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Humanistic Management: an alternative way of organising

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If capitalism is in crisis, is there any evidence that Purpose is the answer?

John Rosling

Globally, business is experiencing a crisis of trust. 'Purpose' has been proposed as a way to rebuild trust and has been suggested as a way to drive organisational performance.

Is there evidence for these proposals? And if so, how does this process work? Research from Universities of Cambridge and Plymouth has created a new Model to show how purpose is 'activated' in organisations to achieve strong performance outcomes.

And that process has humanistic management at its heart.

Key words

Performance, Purpose, Leadership, Engagement, Humanistic Management, Capitalism

Introduction

In his letter to CEOs *"A Sense of Purpose"*, Blackrock's CEO Larry Fink makes the bold claim that *'without a sense of purpose, no company can achieve its full potential'*. But what's the evidence for that?

This isn't a good time to be a capitalist.

Globally, business seems to be facing a catalogue of crises:

- A crisis of engagement, with 87% of employees 'not engaged' (Gallup 2017).

- A crisis of productivity, which some economists put down, in part, to this lack of engagement (Green 2006).

- A crisis in trust, with society's trust in business low and falling. Just 52% of people in 28 countries 'trust business to do what is right' (Edelman 2017) and 58% of CEOs identify a lack of trust as an 'imminent threat' to their business (PwC 2017).

Some commentators see signs of an 'end to capitalism' in these crises. Yet, is this really an existential threat to capitalism itself – or just to one interpretation of it? Could it be that the dominant paradigm of business for the last 30 years, as exemplified by Milton Friedman's maxim that the function of business is solely profit and a return to shareholders, is not the only form of capitalism?

Is 'purpose-led business' better business?

Certainly, calls for a 'purpose-led' approach to business are getting louder. And, intriguingly, these calls are not coming solely from the traditionally socially-responsible end of business, but also from the heart of the established capitalist order. Sources include regulators like the UK's Financial Reporting Council in their revised 2018 Governance Code, global investors like Blackrock's Larry Fink and the upper reaches of the FTSE 100 as exemplified by Unilever's Paul Polman.

The language of 'purpose' may be new, but the principles that drive it are, of course, recognisably rooted in humanistic management. These are the principles of managing with empathy - as if people matter - and seeing human dignity and well-being as being of as great an importance, and as much a responsibility of business leadership, as shareholder value or financial return. In a revealing interview with the Financial Times (December 3rd 2017), Paul Polman exemplified this approach to business; *"I believe the reason businesses have been created, is to serve society"*. As for leadership, he urged that; "*to be a great leader you, first and foremost, have to be a great human being, sharing purpose and sharing values - the values of dignity and respect for the people you deal with"*.

These socially mindful roots of business practice go even deeper than that. A rereading of Adam Smith reminds us that, embedded in Smith's original thinking about markets, is an overarching social contract and a sense of self-responsibility, empathy for others and a desire to be seen to be doing the right thing (Norman 2018).

Could this therefore genuinely represent a shift back to a less mechanistic, more humanistic, business paradigm? Perhaps. But for most companies, the new order will be judged and assessed using the tools of the old. This means that, for a purposeful approach to business to gain traction and become the sustainable norm, it must be able to show to what extent it drives business performance.

Which begs the question; is there actually any evidence that a focus on 'purpose' really makes for better business?

The simple answer is, 'not really'.

Whilst there are clear examples of companies that have implemented a purposeful approach doing well as a result, and even outperforming their profit-led peers, there are equally multiple examples of companies piling onto the purpose bandwagon and finding it making very little difference to the beliefs and behaviours of their people or the performance of the business.

Academic research has begun to look at the issue, but suffers from a paucity of objective data. The *causality* is also unclear. So, whilst a review of 56 academic research papers revealed that 89% showed companies with strong 'Environmental, Social and Governance' (ESG) factors outperformed competitors on a market basis (Fulton 2012), the research inevitably relied on a largely external and subjective view of what constitutes a 'strong ESG factor.' It is also far from clear to what extent – and exactly why - strong ESG might cause commercial performance, or whether this is simply a correlation effect.

