

# INTRODUCTION

## Awakenings

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Before I co-founded Whole Foods Market, I attended two different universities, where I accumulated about 120 hours of electives, primarily in philosophy, religion, history, world literature, and other humanities. I only took classes I was interested in, and if a class bored me, I quickly dropped it. Needless to say, with such a self-directed educational strategy, I learned many interesting and valuable things, but ended up with no degree. I never took a single business class. I actually think that has worked to my advantage in business over the years. As an entrepreneur, I had nothing to unlearn and new possibilities for innovation. I spent my late teens and early twenties trying to discover the meaning and purpose of my own life.

My search for meaning and purpose led me into the counter-culture movement of the late 1960s and 1970s. I studied eastern philosophy and religion at the time and still practice both yoga and meditation. I studied ecology. I became a vegetarian (I have been a vegan for ten years). I lived in an urban co-op/commune in Austin, Texas, for two years, and I grew my hair and beard long. Politically, I drifted into progressivism (or liberalism or social democracy) and embraced the ideology that business and corporations were essentially evil because they selfishly sought only profits. In contrast to evil corporations, I believed that non-profit organizations and government were “good,” because they altruistically worked for the public interest, not for profit.

With that background, I was clearly “well prepared” to launch a business in 1978. Our original company, a natural foods market named Safer Way, was a small 3,000-square-foot store in an old house that I opened with my girlfriend, Renee Lawson. We had seed capital of \$45,000 that we raised from friends and family. We were both very young (I was twenty-five and Renee was twenty-one) and idealistic, and we started the business because we wanted to sell healthy food to people, earn a decent living, and have fun doing both.

Despite working many eight-plus hour weeks, Renee and I initially took salaries of only about \$200 a month and lived in the office above the store. There was no shower or bathtub there, so we took “showers” in the store’s Hobart dishwasher when we needed to clean up (I’m pretty sure that violated several city health codes). After operating Safer Way for two years, we decided to relocate to a much larger building, merge with another small natural food store, and change the name to Whole Foods Market in 1980.

## FIRST AWAKENING: CREATING A BUSINESS AND BECOMING A CAPITALIST

At the time we started Safer Way, the progressive political philosophy I believed in had taught me

that both business and capitalism were fundamentally based on greed, selfishness, and exploitation: the exploitation of consumers, workers, society and the environment for the goal of maximizing profits. I believed that profit was a necessary evil at best, and certainly not a desirable goal for society as a whole. Before starting Safer Way, I had been involved in the co-operative movement in Austin. Besides living communally in a housing co-op for two years, I was also a member at different times of three separate food co-ops. For several years, I believed that the co-op movement was the best way to reform capitalism because it was based on co-operation instead of competition. If a store was owned by its customers, rather than by profit-hungry investors, it would be both less expensive and more socially just. I agreed with the food co-op motto—"food for people, not for profit." However, I ultimately became disillusioned with the co-op movement because there seemed to be little room for entrepreneurial creativity; virtually every decision was politicized. The most politically active members controlled the co-op with their own personal agendas, and much more energy was focused on deciding which companies to boycott than on how to improve the quality of products and services for customers. I thought I could create a better store than any of the co-ops I had belonged to, and decided to become an entrepreneur to prove it.

Becoming an entrepreneur and starting a business completely changed my life. Almost everything I had believed about business was proven to be wrong. The most important thing I learned in my first year at Safer Way was that business isn't based on exploitation or coercion at all. Instead, I discovered that business is based on cooperation and voluntary exchange. People trade voluntarily for mutual gain. No one is forced to trade with a business. Customers have competitive alternatives in the marketplace; team members have competitive alternatives for their labor; investors have numerous alternatives to invest their capital; and suppliers have plenty of alternative customers for their products and services. Investors, labor, management, suppliers—they all need to cooperate together to create value for customers. If they do, the joint value created is divided fairly among the creators of the value through competitive market processes based approximately on the overall contribution each stakeholder makes. In other words, business is not a zero-sum game with a winner and loser. It is a win, win, win, win game—and I really like that.

I also discovered that despite my best intentions and desire to create a good business, there were many challenges. Our customers thought our prices were too high; our team members thought they were paid too little; our suppliers would not give us good prices because we were too small; the local Austin non-profit sector was continually asking us for donations; and various governments were slapping us with many fees, licenses, fines and various business taxes.

Not knowing much about how to operate a business didn't quite pay off for us in our first year, as we managed to lose more than 50% of the capital entrusted to us—\$23,000. We discovered that creating a successful business isn't easy. Despite the losses, we were still accused by antibusiness people of exploiting our customers with high prices and our team members with low wages. Despite my good intentions, I had somehow become a selfish and greedy businessman. To my co-op friends, I was now one of the "bad guys." Yet, I knew in my heart that I wasn't greedy or selfish or evil. I was still very much an idealist who wanted to make the world a better place, and I thought I could best do so by operating a store that sold healthy food to people and provided good jobs.

