

# 21st Century Micro and Macro Issues



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## MID-COURSE CORRECTION FOR RAY ANDERSON

### Ray Anderson

In many ways, Ray Anderson represented the best of American entrepreneurship and business in 1994. A former football player at Georgia Tech and a veteran of the carpet-manufacturing industry, Anderson launched his own company Interface, Inc. in 1973 to manufacture carpet tile (modular carpet) in LaGrange, Georgia. Just over 20 years

later, Interface had become the world leader in carpet tiles with annual revenues exceeding \$1 billion.

However, in August 1994, at the age of 60, Anderson found himself in a crisis when the staff from Interface Research Corporation (the research arm of Interface) asked him to talk to them about his environmental vision for the company. Customers of Interface from all over the world had begun asking sales representatives about Interface's environmental position and their efforts to preserve and protect the environment. Leaders within Interface had formed a task force to begin framing a response to these questions; however, these difficult questions could not be answered without the input of the CEO, so Anderson was invited to speak to the task force.

This request distressed Anderson because Interface was so oil-dependent at the time that he later admitted Interface could be thought of as an extension of the petrochemical industry:

Well, frankly, I didn't have a vision, except "obey the law, comply, comply, comply," and I was very reluctant to accept the invitation. The idea that, while in compliance, we might be hurting the environment simply hadn't occurred to me. (Anderson, 1998)

Anderson finally accepted the invitation to address the task force and then embarked on three weeks of reading and soul searching to prepare himself. During this time, Paul Hawken's *The Ecology of Commerce* serendipitously wound up on his desk. In reading Hawken's book, Anderson faced the haunting truth that environments could be ruined by industrial activity—the same industrial activity that Interface had pursued from its inception.

I read it and it changed my life. It hit me right between the eyes. It was an epiphany. I wasn't halfway through it before I had the vision I was looking for . . . Hawken's message was a spear in my chest that is still there. (Anderson, 1998)

Hawken, who had founded the highly successful gardening supply store Smith & Hawken, was a business person whose ideas penetrated deeply into Anderson. Hawken departed from many environmentalists by asserting that the only institution on the planet capable of leading humankind out of its current mess and grim future was, in fact, business and industry. Government always seemed to follow, rather than lead. Religious institutions offered only criticism of society's problems, as did colleges and universities. The media also filled itself with criticism rather than solutions.

Anderson's entire outlook on business changed in preparing for the talk he gave about an environmental vision for Interface to representatives from all of Interface's businesses from around the world. He admitted to all in attendance the dire situation that would result from continuing with a traditional approach to business focusing only on the dyad of seller and customer. He called all 7,000 employees to contribute to what very likely would be a

painful overhaul of the company and its processes in order to make the company environmentally conscious in all that it did. This internally focused effort would later be termed EcoSense. Anderson challenged Interface's suppliers to do the same. His mission was to first reach sustainability and then go beyond sustainability to convert Interface into a restorative company—one that simply does not do harm to the environment, but rather puts back more than it takes from the Earth.

For the first year, Anderson persistently urged his employees to catch the vision for Interface becoming a restorative enterprise by reducing, reusing, reclaiming, recycling, and importantly, redesigning. Beyond the core group who first heard Anderson's environmental vision for Interface, Anderson's urgings were barely heeded by the rest of the company, causing changes to be barely perceivable during the first year. However, after that first year, momentum began to gather among the employees, who, one by one, began to advocate for the redesign of the company. Eventually, so many accepted the mission and dedicated themselves to it that not only was the progress made in environmental stewardship remarkable, but also working at Interface became characterized by working not just for profit but for a higher purpose as well. Interface demonstrated to all firms that environmental stewardship could be realized in business and industry—even in what was once an energy-intensive, waste-producing industry.

The shared mission evolved into what is known as Mission Zero. Mission Zero is Interface's promise to eliminate completely the negative impact the company has on the environment by 2020. By the end of 2010, the results were astounding. Greenhouse gas emissions had so far been reduced by 44% in absolute terms (94% when factoring in offsets). Interface cut energy consumption by 43%, water consumption by 80%, and waste sent to landfills by 77% (Interface, 2011). Importantly, the culture of the company shifted to a new trajectory in pursuit of innovations for new machines, materials, and manufacturing processes that would help fulfill Mission Zero. During the same period since 1994, the company grew net sales by 32% (Anderson, 1998, p. 3; Interface, 2012). Figure 1.1 more completely depicts Interface's achievements in climbing what Anderson called "Mt. Sustainability."