The Contexis Purpose Model

To understand this dilemma a group of academics led by Cambridge University and entrepreneurs with first-hand observation of the most dynamic, entrepreneurially-minded businesses, worked together over two years to create a new Model to explain how purpose is activated in organisations.

Fig 1: The Contexis Purpose Model

In doing so, the Model seeks to answer two questions definitively: does 'purpose' drive performance? And, if so, how – and can the causality be established and replicated in any business?

Purpose

Before looking at this Model (see Figure 1), it's first worth establishing what we mean by 'purpose'. This Contexis group adopted a working definition of purpose as:

> *"an enduring and meaningful reason to exist that aligns financial performance with a societal or environmental goal, provides clear context that guides daily decision-making and unifies and motivates stakeholder's towards achieving it."*

Taking this view of purpose, the Model proposes an explanation for why purpose influences human and commercial performance in some organisations but not in others, proposing that a *specific set of environmental and cultural attributes* activate purpose in organisations. These attributes are of such importance that they enhance the outcomes of purpose, acting as the pathway between purpose and performance, enhancing wellbeing, satisfaction and fulfilment in employees, and triggering a specific set of behaviours that can be shown to drive measurable commercial performance. The Model analyses the relationships between these attributes in order to establish correlative and causal links. It also measures the strength of all of these performance behaviours to provide a *metric of business performance.* In this way, the Model both provides a measure of purpose performance and seeks to demonstrate the causality in this relationship.

The first of these cultural attributes is **ownership**. The Model suggests that people who feel emotional ownership of the purpose served by the business commit more strongly to the success of their organisation. However, ownership cannot prevail in the absence of **trust**. Without trust people protect their identity and position rather than devoting their passion and energy to the good of the organisation. Finally, the Model identifies that leaders and management need a clear sense of **contextual clarity** to decision-making and this can be provided by purpose.

The Model illustrates that the presence of these attributes, working together, directly influence and enable positive human experience and behaviours in organisations by effectively activating purpose.

The key question, however, is whether the attributes the Model measures really are those that drive human and consequently business performance. Observationally, these attributes are certainly typical of the cultural conditions seen in the best entrepreneurially-minded businesses and appear to bridge the 'gap' between purpose and the experience of employees in the organisation. Is there empirical evidence to show this effect?

Ownership: the source of agility in people

> *"Psychological ownership satisfies three basic human needs: 'home', efficacy, and self-identity."*
>
> [Van Dyne & Pierce]

Ownership: Photo by rawpixel on Unsplash

Let's start with 'ownership'. Ownership is an emotional contract. Those who feel ownership care strongly about the success of their organisation, are **aligned** with its goals and feel **engaged** in its success and will also act **autonomously** to serve the good of the company, rather than waiting to be directed (Van Dyne 2004).

Research has consistently demonstrated positive links between psychological ownership for the organisation and work performance. Studies have shown that feelings of ownership are related to satisfaction, involvement, integration, commitment and work-related behaviours (Pendleton 1998), to concern if a task is unfinished (Parker 1997) and to reported positive attitudes to the firm and its future success (Nuttin 1987).

Importantly, a feeling that something belongs to us can be just as powerful in the absence of legal ownership as it is if legal ownership exists (Van Dyne 2004) which means ownership attachment can be accessibly achieved through *ownership of the purpose the business serves*. The consequence is that psychological ownership of purpose can have a profound impact on organisational behaviours, most immediately on the *engagement* the individual feels to the organisation, their *alignment* with its goals, and the degree to which they feel autonomously motivated to achieve them.

> *"The first requirement for high performance is autonomy. Companies that offer autonomy, sometimes in radical doses, out-perform competitors"*
>
> [D. Pink 'Drive' 2009]

People who feel ownership will take responsibility and act independently for the good of the firm. rather than waiting to be directed. *Autonomy* contributes to agility, efficiency and performance through greater discretionary effort (Cummings 1977). Researchers at Cornell University studied 320 businesses, half of which were characterised by worker autonomy with the other half relying on top down direction. The businesses that demonstrated autonomy grew at four times the rate of the control-orientated firms and experienced one third the turnover of staff.

