosperity and societal well being within the natural capacity of our planet.

**Global challenges**

As a global community we are facing two main challenges; first the environmental and secondly the distributional challenge. Regarding the environmental challenge broad based consensus exists today that human activity and the way in which we conduct economic activity has substantial adverse affects on the capacity of our planet to support life.

> "Warming of the climate system is unequivocal, and since the 1950s, many of the observed changes are unprecedented over decades to millennia. The atmosphere and ocean have warmed, the amounts of snow and ice have diminished, sea level has risen, and the concentrations of greenhouse gases have increased." (IPCC, 2013, p. 4)

The IPCC continues to state that due to human activity "The atmospheric concentrations of carbon dioxide, methane, and nitrous oxide have increased to levels unprecedented in at least the last 800,000 years." (IPCC, 2013, p. 11) Unequivocally establishing the gravity of climate change as well as the link to human activity, the IPCC outlines that "Increasing magnitudes of warming increase the likelihood of severe, pervasive, and irreversible impacts" (IPCC, 2014, p. 14) on food security, peace, human health and poverty to name but a few.

But also if we were to look only at our resource consumption, without any concern for the impact it generates on our climate, we would conclude that we are not following a pattern that can be upheld
as we consume more resources that the planet replenishes. According to the Global Footprint Network (2016) we currently use around 1.6 earths and, by 2030 are expected to use the resources of two planets - but we only have one. This means that even without the need to mitigate the adverse effects of climate change we would not be able continue business as usual as we would run out of resources if we fail to become substantially more resource efficient. Failing to successfully address our environmental challenge means that we would either suffer climate change to a degree that makes life on earth as we know it impossible, or we would run out of resources. We have no alternative to addressing the environmental challenge, it is a question of when, not if we begin to live within our planetary means.

The second challenge we face is the distributional challenge. Around the globe we increasingly find levels of inequality that are putting at risk social peace and cohesion, both of which are indispensable foundations of thriving societies. A recent Oxfam Report found that "...the richest 1 percent have seen their share of global wealth increase from 44 percent in 2009 to 48 percent in 2014 and at this rate [it] will be more than 50 percent in 2016." (Oxfam, 2015, p. 2) This means that by the end of 2016 it is expected that 1 percent of the world’s population owns more than the remaining 99 percent owns together. It does not stop there however, as "of the remaining 52 percent of global wealth, almost all (46 percent) is owned by the rest of the richest fifth of the world’s population. The other 80 percent share just 5.5 percent....” (Oxfam, 2015, p. 2)

Inequality at such extraordinary levels is bad for business. To prosper businesses need social peace and cohesion. They need an educated workforce, they need a stable political environment, they need a functioning public infrastructure, they need public safety and, of course they need customers with disposable incomes. All of the above points are under pressure when inequality reaches excessive levels.

To further underline the relevance for business of both, the environmental and the distributional challenge, some related empirical evidence may be useful. As the Edelman Trust barometer found, public trust in business has been in decline over recent years. In 2015 only 57% of the informed public trusted businesses according to this global study (Edelman, 2015, p. 4). This lack of trust directly translates into people not buying products of distrusted companies, talking negatively about them to friends as well as on social media platforms, or selling shares of the company. (Edelman, 2015, p. 10) Perhaps connected and probably even more impactful is the lack of employee engagement. The Gallup Group, an independent research and market intelligence provider writes in
its annual State of the Global Workplace study that: “Worldwide, only 13% of employees are engaged at work” (Gallup, 2015, p. 11) while the remaining 87% are either not engaged or even actively disengaged \(^1\). It is difficult to overstate the substantial negative impact this has on businesses.

“Employees are people, and they don’t check their personalities at the door when they come to work. The sense that they are respected as individuals at work can have a significant impact on how they view their overall lives. Each individual’s potential extends well beyond his or her job description, but tapping that potential means recognizing how employees’ unique set of beliefs, talents, goals, and life experiences drive their performance, personal success, and well-being. (Gallup, 2015, p. 82)

The alarmingly low employee engagement levels have grave consequences. A lack of innovation, motivational deficits, insufficient product and service quality or the unwillingness to collaborate are some of the repercussions that result from low employee engagement leading to a substantial loss of competitiveness and business opportunities. Most importantly thought it is also a human tragedy as each employee that is not engaged or even actively disengaged is an individual that does not find fulfillment, does not take pride and does not receive happiness from the very activity that she or he spends the biggest amount of active time in his or her entire life.