### Your Thoughts?

- What do you make of Interface's redesign?
- What evidence have you seen that other companies around the world have begun to recognize their social and environmental impact?
- How and when did it become important for companies to start thinking about the impact they have on society?

**Figure 1.1** Mount Sustainability at Interface Global

## MOUNT SUSTAINABILITY

### Mission Zero Milestones

In 1994 founder Ray Anderson received a dramatic wake up call – something he describes as “a spear in the chest.” He realized there was an urgent need to set a new direction for interface.

He challenged us to pursue a bold new vision:

“To be the first company that, by its deeds, shows the entire industrial world what sustainability is in all its dimensions; people, process, product, place and profits – and in doing so, become restorative through the power of influence.”

From the beginning, we understood that sustainability had to be approached from a systems perspective or a “whole company” approach. Over the years as this commitment to sustainability reached all the parts of our business, it evolved into a shared mission; Mission Zero.

We’re now sixteen years into our journey and a decade away from the date we predicted for achieving our vision – 2020. Company-wide commitment to Mission Zero has unleashed innovative thinking and connected us to a higher purpose. We’re simultaneously pursuing sustainability along three paths – innovative solutions for reducing our footprint, new ways to design and make products, and an inspired and engaged culture.

### FOOTPRINT

We have made great strides in reducing our footprint – those impacts that our company operations have on the planet.

- Installed solar PV arrays in the Netherlands, California, and Georgia
- Using landfill gas in our Georgia plant
- Eight of nine manufacturing facilities operate with 100% renewable electricity
- Reduced building footprints by adopting best in class green building standards, with six LEED certified facilities around the world, including the first LEED CI platinum space
- All global manufacturing facilities conform to ISO 14001
- Waste elimination programs achieved 42% reduction in waste cost since 1995
- Achieved \$433 million in avoided waste cost since 1995
- Designed innovative TacTiles system to reduce the impact of installing our products

### PRODUCTS

Mission Zero changed how we envision, design, and make products – away from a linear, take make waste industrial model toward a cyclical model based on nature.

- Biomimicry inspired us to create more sustainable and better performing products
- Developed Fairworks™ product line which considers social as well as environmental impacts
- Pioneered Life Cycle Assessment (LCA) to understand impacts of new materials and processes
- Launched first Environmental Product Declarations (EPDs) in our industry globally, providing transparency to our customers on product impacts

- Using recycled and biobased materials to move us closer to our end goal of closed loop products
- Pioneered the process of creating post consumer recycled nylon with our suppliers
- Diverted over 100,000 tons of material from landfills through our ReEntry program

### **CULTURE**

Commitment to Mission Zero has created a culture of inspired thinkers who are finding innovative solutions and changing our business.

- By sharing his vision for sustainable business directly with associates, Ray Anderson inspired our employees and connected them to a higher purpose
- Empowered associates are presenting innovative new ideas like portable creels that reduce waste and save money
- Our Eco Dream Team of influential environmental thinkers brings fresh perspective and learning to our business
- Our changed culture is part of why we are consistently acknowledged as a global leader in the sustainable business movement – as evidenced by rankings in The Sustainability Survey from Globescan
- Our associates are taking Mission Zero into their local communities through volunteering and philanthropy

*Source:* Interface (2011).

## **CHAPTER OVERVIEW AND LEARNING OBJECTIVES**

This chapter will give a historical summary of how we have come to the place where using a macromarketing lens can reduce risk and help identify opportunities for entrepreneurially oriented firms. A macromarketing lens can be useful because it helps us understand the interplay between marketing and society. This chapter will specifically focus on the practice of sustainability and the seven reasons business is more mindful of society today, discuss what marketing and macromarketing are and why they are important, and conclude with a series of examples showing the implications of macromarketing for entrepreneurship.

The chapter concludes with FirstFruits of Washington featured as a maverick firm that made it.

FirstFruits demonstrates that applying spiritual values and a servant leadership model of business can result in capital gains for society. By making formerly unproductive land bloom with orchards and putting employees and the poor as beneficiaries of the firm's operations, FirstFruits of Washington exemplifies five-capital entrepreneurship as well as a mission and purpose that transcends a traditional two-capital approach to business.