Purpose, activated through an emotional ownership, also provides a deep source of *engagement*.

Organisations in which employees feel purpose-ownership demonstrate strong engagement, a sense of duty to the success of the business, and a desire to work enthusiastically towards that success. and can have a significant impact on employee performance (Anitha 2014). This has a direct commercial effect. Research by Alex Edmans, Professor of Finance, London Business School found that the companies with the highest employee satisfaction out-performed the market by 2-3% per year over a 26-year study period. In other studies, individual business units with above average employee engagement were shown to generate 10-30% higher profitability (Harter 2002).

> *"Business units above the median on employee engagement had a 70% higher success rate than those below the median on employee engagement."*
>
> [Harter]

Feelings of ownership of a shared and common purpose create alignment of both energy and fit for individuals and alignment. This has been demonstrated to positively influence job satisfaction and organisational commitment (Kristof-Brown 2005), citizenship behaviours and reduced propensity to quit (Cable 2002). Alignment is also important in driving operational performance, with research showing that top performing businesses are 20 times more likely to have every manager's goals aligned to the company strategy (Berggren 2006). Research also indicates that where this company-employees alignment is at the level of values and identity (i.e. purpose), then significant benefits can result (Walters 2013).

Trust: the source of agility in culture

Whilst ownership is a critical cultural marker for purpose-led performance, the Model suggests that its impact is limited in the absence of trust (e.g. Warwick & MacKenzie 2016). Without trust, employee scepticism and the perceived need to protect identity and status provides little opportunity for purpose to gain traction. High-trust cultures have been shown to be 50% more productive, with staff reporting 74% less stress, 76% more engagement and 56% more job satisfaction (Zak 2017).

Trust: Photo by Liane Metzler on Unsplash

> *"Trust is mandatory for optimisation of a system. Without trust, each component will protect its own interests to the detriment of the entire system".*

[Edwards-Deming]

Where purpose is seen to be congruently and consistently applied, it bolsters and sustains trust, creating a positive loop that transforms organisational culture. A lack of trust in peers contributes to job myopia or an unwillingness to engage in activities outside those that are formally defined and rewarded within the employee's job (Mayer 2014). This will be to the detriment of the employee's ability to add value over and above their remunerated role.

> *"An employee with a high level of trust in his [sic] manager will consistently outperform an employee with low trust."*

[Locke]

High-trust cultures tend to be **learning, open**, *and* **compassionate** rather than inward looking, fearful and controlling.

> *"A learning-orientated culture promotes an organisational culture that is receptive to new ideas and innovation. Simply put, innovative firms do better."*

[Deshpande, Farley, Wester]

Learning

There is strong evidence that *learning* is the source of strong and enduring personal motivation for the individual which, in turn improves organisational performance. Research into over 200 companies has demonstrated a clear correlation between a focus on learning in organisations and financial performance (Marsick 1997). The same research demonstrated an increased perception of value amongst customers in those organisations with a strong learning culture. In his 2009 book 'Drive', Dan Pink demonstrates a clear correlation between motivation and performance of individuals and their opportunity to learn at work ('achieve mastery', in his words) and demonstrates how this extends to organisational performance.

Learning is most dramatically affected by the level of trust that is perceived by employees within the organisation. Change can only succeed in a permissive environment that allows individuals to attempt new skills and habits and even fail repeatedly (Schein 1993). This both improves the psychological mind-set and strengthens the alliance between employee and the organisation, driving innovation, the level of organisational commitment and the esprit de corps (Marsick 2003). Purpose provides a motivation and context for learning, but it is the presence of trust that allows for learning to flourish in the absence of fear.

Open mindedness

In a volatile and complex world, the pace of change is fast and requires a flexibility of approach.