Above quote from Gallup’s State of the Global Workplace study points towards an important causal relationship: For many people a lack of congruence between their personal beliefs and values and those values that they observe as driving business decisions plays a vital role in both, not being engaged at work, but also in not trusting business in general. However, plentiful are also the examples of businesses that seek to actively contribute to finding solutions to the challenges we face, acting on strong values and creating value for society at large. Some companies that actively contribute to finding solutions to the challenges we as a global community face can be found as case studies in our book titled Humanistic Management in Practice. (von Kimakowitz, E. et. al., 2008) These businesses are demonstrating true business leadership making impact towards a more sustainable and equitable planet.

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1 Gallup differentiates between three types of employees in it employee engagement study. these are 1. Engaged employees 2. not engaged employees and 3. Actively disengaged employees. See xyz for an overview on the methodology and of the State of the Global Workplace study.
From the shareholder to the stakeholder economy

Propagating that the business of business is business as infamously proposed by Milton Friedman in 1962 (p. 133) is essentially positioning the private enterprise as a self-serving endeavour. It is no different from saying that the purpose of business is to serve itself which is neither a compelling nor a desirable proposition for why we want a healthy and thriving private sector in our societies. It does however represent a central part in the shareholder value oriented view of the firm where the only “Social Responsibility of Business is to Increase its Profits” (Friedman, 1970) while the role of the manger is to act as an agent of the principal (i.e. the business owner) in the pursuit of profit maximization. (Jenson & Meckel 1976)

In contrast, following stakeholder theory\(^2\) business is seen as an integrated part of society deriving its legitimacy from the service it provides, from the positive impact it generates, from the value it creates for society at large. Stakeholder theory tells “...a new narrative about the very basic idea of business and capitalism.” (Freeman, E. & Newkirk, D., 2011, p. 273) The paradigmatic difference between the two is that in a shareholder focused view of the firm, business only has one main constituent and that is its owner. In contrast, in a stakeholder focused view on the firm the owner continues to play a very important role, but it is not the only interest management needs to be able and willing to answer to. Stakeholder theory poses that businesses affect their social and natural environment and, consequently, those interests that are effected ought to be heard and find their concerns genuinely respected for the intrinsic value they carry. (Dierksmeier, C. & von Kimakowitz, E. 2012) Dierksmeier et al. point out that while managers were formerly “Incentivized to focus on a one-dimensional metric of success, they suddenly have to display multidimensional perspicuity.” They further elaborate that: "Hitherto lauded for smart agency for shareholders alone, managers today are beholden to wise practices on behalf of a wide array of stakeholders.” (2016, p. 222)

In more practical terms the message is clear:

1. As a global community we are confronted with two main challenges, the environmental and the distributional challenge and business plays a role in both
2. Given the strong impact business has on those challenges, finding solutions will not be possible without the active and ongoing contribution of the business community

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2 See Freeman (1984) for stakeholder theory
3. In order for business to actively contribute to the solutions we must depart from a self-serving single-constituent view to a society-serving multiple-constituents view of the firm; from maximizing shareholder value to balancing the interests of all stakeholders.

Mental Model: The means and ends of business

Mental models matter as they frame our vision and thinking about the world around us. It is within the boundaries of our mental models that we translate thinking into acting. Our mental models are both, shaped by theoretical knowledge we adopt and adjusted according to observations we make. Mental models are consequently very powerful in constructing social reality; they are influenced by the social reality we observe just as much as they are themselves architects of social reality.

For making progress in addressing the aforementioned main challenges we face as a global community, business is called to play a greater role than it does today. Assuming such a greater role however is contingent upon developing mental models that embrace it. Re-establishing a meaningful relationship between the means and ends of business and its role in society is essential for advancing towards this goal.

In essence we need to depart from a one dimensional goal-set where maximizing profit is the singular aspiration of a business organization and shift towards the triple bottom line in assessing business success. Being profitable is a necessary condition of sustainability for any business organization, but it is not the reason for its existence - profit is a means but not an end in itself. The reason why we want prospering businesses in our communities is because they deliver goods and services that meet genuine human needs, because they provide livelihoods through employment opportunities, because they allow us to collaborate in creating value and finding innovative solutions to challenges we face. In short: the end of business is to serve society and healthy profits are a means to gain and maintain the capacity for doing so, not vice versa. (Philanthropy Impact vol 8 2015 p. 4)

Business is people working with people to create value for people; business is human interaction. As Paul Polman, CEO of the global fast moving consumer goods (FMCG) company Unilever put it:
“Leadership is first and foremost about being a human being.” (Guardian, 2014) It is our humanity that is both, a precondition for business success as well as the foundation for defining the purpose of business. Far from being the mainstream yet, but nonetheless these insights are slowly entering the mental models of executives as Polman continues stating that the “...future world will be much more purpose and values driven, so we want leaders that clearly understand this.” (Ibid.)

The mental model required for business to play a more constructive role in addressing the challenges we face as a global community is that its reason for existing is not self-serving but to serve society and that a singular goal set needs to give way for a more balanced, multi dimensional set of goals.