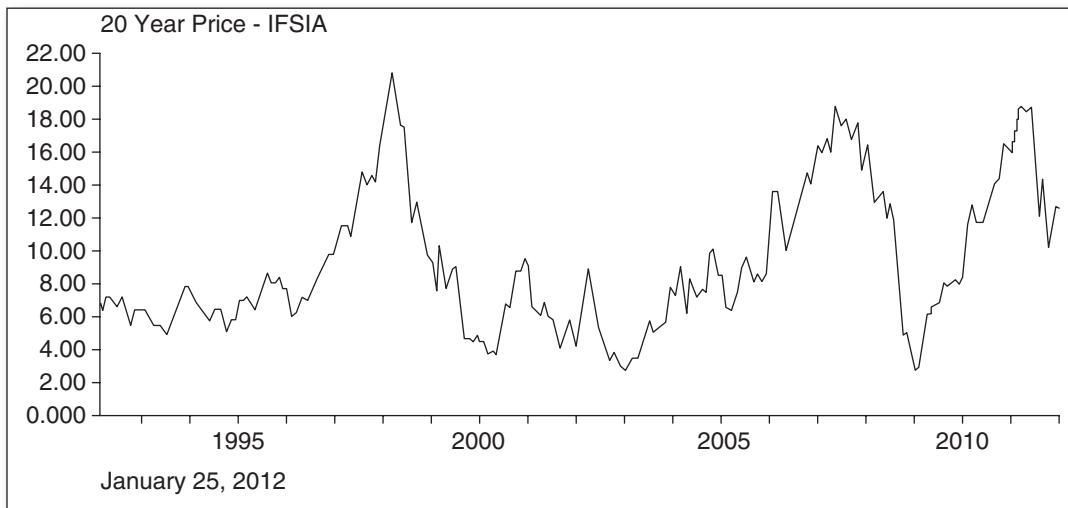
After this chapter, you should be able to answer the following questions:

- What are the seven reasons businesses are more mindful of society today?
- What is the definition of markets? Marketing? Society?
- What is macromarketing, and why is it important?
- What is the emerging view of capitalism and its five types of capital (manufactured, financial, natural, human, and social)?
- What role do entrepreneurs play in moving the marketplace toward generating social and environmental gains?
- How can social responsibility be integrated into a sustainable enterprise?

## SUSTAINABILITY AND THE TRIPLE BOTTOM LINE: THE LESSON THAT SAVED INTERFACE

The story of Interface's redesign is one of the most encouraging from the early years of business' transition to more sustainable business practices. Anderson (2008) now credits the dramatic turn of Interface to sustainability, in hindsight, as saving the company from a soon-arriving demise in a mature cost-driven industry. Buffeted by cycles in the building industry, the stock price of Interface (NASDAQ: IFSIA) since 1990 suggests that Interface's redesign has not pushed the company into a disadvantageous position. Interface's continued financial viability suggests that it continues to be economically sustainable. See Figure 1.2 for Interface's 20-year stock-price record.

**Figure 1.2** Interface's Twenty-Year Stock-Price Record (InvestorGuide.com, 2012)



Many more businesses from around the world and across many sectors of the economy will be presented in *Sustainable Enterprise: A Macromarketing Approach*. More than 52,000 company web pages highlight the “triple bottom line” (people, planet, profit), signaling that these firms are beginning to account for their net social and environmental impact in addition to the traditional economic metric of economic profit (Hollender & Breen, 2010). Originally proposed by sustainability thought leader John Elkington, the triple bottom line, or balanced scorecard, is broader than economic results, and it includes measures of the firm's environmental effects (air quality, water quality, energy usage, and waste produced), as well as of social outcomes (labor practices, community impacts, human rights, and product responsibility) (Savitz & Weber, 2006). Are such cases merely outliers?

Is sustainability, preserving opportunities for future generations through care for social issues, environmental issues, as well as profits, a fad that will go away? More than 4,700

companies across 130 countries have signed the UN Global Compact pledging to follow its ten principles focused on 1) human rights, 2) labor, 3) the environment, and 4) anti-corruption (United Nations [UN], 2011). The next generation of business leaders will more than likely receive their business education at one of the 346 schools who have adopted the Principles for Responsible Management Education. These six principles focus on developing capabilities of students in the areas of sustainable value for business and society at large (Principles for Responsible Management Education, 2011).

The results for Interface suggest that sustainability is not only a morally relevant approach to business but also a smart way to approach business. Darrin Duber-Smith, President of the consulting firm Green Marketing, Inc. and a long-time observer of sustainability efforts, asserts that by 2020, what we now know as sustainable business practices will be known simply as “good business” (Duber-Smith, personal communication, October 2010). Duber-Smith also makes a point of informing audiences in industry and college classes that he votes Republican to make sure involvement with green initiatives is not perceived as exclusive to those voting Democrat.