A key determinant of an organisation's ability to be flexible and to innovate in order to respond to this environment is a culture of *open mindedness*. The importance of organisational innovation has been demonstrated in several studies examining the impact of organisational innovations on business performance, productivity, lead times, creativity, quality, originality and flexibility (Siskin1992).

Management culture has a key role to play in creating and sustaining this. Lack of trust is one of the most common barriers to knowledge sharing (Hernandez–Mogollan 2010). Where the organisation has a clear and engaging purpose, and where this purpose is seen to be consistently held within a culture of trust, openness to new ideas and opinions can flourish.

Compassion

Purpose in the presence of trust also plays a part in fostering cultures of compassion – the act of noticing other people's pain and acting to help ease or alleviate it, going beyond empathy to entail action (Dutton 2014). It is inevitable that psychological pain occurs within all organisations, either as the consequence of a life event or as a result of work culture. It has serious emotional costs for employees and financial costs for organisations (Frost 2003). Grief amongst staff has been estimated to result in added costs and lost revenue amounting to $75bn per year for US employers (Zaslow 2002).

> *"Compassion increases interpersonal trust, improves mental health, motivation and strengthens the cooperation capability of the organisation".*
>
> [Frederickson]

Compassion shown by work colleagues mitigates these impacts, strengthening emotional connections and boosting peoples' ability to function as productive employees (Worline 2002). The experience of compassion at work has been found to have sustained psychological and emotional benefits (Meyer 1991) leading to strengthened pride in, commitment to and care for the organisation (Dutton 2014).

Yet, in many organisations there remains a cultural tendency to see compassion as weakness which can damage an individual's status and prospects. This forces people to operate in a state of 'duality', adopting one set of values at work and another home, which is inherently stressful and contributes to the mental health and performance challenges organisations face. Changing this may require managers to adopt new relational skills to make compassion and valuing the whole person the new normal. A clear and shared purpose is key to this - where a shared organisational purpose is adopted within a culture of trust, compassionate behaviours are more likely to emerge.

Context: the source of agility in management

We live and work in a world of increasing complexity and speed. Studies have shown the psychological and performance difficulties managers face in these high velocity markets (Baum 2003).

Context-led rather than content-led management has been shown to be better adapted to fast-moving and ambiguous environments. Context-led management asks 'why' rather than 'how' and recognises the strategic context behind the decision rather than focussing purely on the narrow solution to the immediate problem. Context-led management demonstrates faster decision-making processes and allows for greater clarity and ability to communicate decisions to others.

> *"High performance people do better if they understand the context. The best managers set the appropriate context, rather than trying to control their people"*

[Hastings, CEO, Netflix]

Referencing to purpose creates this clear and unambiguous context whilst allowing operational management the freedom to adapt to circumstances. When it is fully integrated into strategy, purpose becomes the context for daily decision-making. A 2010 study by IMD business school showed a 17% improvement in financial performance in purpose-led business. But this was only where 'the company integrated purpose with the broader corporate strategy'.

Purpose as context creates **velocity** and *clarity* – but also the ability to ***adapt*** in the increasingly complex and dynamic business environment organisations face.

Velocity

> *"Velocity is a measure of speed with direction. It's not simply a matter of moving quickly but in the right direction"*

High-speed decision-making has been found to be a strong predictor of future business performance (Baum 2003). In studies, firms demonstrating fast decision-making performed better in terms of sales and

profitability (Bourgeois 1998). There is a particularly clear association between strategic decision-making speed and subsequent commercial performance in dynamic and high-velocity environments (Judge 1991).

In the dynamic and high-velocity environments business face today *velocity* of decision-making is increasingly important, and this process is aided by a clear shared purpose, acting to drive contextual clarity for management.

Clarity

"Strategic consensus has a clear positive effect on performance and has a positive impact on three key performance dimensions: adaptiveness, effectiveness and efficiency".

[Homburg et al.]

Clarity: Photo by Paul Skorupskas on Unsplash

A shared *clarity* of understanding of the purpose of the organisation along with its related strategies and goals is the basis of a clear context for operating. With clarity about what the organisation is trying to achieve, and how, daily decisions are aligned towards the shared goal and can be made with minimal friction. Repeated studies have shown that clarity of goals results in a marked impact on performance of individual managers and the business units they run because it leads to strategic consensus (Kellermanns 2011).