**Key Drivers: Conceptual clarity leads to better decisions**

In the global context we face challenges that will be addressed through the transformation towards the stakeholder economy while the mental models we have will move towards a more human centred notion of business aiming to generate value for society at large. On this basis the Humanistic Management Center took a closer look at what the key drivers are that differentiate businesses that are fit to succeed in a stakeholder economy with a clear focus on delivering societal value. The drivers we found are purpose and legitimacy, passion and integrity, and love; their actions are thus guided by and reflect their values

![Purpose & Legitimacy](image1) ![Passion & Integrity](image2) ![Empathy](image3)

A clear concept of one’s organizational purpose is the foundation to succeed in a stakeholder economy. It lays the groundwork for how an organization sees itself in relationship to the social and natural environment in which it operates and provides the mental framing under which its members work. Lyn Sharp Paine asked some central questions on purpose when she wrote ”...what is the company’s purpose? Besides creating wealth and using resources efficiently, what is the company’s contribution to society? How do its products and services add value to people’s lives?” (2009, p. 212) It is important to note though, that purpose does not merely describe what an organization
does. Purpose describes why it does what it does and thus provides the main narrative for why an organization exists and what its core mission is.

However having a clear concept of one’s purpose does not say much about how desirable it is to pursue that purpose. One can have great clarity of one’s purpose without doing anything that is seen as beneficial to society at large. Hence the purpose of an organization needs to be coupled with legitimacy. Legitimacy in this context is frequently equated with the public licence to operate, expressing a general, widely shared view that what an organization does is proper, beneficial and generally desirable. "A comprehensive concept of economic reason will include the legitimacy proviso, i.e. the categorical subordination of private benefit or profit seeking to the normative precondition of societal legitimacy." (Ulrich, P. 2009, P 145) As expressed ever so clearly here by Peter Ulrich a business ought to assign high priority to gaining legitimacy. As we bestow legitimacy to organizations that we want to exist and that we want to do what they do in the way they do it, legitimacy turns into a key driver in a humanistic management approach. If purpose describes why an organization does what it does, legitimacy describes why everyone in society should also want that organization to exist.

Passion is the third key driver of organizations following a humanistic management approach fit to succeed in the stakeholder economy. But passion is misunderstood at times. We may think passionate people at work express their passion in big gestures and symbolic acts towards the business. But this is not the kind of passion I mean. The passion I mean does not need to be "loud", it is quiet and unpretentious for the most part but it is all the more effective. "Passion isn’t something that lives way up in the sky, in abstract dreams and hopes. It lives at ground level, in the specific details of what you’re actually doing every day." (Buckingham, 2016)

True passion in a job consequently expresses itself through the details of what people do every day, through being mindful and caring to spot opportunities, to continuously improve products, to enhance their quality or to excel in delivering a service so that innovation becomes a constant factor in the success of a business. Teixeira Santos et al. clearly see the innovative power that passion has when quoting an interviewee stating that “...we know that our passion for innovation forces us to set a path for the future.” (2009, p. 241) Passion means walking the extra mile without a corresponding desire for others to take note; it comes naturally to people that have a passion for what they do as anything less would feel wrong.
Just as purpose needs legitimacy, passion needs integrity though as a moderator to produce desirable results because passion can make blind. In the academe there are two main ways of looking at integrity being first, behavioural integrity and, second, integrity as virtue. For the key drivers in humanistic management we have been assessing behavioural integrity as better fitting. Behavioural integrity can be expressed with: do what you say and say what you do and constantly work towards the unity of both. Behavioural integrity thus creates a sounding board that facilitates reflection on the decisions people take in their work:

“Since integrity deals with the consistency of actions, values, methods, measures, principles, expectations, and outcomes, it partially emphasizes more consistency and less contradiction when more humanistic organizations are built. There should be no gaps between mission statements and codes of conduct and the portrayed behaviors. Companies ought to walk the talk.” (Amman, W.; Stachowicz-Stanusch, A. 2012, p. 3)

In this sense acting with integrity means acting transparently also. Being willing to open up and jointly reflect on words and deeds is part of managing with integrity and a strong protection against blind passion.

The fifth key driver, which is in no need of a moderator, is love. But what do we actually mean with love and what is the relevance for business? I find it striking how difficult it is to mention the word love in business contexts. Love may well be the strongest of any human motivations and drivers, yet we completely exclude it from business terminology or business thinking. Love for an activity, however, describes a strong emotional connection to what we do, who we do it with and who we do it for. Love for what we do fills us with intrinsic motivation that, in turn, brings out the best in how we do it. In addition love leads to collaborative relationships that can create great value.