In sum, it is likely that Interface’s success will be replicated by other firms and by many start-up firms that will grow and prosper as the Industrial age ends and another comes into being. In this age of the Next Industrial Revolution, the purpose of the corporation must be redefined as creating shared value—not strictly economic profit (Porter & Kramer, 2011). The idea of shared value recognizes that societal needs—not just ordinary economic needs—define markets. Accordingly, expanding the total pool of economic and social value will need to be achieved by actors in 21<sup>st</sup> century markets. John Mackey, co-founder and co-CEO of Whole Foods Market, calls this “conscious capitalism.”

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## WHAT IS DRIVING THE TURN FOR BUSINESSES TO BE MINDFUL OF SOCIETY?

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Although theories explaining the roots of conscious capitalism are only now emerging, several likely contributing factors can currently be identified (Hollender & Breen, 2010). The seven reasons business is more mindful of society are discussed below.

### Reason 1: Technological Improvements

Improvements in technology, especially telecommunications technology, increasingly gives power to individual consumers and citizens. In a networked world, accountability is more timely and powerful. Savitz and Weber (2006) call this the “Age of Accountability.” Accordingly, externalities generated by firms, such as the variety and breath of pollutants produced, no longer go unrecognized. On the other hand, firms that embrace stewardship of the planet and concern for people in their pursuit of profits are more likely to be recognized and rewarded for such an approach to business. Some firms are going beyond separate reports for financial and nonfinancial results (e.g., corporate social responsibility or sustainability reports) and combining these into a single integrated report (Eccles & Krzus, 2010). At the same time, they are using the Internet to offer more detailed results to all of

their stakeholders and to improve their level of dialogue and engagement with a wider set of stakeholders. Wall Street financial analysts have begun to take note because such integrated reporting adds noticeable value to the company. Contributions to sound business practices and a more sustainable society make enlightened firms more appealing to many stakeholders—including shareholders.

## **Reason 2: Rising Prosperity and Environmental Values**

Second, rising prosperity in countries of the world allows quality-of-life and environmental concerns to move higher in the priorities of consumers and citizens. This is happening all over the world. With higher income, individuals give higher priority to self-expression and to quality of life. There is a strong association between prosperity and environmental values (Inglehart & Welzel, 2005). The increased interest in environmentally friendly products can be seen in the demand for hybrid cars. Toyota anticipated this trend and introduced its Prius hybrid vehicle years before other competing firms (Bonini, Mendonca, & Oppenheim, 2006).

## **Reason 3: Awareness of Earth's Limits**

Rising awareness of the planet's limits suggest that new forms of production and consumption need to be developed. *New York Times* Foreign Affairs columnist and Pulitzer Prize winning author, Thomas L. Friedman (2008) characterizes the Earth as a hot, flat, and crowded planet. Friedman means that the Earth is characterized by (a) a changing global climate, (b) a developing world that is rapidly beginning to use many of the competitive capabilities of the developed world that were once thought to be nonexistent in a developing country, and (c) a developing world with a burgeoning population in urban areas. These all suggest that we are all more vulnerable to volatility and major social, economic, and political change than we previously perceived we were in the 20th century. The rise of China and India as economic powers suggests that demand for energy will continue to be pressed. As this happens, energy prices will move higher. Many of the sources for fossil fuels, such as Venezuela and Saudi Arabia, seem to be poised for difficult transitions in political leadership in the future. In sum, there is an increasing awareness that a take-make-waste approach within societies needs to be changed.

## **Reason 4: Firms Can "Do the Right Thing"**

Firms have gained increased ability to "do the right thing." The success of the voluntary standards movement in business has given businesses a way to improve process quality in both manufacturing and service businesses. Total Quality Management (TQM) has led to ISO 9000 certification in manufacturing, as well as to ISO 14000 in environmental protection. The ISO 9001:2008 standard provides a tested framework for taking a systematic approach to managing the organization's processes using satisfaction ratings of those inside the firm as well as of customers and partners outside the firm. This is done so the firm and its partners can consistently turn out a product

that satisfies customers' expectations. Alternatively, the ISO 14000 family addresses various aspects of environmental management to identify and control the environmental impact of a firm's activities, products, or services, and to improve continually its environmental performance. Using these ISO frameworks for management practice, multinational enterprises have located factories and offices all over the world that can produce at world-class standards. Highly efficient processes have become synonymous with high-quality products and eco-efficiency. The increased power of firms to self-monitor is leading them to pursue eco-effective approaches to business where harm to the environment is avoided.