Once I realized this, I gradually started to abandon the social democratic philosophy of my youth,

because it no longer adequately explained how the world really worked. I looked around for alternative narratives for making sense of the world.

As I steadily devoured dozens and dozens of business books trying to help Safer Way succeed, I stumbled into reading a number of free enterprise economists and thinkers including Friedrich Hayek, Ludwig von Mises, Milton Friedman, Jude Wanniski, Henry Hazlitt, Robert Heinlein, Murray Rothbard and many others. I thought to myself, “Wow, this all makes sense. This is how the world really works.” My world view underwent a massive shift.

I learned that voluntary exchange for mutual benefit has led to unprecedented prosperity for humanity. As we will show in Chapter 1, the progress that we have collectively made during the past 200 years is simply incredible. I learned that free enterprise when combined with property rights, innovation, the rule of law, and constitutionally limited democratic government results in societies that maximize societal prosperity and establish conditions that promote human happiness and well-being—not just for the rich, but for the larger society, including the poor.

I had become a business person and a capitalist and I had discovered that business and capitalism, while not perfect, were both fundamentally good and ethical.

## SECOND AWAKENING: STAKEHOLDERS REALLY MATTER & THE POWER OF LOVE

One of the pivotal events in Whole Foods Market’s history occurred over 30 years ago on Memorial Day in 1981 when we had only one store. We had been in business for only about eight months as Whole Foods, after we had relocated from Safer Way and changed our name. Our new store quickly became a big success. Customers loved shopping there and our team members loved working there; they passionately believed in what we were doing, had a great deal of freedom to express their individuality and enjoyed their fellow team members and serving our customers. But that day, Austin experienced its worst flood in 70 years, which killed 13 people and caused over \$35 million in damage to the city (equal to about \$100 million today). Our store was eight feet underwater. All the equipment and inventory in the store were destroyed; our losses were approximately \$400,000. The flood basically wiped us out. We had no savings, no insurance and no warehoused inventory. There was no way for us to recover with our own resources; we were essentially bankrupt.

When the founders and team members came to the store the day after the flood and saw the devastation, many of us had tears in our eyes. For our team members, it felt like the end of the best job they had ever had. For the founders, it seemed like the end of a beautiful but short-lived dream. As we despondently started trying to salvage what we could, a wonderful, completely unexpected thing happened: dozens of our customers and neighbors started showing up at the store. Since it was Memorial Day many had the day off and had come in their working clothes, bringing buckets and mops and whatever else they thought might be useful. They said to us, in effect, “Come on guys; let’s get to work. Let’s clean it up and get this place back on its feet. We’re not going to let this store die. Stop moping and start mopping!”

You can imagine the galvanizing effect this had on us; suddenly, we found new energy and felt a flicker of hope that perhaps all was not yet lost. It didn't stop there. Over the next few weeks, dozens and dozens of our customers kept coming in to help us clean and fix the store. We asked them, "Why are you doing this?" In response, they said things like, "Whole Foods is really important to me. I'm not sure I would even want to live in Austin if Whole Foods wasn't here, if it ceased to exist. It has made a huge difference in my life." It's hard to overestimate the impact that had on us; we felt so loved by our customers that we were determined to open again. We thought, "These customers love us so much and they have given us so much that we owe it to them to do everything possible to reopen and to serve them as well as humanly possible."

It wasn't just our customers who helped us. There was an avalanche of support from our other stakeholders as well, all of whom pitched in to save us. We were bankrupt when that flood occurred and couldn't make payroll, so many of our team members worked for free. Of course, we paid them back when we reopened for business, but there was no assurance that we were really going to be able to reopen. Dozens of our suppliers offered to resupply us on credit because they cared about our business and trusted us to reopen and repay them. That created a commitment of loyalty in our company toward those suppliers, and we are still doing business with many of them more than 30 years later. Our investors believed in Whole Foods Market, and reached into their pockets to make additional investments. Our bank loaned us additional money to help us restock. So in fact, all the major stakeholders—customers, team members, suppliers and investors—pitched in after the flood to make sure Whole Foods Market didn't die, and that we were able to reopen. And reopen we did, a mere 28 days after the flood.

That experience we had after the Memorial Day flood of 1981 drew our young company together. It demonstrated to us that all our stakeholders have the potential to form close relationships with us; to care and to commit intensely. Our team members grew closer together, and our commitment to our customers was greatly deepened. We understood that we were actually making an important difference in people's lives.