In summary our work in the Humanistic Management Center has produced this set of key drivers which are working in two ways. On one hand they are helping business organizations to manage the transformation towards a stakeholder economy. On the other hand they can pave the way for implementing the three stepped approach to humanistic management.

**Management Paradigm: The three stepped approach to Humanistic Management**

As a guiding framework to support the positive impact business can generate, we have developed the Three Stepped Approach to Humanistic Management at the Humanistic Management Center.
This approach has also been published in the introduction to Humanistic Management in Practice and features prominently on our website and various presentations. (HMC, 2016; von Kimakowitz et al 2011, p.5) Combining theoretical insight with empirical evidence has led us to define three main characteristics of companies that seek to do well as much as they do good. These are 1) the unconditional respect for human dignity, 2) integration of ethical reflection in management decisions and 3) the active and ongoing engagement with stakeholders.

Respect for Human Dignity

The respect for human dignity may seem somewhat remote from business at first sight but it is central to a humanistic management paradigm.

"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)

A precondition for fruitful human interaction is the mutual respect for one another. Business is human interaction and business leadership is first and foremost about being a human being. Our dignity lies in our capacity to define autonomously the purpose of our existence and business can promote as well as hamper our capability for doing so. Paying living wages, ensuring safe working conditions or avoiding environmental damages that adversely affect peoples’ health or their ability to farm their own food are but a few examples for how business can be an agent for self determination and a life in dignity. With humanistic management businesses do not accept that people create value for the business under undignifying conditions and they do not pose preventable limitations on their stakeholders’ ability to live a self determined life.

Integration of Ethical Reflection in Management Decisions

Secondly, ethical reflection forms an integrated part of business decisions in a humanistic management paradigm. (Ulrich, 2009) Businesses that are serious about respecting human dignity examine management decisions in terms of their consequences and risks for all those affected. They do not
wait for costly public outcry if and when misdemeanour makes the headlines before they respond with corrective action nor do they view CSR programs only as a tool to manage reputational risks. With humanistic management businesses think that protecting their integrity through adhering to self-imposed, strong values needs no further reasoning for it is the right thing to do.

Active and Ongoing Engagement with Stakeholders

The third hallmark of a humanistic management paradigm is the active and ongoing engagement with stakeholders. Through stakeholder engagement businesses learn about the interests and concerns of all those who are touched by their operations. (Freeman, 1984) Aiming for compromise where interests are in conflict and allowing for the power of the better argument to supersede factual power, they gain and maintain a high level of public legitimacy. With humanistic management businesses are willing and able to make their decisions transparent and listen to and act upon concerns voiced by their stakeholders. Stakeholder engagement allows to share responsibility and gain insights on public perceptions. This, in turn, provides business intelligence to refine value propositions and promote the ongoing success in the market place.

In summary, humanistic management follows strategies and practices aimed at the creation of sustainable human welfare. A desire to generate value for society at large is part of the organizational DNA of businesses that embrace the three stepped approach of Humanistic Management.

Conclusion: Reality Proves Possibility

Reality proves possibility and many business leaders I talk to know that sustaining business success over time depends on a value proposition to society at large. They have a deep sense of responsibility towards the communities in which they operate and act accordingly. Not only at home, but around the globe, not only within their own operations but also along their supply chains, they create shared value and share the value created. The cornerstones of Humanistic Management described in this paper are being practiced by many companies around the world. Others however lag behind and yet have to embrace ideas that help them establish a meaningful relationship between the means and ends of business.

In this paper I have tried to cover a wide range of managerial and strategic issues for business so it can only serve as a starting point for further investigation. This paper has looked at the challenges we face as a global community arguing that fundamentally we are confronted with an environmental and a distributional challenge for both of which we need to find solutions jointly with business.
Finding such solutions I have argued depends on the transformation from the shareholder to the stakeholder economy and a mental model that views business first and foremost as human interaction. This paper has then introduced a set of key drivers to support business in delivering success within a humanistic management paradigm before providing an overview of the Three Stepped Approach to Humanistic Management.

Making progress towards a more sustainable and more equitable world is an imperative, not an option. Peace and social cohesion depend on it just as much as the very capacity of our planet to support life. We need to step up our efforts to preserve the natural capacity of our planet and we need to find more equitable ways to distribute wealth and neither will be possible without the great innovative powers of business.

Reality proves possibility: we can observe individual companies demonstrating true business leadership all over the world by implementing principles outlined in this paper. They successfully unite societal needs with business aims to the benefit of both. It may require additional effort and it may need courage but adhering to principles of Humanistic Management is a choice businesses have. With our approach to humanistic management we wish to provide stimulus, facilitate reflection and offer guidance to organizations that share our passion for making business work for a more equitable and more sustainable planet.

Bibliography


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