### **Reason 5: Intangible Assets**

Firms realize the increasing importance of intangible assets. *Fortune* estimates that 75% of the total value of the average U.S. corporation can be attributed to the patents, copyrights, employee knowledge and creativity, as well as customer goodwill they carry. In other words, physical stuff matters much less than what might have been previously thought. In such a world for business, having a purpose beyond earning a profit matters much. It enables a firm to attract the most talented and committed employees who will eventually make a difference in the competitive marketplace for the customers of the firm. It also attracts customers who will use their capabilities to make the firm a success through repeated purchase, involvement in new product development efforts of the firm, as well as word-of-mouth communication about the firm and its offerings.

### **Reason 6: Nongovernmental Organizations**

The rise of nongovernmental organizations (NGOs) bring a voice to those previously unheard in issues related to the citizenship of businesses. This is a powerful and new regulatory force. Those with concerns not adequately addressed by business or government increasingly establish an NGO to focus the attention of individuals, public institutions (local, national, and transnational), businesses, and other NGOs. A web presence also boosts fundraising and marshalling support from NGO constituents. Over the last 15 years, NGOs have proliferated to number in the millions and have grown to become the eighth largest economy in the world with operating budgets totaling more than \$1 trillion (Hollender & Breen, 2010). During this time, trust in NGOs has steadily risen, while faith in business has declined as a result of debacles at Enron, WorldCom, and the Economic Meltdown of 2008 (Bonini et al., 2006).

Astute firms these days are working with select NGOs rather than resisting them. For example, global specialty coatings company AkzoNobel (the largest decorative coatings company in the world employing more than 24,000 with annual sales over \$6 billion) collaborated with the U.K.-based NGO Forum for the Future to develop its successful Ecosure paints under the Dulux brand name. These Ecosure paints have a 30% lower carbon footprint than regular paints (AkzoNobel, 2011). AkzoNobel was then able to apply its new knowledge for producing lower carbon paints to its other brands of paint.

## Reason 7: Branding as a Social Phenomenon

Firms who consider branding to be much more of a phenomenon of society, culture, and politics—rather than one of the individual’s mind—are better able to identify opportunities for innovation in branding (Holt & Cameron, 2011). Branding success for diverse firms such as Nike, Starbucks, Patagonia, Vitaminwater, Fat Tire, and the Freelancer’s Union suggest that ideological opportunities emerge during major historical changes. Here, the brand can offer a superior cultural expression for consumers.

For example, Nike took the focus off of elite athletes succeeding in their chosen athletic domains (the typical advertising approach of its rivals) and put it on the human dimension of competition and life. In the 1970s and 1980s, diminished expectations for U.S. society was widespread as a result of the failure of the Vietnam War, the distrust of government resulting from the Watergate scandal, and the stagflation that plagued the economy for years. In such a milieu of anxiety, Nike articulated an anti-authoritarian theme in advertising by showing Nike athletes in ordinary training scenes showing their tenacious dedication in going it alone and embracing total responsibility for one’s success. Nike led the trend for jogging by celebrating ordinary people pursuing their own training. Nike’s “Just Do It” advertising theme developed a cultural mythology about Nike and showed women, people of poverty, and minority athletes succeeding on the level playing field of sport despite the societal discrimination they faced off the field. Here, Nike offered a broader view of competition that suggested that overcoming barriers, such as racism, sexism, and global poverty, are much more impressive than success in sport. This myth used the imperfections of society as a foil to boost Nike’s association with those manifesting combative solo will-power and succeeding on their own terms in life.

**Table 1.1** Reasons for Business Turning to Be More Mindful of Society

1. Technological improvements
2. Rising prosperity and environmental values
3. Awareness of Earth’s limits
4. Firms can “do the right thing”
5. Increasing importance of intangible assets
6. Rise of nongovernmental organizations
7. Branding as a social phenomenon

## Implications

Although businesses have always been subject to sociopolitical forces, today these forces are more complex, and they can change more rapidly as a result of activists’ ability to mobilize public opinion. Former Coca-Cola CEO Doug Ivester discovered this in a very

painful way that cost him his job. In the summer of 1999, several dozen schoolchildren in Belgium reported feeling queasy. After treatment at clinics, the source of their illness was determined by health officials to be the Coca-Cola they had consumed that day. Ivester was initially slow in responding to this problem, and then he announced that the problem was a minor one—a bad batch of carbon dioxide. Meanwhile, with the backdrop of election campaigning in Belgium and its nonstop news coverage, the “minor problem” was rapidly perceived by many in Europe to be a major one about environmental contamination brought on by not just a business but a foreign one that has long been identified with American pop culture (Morris, Sellers, & Tarpley, 2000). It was a public relations disaster, and Ivester’s efforts repeatedly seemed to be late and insufficient. Shortly afterward, two members of the board of directors, billionaire Warren Buffet and Herbert Allen, confronted Ivester and informed him that they had lost confidence in his leadership. Ivester subsequently submitted his resignation.