It is humbling now to think about what would have happened if all of our stakeholders hadn't cared so much about our company then. Without a doubt, Whole Foods Market would have ceased to exist. A company that today has over \$11 billion in sales annually would have died in its first year if our stakeholders hadn't loved and cared about us—and they wouldn't have loved and cared for us had we not been the kind of business we were. How many "normal" businesses would attract a volunteer army of customers and suppliers to help them in their hour of need? That is one of the reasons we understand so well the importance of stakeholders and the power of love in business, because they made us realize how important they were to our success. Not only would we not be successful without them, we wouldn't have even survived. What more proof did we need that stakeholders matter, that they embody the heart, soul and lifeblood of an enterprise?

## WHY WE WROTE THIS BOOK

Business can be a wonderful vehicle for both personal and organizational learning and growth. I have experienced many more awakenings as Whole Foods has grown and evolved over the past three decades. We will share some of these throughout the book. Most importantly, I have learned that life is short and that we are simply passing through here. We cannot stay. It is therefore essential that we find guides we can trust who can help us discover and realize our higher purposes in life before it is too late.

In my early twenties, I made what has proven to have been a wise decision: a lifelong commitment to follow my heart wherever it led me—which has been on a wonderful journey of adventure, purpose, creativity, growth and love. I have come to understand that it is possible to live in this world with an open loving heart. I have learned that we can channel our deepest creative impulses in loving ways toward fulfilling our higher purposes, and help evolve the world to a better place.

We have opened this book with a recounting of some of my awakenings because that is an apt metaphor for my journey of rising consciousness in my life and work. This journey has helped me to access some fundamental truths about business that were beyond my reach earlier. I have seen the power of this wisdom at work in my own company and at other companies, and have come to realize that the world urgently needs a richer, more holistic and more humanistic philosophy and narrative about business than the one we have encountered in economics textbooks, business school teachings and even from the mouths and pens of many prominent business leaders.

My co-author, Raj Sisodia, came to the same realization by studying a number of companies (including Whole Foods Market) that are loved by all their stakeholders. He discovered what made these companies special and wrote about it in his influential and inspiring book *Firms of Endearment: How World Class Companies Profit from Passion and Purpose*. For the last few years, we have found a common calling: to try and change the way in which business is thought about, taught and practiced through our work in the Conscious Capitalism movement. It is only fitting that we write this book together.

Our primary purpose in writing this book is to inspire the creation of more conscious businesses: businesses galvanized by a higher purpose that serve and align the interests of all their major stakeholders, have conscious leaders who exist in service to the company's purpose, the people it touches and the planet, and strong, resilient caring cultures that make working there a source of joy and fulfillment. We truly believe that this will lead to a better world for all of us. Together, we can harness the extraordinary power of business and capitalism to create a world where people live lives full of purpose, love, and creativity; a world of freedom, prosperity and compassion. This is our vision for Conscious Capitalism.

## HOW THE BOOK IS STRUCTURED

In Chapter 1, we provide some much need historical perspective on free enterprise capitalism: what it really is, how much it has helped transform our world for the better, and the challenges it faces today. Chapter 1 is also a call to adventure to you (the reader) to actively participate in changing the narrative of capitalism. In Chapter 2, we introduce the idea of Conscious Capitalism, a more evolved form of capitalism and business enterprise that addresses the challenges we face today and offers the promise of

a dramatically better future.

The next four sections of the book each deal with one of the four tenets of conscious capitalism. Chapters 3 and 4 are about purpose: we explain why purpose is so critical, offer some generic kinds of purpose and describe how every company can go about discovering its own authentic purpose. After that, we turn our attention to stakeholders. In Chapters 5-12 we discuss how conscious businesses think about each major and secondary stakeholder. We also discuss how they can leverage the interdependent relationships that exist among stakeholders, which lies at the heart of the Conscious Capitalism philosophy. In Chapters 13 and 14, we turn to the crucial issue of conscious leadership: what it means, and how one can cultivate it. In Chapters 15 and 16, we discuss the fourth tenet: Conscious Culture and Management. We describe the key elements of a conscious culture, especially love and care, as well as an approach to management that is consistent with a conscious culture and leverages its strengths. In Chapter 17, we provide some suggestions on how to start a conscious business, as well as guidance on how an existing business can move towards becoming more conscious. We conclude the book in Chapter 18 by discussing how we can spread the conscious capitalism philosophy more broadly and more rapidly.

The book also has three appendices. Appendix A describes how and why conscious businesses perform better than traditional businesses over the long run. Appendix B compares Conscious Capitalism with other recently proposed alternatives such as Natural Capitalism, Creative Capitalism, Shared Value Capitalism, B Corporations, Triple Bottom Line, and others. Appendix C addresses some common questions and misconceptions about Conscious Capitalism.

*A stylistic note: While this Introduction is in my voice, the rest of the book is very much a joint effort and is in “our” voice, including instances in which we recount aspects of the Whole Foods story. In a few places, we revert to using my voice when describing episodes in my personal journey.*