Clarity has also been shown to be important in maximising performance of individuals from different functional and educational backgrounds (Michie 2006). If managers of different functional units do not agree, there can be significant negative implications for the performance of the business unit (Homburg 1999). Clarity also plays a critical role in job satisfaction, organisational commitment, propensity to stay in the business (Lyons 1971) and service quality (Mukherjee 2006). Ambiguous roles and tasks create greater anxiety and tension and reduce performance (Burns 1961).

Three factors have been shown to reduce clarity: organisational complexity, organisational change and management communication (Kahn 1964). Given that organisational complexity and change are increasingly unavoidable, the vital importance of clarity about the purpose behind a task is becoming more critical. This puts huge onus on properly communicating and embedding purpose.

Adaptability

In an increasingly ambiguous business environment, the ability of an organisation to pre-empt and adjust easily to change is critical. An organisation that is highly *adaptable* will be able to pivot to changing market or competitive conditions and embrace opportunities. A clear purpose that creates contextual clarity for management and an environment of trust engenders this adaptability.

Adaptability is rarely possible in traditional, hierarchical organisations based on control and process. These 'mechanistic' firms have been shown to perform poorly compared to organic firms (informal, adaptable, loosely controlled) in dynamic business environments (Slevin 1995). These more flexibly structured organisations allow management to adapt quickly to circumstances while holding to an agreed framework that provides the context for decisions. Purpose provides the clear framework, and at the same time, the motivation for achieving it. Adaptability is a key management skill, one that is greatly supported by clear contextual management based on a clearly articulated central organisational purpose.

Summary

There is clear evidence that purpose can lead to enhanced business performance and therefore may be a key part of the answer to the current 'crisis' in business.

However, research demonstrates that purpose-led organisations achieve strong performance outcomes not by merely stating a purpose but by activating it within the heart of their organisational culture and operations. Our research develops a new Model to demonstrate how this mechanism works; specifically, how purpose influences performance behaviours in organisations through cultural 'activation'.

The Contexis Purpose Model proposes that it is the presence of specific cultural characteristics that connect people in the organisation to its purpose in a humanly meaningful way and thereby 'activate' purpose to change behaviours. It is these behaviours that lead to enhanced business performance. And the cultural characteristics that activate this process are recognisably aspects of humanistic management, synthesising trust (empathy and dignity), emotional ownership (responsibility) and contextual clarity (consistency, authenticity and integrity of application).

The Model suggests that, without these attributes, there is a gap between purpose and the experience of employees and customers in large organisations. This gap prevents purpose from having a full positive impact and from realising the human and consequently the commercial potential of the organisation.

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John Rosling is CEO of Contexis. He believes passionately in the power of clear purpose and entrepreneurial thinking to unlock the potential and performance of people and organisations. Over a 30-year career, John has worked with business leaders in big organisations to clarify and implement strategy and transform the way their organisations think.

John's main interest in recent years has been to pursue the 'holy grail' of measuring the commercial impact of purpose and showing exactly how it drives performance in real businesses, in real time. This includes working closely with leading academics at Cambridge and Plymouth Universities to deliver this ambitious goal, the Contexis Index®, through a social enterprise company.

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About the Humanistic Management Network and AMED

The Humanistic Management Network (HMN) is an international group of practitioners and academics who share a concern that organisations exist to benefit society. Humanistic management is based on three principles; 1) respect for the dignity of each person, 2) ethical organizational decisions and processes and 3) on-going dialogue with multiple stakeholders. Humanistic management (HM) can be a driver for sustained business success and can reduce the cost of conflict, high levels of Contents stress-related absence, and the costs of raising capital. But HM principles are not shared by everyone and are increasingly under threat. As the newly-established Humanistic Management Network UK Chapter, we are very open to your suggestions and ideas about how we can develop and grow.

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