In sum, society might have been an afterthought for executive teams primarily focused on regulatory compliance in the 20th century. However, 21<sup>st</sup> century realities related to the seven reasons businesses have become more mindful of society have brought a heightened sensitivity to societal issues. Today, firms must recognize that society expects more from business; firms that act as if other people matter and protect and restore the ecosystem are more likely to achieve profits in a reliable way into the future (Werbach, 2009). Increasingly, firms are implementing a triple bottom-line or balanced scorecard that includes firms’ economic, environmental, and social results (Savitz & Weber, 2006). Leaders of firms are giving more consideration to society not because these leaders are suddenly more moral in their approach, rather, because they are more pragmatic. If these leaders do not anticipate the changing landscape of societal issues, they will not be able to avoid problems that will damage their firms’ reputations, and they will not be able to guide their firms to successful positioning relative to their competitors in the future.

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## MARKETS

### Defining Markets

What comes to mind when you hear the word “markets?” A shopping center? A bazaar? A financial market like the floor of the New York Stock Exchange? eBay? Monster.com? All of these are examples of markets. A market is a social arena where firms, their suppliers, customers, workers, and governments interact (Fligstein & Dauter, 2007). Sociologists offer valuable perspectives on what are not markets. For example, unstructured, one-shot, anonymous social exchange is not a market. If you sell your laptop to a friend, a market was not part of this transaction. Sociologists give further definition to markets as being social arenas where repeated exchanges occur between buyers and sellers under a set of formal and informal rules. Importantly, markets depend on governments, laws, and social norms about activity in the marketplace.

Because human beings are self-oriented, distortions in the marketplace inevitably occur; often these issues are resolved with the assistance of the government, making it an integral part of the market system. For example, product failure raises problems for market

actors. Determining responsibility among the set of suppliers, retailers, and customers can be problematic. Was the product misused by the customer, or was the product inherently flawed in manufacturing or damaged later in storage at the retailing store? The first aspect a sociology of markets (the study of marketing systems) suggests is that market actors will develop social structures to reconcile problems they encounter in exchange, competition, and production. Frequently, laws and government enforcement comprise these social structures, although mediation and arbitration can also be employed. However, if the actors involved cannot reach agreement, then the government must intervene—usually through a court system.

## **The Role and Influence of Government on Markets**

The debate over government's role in the market has long been debated. However, rather than get bogged down in the debate, this section will focus on the effect government has on the market. Specifically, this section will focus on the relationship between government market interaction and monopolies, the idea of the free market, and how changing markets demand a changing government role.

### **Unfettered Markets and Monopolistic Market Actors**

The self-orientation of humans can also lead to distortions in the structure of markets. Monopoly formation (one dominant actor, such as the Standard Oil Company for oil refining in the early 1900s) is an example of a market structure that has been deemed to be deleterious to the proper functioning of markets. The Sherman Anti-Trust Act of 1910 led to the breakup of Standard Oil into smaller competing firms (Peritz, 2008). Additionally, some actors in markets seek to restrain trade as when collusion among sellers in a market occurs. Scottish philosopher Adam Smith observed that in the 18th century, whenever rival merchants met, even for sharing a meal together, the interests of their customers were harmed. Higher prices to customers were one way such collusion might be manifested. Economists since Smith have generally agreed with his assertion. Today, governments define acceptable relations between producers or merchants so that competition will drive the activity of markets.

### **Adam Smith and the Idea of a Free Market**

Although buyers and sellers are the most salient actors in markets, history suggests that the self-orientation of humans will inevitably lead to disputes between actors in markets. This implies that in modern societies, governments will need to intervene so that markets can continue to function properly. In the time of Adam Smith, the British government sponsored companies in markets, such as the East India Company. Additionally, laws existed to forbid citizens from changing their jobs. Smith made the case that markets free of such government interventions would thrive and eventually perform a remarkable task for society—increasing the material well-being of society. In other words, if citizens and firms were allowed to own property, if labor were allowed to move freely in the job market, and if the rule of law prevailed, the market-based system for society would efficiently allocate the material resources (land, labor, and capital) (Smith, 2000). Buyers would be

able to buy what they desired, while sellers would be able to sell what they desired. Today, China, still ruled by a Communist regime, struggles with the role of the government in markets because of its state-owned enterprises (almost always grossly inefficient entities). Even though the United States does not have China's state-owned enterprise system, U.S. society still struggles with the role of government in markets.

Today, "free market" is a portmanteau term that means different things to different people. To listen to some commentators in today's media, a free market means a market totally free and clear of any government intervention. No regulation and no taxes. But what about the government's role when market actors encounter problems? Because trust among market actors is so crucial to the proper functioning of markets, when such trust drops, social structures like the government are needed for conflict resolution, as well as for ensuring that safe products and services are provided in markets. So, in effect, a market totally free and clear of government intervention is like a unicorn—easy to draw on paper, but never actually seen walking around anywhere on Earth. No one has found fossil evidence for unicorns, either.

For those who propose strict and powerful regulation of markets, the accompanying increase in laws and licenses required to conduct business might slow market activity and increase the cost of doing business to levels that would render markets ineffective. If the issue is one of regulation of business, imagine if the World Cup soccer matches played every four years used no referees for the matches. It would not take long for the honor system to break down and chaos to reign on the field. On the other hand, if the World Cup organizers misguidedly saw the outcomes of matches as so important that they employed 1,000 referees and put them on the field for each match, it would be likely that the match would not succeed because of the interference of so many referees. An important decision for society is not whether there will or will not be involvement of the government in markets, since there will be government involvement for dispute resolution and for the regulation of safety in goods and services. Rather, the issue is to what degree governments will be involved in markets.

### **Changing Markets, Changing Government Roles**

The variety and dynamism of markets suggests that the role of government must be defined for markets and then redefined over time. For example, new markets are likely to be more fragile than stable established markets. This can be seen in the new markets for renewable energy where government involvement includes incentives (outright subsidies and tax exemptions to producers, as well as the government's support of university research into wind energy production). On the other hand, more established markets such as those for automobiles have attracted different forms of government involvement over the years. In World War II, the U.S. government steered production at auto plants toward the war effort. In the 1960s, the U.S. government imposed requirements for seat belts in cars. In the 1970s and 1980s, protectionist tariffs to protect the U.S. auto industry were endorsed by both the U.S. automakers and unions. Such calls were tempered later but still persist today. In sum, markets change, and the government's role in markets changes, as well. For example, if government regulation and programs cannot keep up with the rapidly changing market, a society will be at greater risk for harmful marketing distortions. More will be said about this in Chapter 2.

## MARKETING

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### Changing Definitions of Marketing

Surprising to some, marketing's definition has changed twice since 1985. The American Marketing Association (AMA), the leading organization for marketers, includes a unit for marketing scholars. The AMA has committed to revisiting the definition of marketing every five years. In 2007, a task force led by Don Lehmann from Columbia University responded to widespread calls across academia to revise the definition of marketing. The 2004 revision had changed the 1985 definition of marketing and had focused exclusively on the firm, even to the extent of excluding the role of middlemen in marketing systems (such as channels of distribution), as well as institutions (such as retailers and wholesalers) (Hunt, 2010). After thorough reworking, Lehmann's task force agreed that the definition of marketing would be more inclusive and explicitly feature (a) the delivery of offerings, (b) institutions, and (c) society-at-large as a beneficiary of marketing. The current definition reads, "Marketing is the activity, institutions and set of processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society-at-large" (AMA, 2007, para. 2).

"Activity" implies that marketing can be done by individuals: entrepreneurs, as well as citizens (Hunt, 2010). "Institutions" means that manufacturers, wholesalers, retailers, advertising agencies, distributors, and marketing research agencies engage in marketing. Additionally, aggregated systems of institutions in a society participate in marketing, such as channels of distributions, networks, and supply chains. "Customers" refers to the exchange partners of for-profit firms. "Clients" refers to the exchange partners of nonprofit organizations (such as the American Cancer Society or Civil Air Patrol). "Partners" refers to those in collaborative networks and alliances that are increasingly evident in contemporary markets. Finally, "society-at-large" refers to the ultimate beneficiary of marketing—society. Marketing benefits society by contributing to increases in productivity and economic growth (Hunt, 2010). Here, society refers to the large-scale community that normally furnishes security and a national identity for its members (Dictionary.com, 2009).

### Understanding How Society Affects Marketing and Business Norms

Society is characterized by a distinctive culture and set of unique institutions. A distinctive culture is defined as the learned meaning system of a group. For example, U.S. culture is characterized by immigrants who support the idea that humans should rule themselves using representative democracy. Key institutions of U.S. society were established in the U.S. Constitution featuring a tripartite form of government with an executive, legislative, and judicial branch. The U.S. Constitution designed a manner for the institutions of the federal government to relate to each other.

This manner of inter-institutional relations ("checks and balances") across the three branches of government came out of the U.S. founders' deep concern about who would govern the one who governs (Prothero, 2007). Primarily as a result of the influence of the founders' Protestant Christian heritage (which views the nature of man to be corrupted),

an executive branch with too much power was viewed as inevitably resulting in a king-like executive branch—the very thing that led to revolution and separation from Britain. For this reason, “checks and balances” were written into the U.S. Constitution. As the first modern democracy, the United States proved to be a pioneering culture in the realm of societal institutions.

The acceptance of checks and balances, on all levels of government, is a distinctive element of U.S. culture that characterizes the kind of self-rule embraced by U.S. society. The U.S. distain of a unipolar actor holding power also influences the business world, causing dominant marketplace actors to be viewed with suspicion by many citizens. As a result, anti-trust laws are part of the web of laws governing business, and monopolies are resisted by the U.S. society, which denies rule by any single entity, whether in government or in business. They are accepted by other societies and even ruled to be government run in sectors of the economy perceived to be sensitive ones, such as energy, telecommunications, banking, and military arms production. For example, the French utility *Électricité de France* (EDF) held a monopoly in the distribution, but not the production, of electricity in France until 1999 (EDF Group, 2012). With the coming of the European Union, EDF had to allow other distribution companies to enter the French market. However, EDF pursued a successful internationalization strategy and now produces power for other countries in Europe. It was entirely state-owned until 2004. The French government still owns 85% of the outstanding shares of EDF. In sum, heterogeneity characterizes the aggregate marketing systems in countries of the world.

**Table 1.2** Defining Terms for Understanding Contemporary Markets and Marketing Approaches

1. **Markets**—social arenas where repeated exchanges occur between buyers and sellers under a set of formal and informal rules.
2. **Marketing**—the activity, institutions, and set of processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society-at-large.
3. **“Little m” approach**—the tactical aspects of marketing at the firm level, such as product development, promotion, distribution, and pricing.
4. **“Big m” approach**—how tactical marketing for a firm feeds into managerial decision making that affects other realms of the firm, such as operations, human resources, information systems, finance, and accounting.
5. **“Biggest M” approach**—macromarketing—taking a systems view of the interplay between marketing and society. Firms that take such an approach can be characterized as taking a five-capital marketing approach that articulates a firm’s tactical marketing moves with the other functional areas of the firm in order to achieve triple bottom-line success.

## MACROMARKETING

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### The “Biggest M”

A marketing management course at most universities strives to impart how firms would consider customers of the firm in their planning. This might be termed the “little m” approach (dealing with the tactical aspects of marketing, such as product development, promotion, distribution, and pricing).

In the first term at the Harvard Business School, MBA students take their first marketing course. The objectives of the course are to demonstrate the role of marketing in the company and to explore the relationship of marketing to other functions. Harvard marketing professor John Gourville reports that this marketing course takes a bigger view of marketing—how marketing feeds into managerial decision making that affects other realms of the firm, such as operations, human resources, information systems, finance, and accounting. Gourville calls this the “big m” approach (Datar, Garvin, & Cullen, 2010).

In contrast to limiting the focus of marketing to the firm and its customers, macromarketing has focused on a higher level of aggregation. According to Hunt (2010, p. 14), macromarketing refers to the study of (a) marketing systems, (b) the impact of marketing systems on society, and (c) the impact of society on marketing systems. In other words, macromarketers have taken a systems view of the interplay between marketing and society. In this way, macromarketing can be understood to be the “biggest M” approach.

### Early Macromarketing: Socialism and Capitalism

Macromarketing was the early focus of the marketing discipline in the years 1900–1920 (Wilkie & Moore, 2003). Here, marketing scholars took concern with the value of marketing’s distribution activities as these contribute to economic and growth in society. For example, the distribution of harvested corn shows how one product can create a large economy of scale. First, the farmer grows the crop and places it in his grain silo. Next, a truck comes from the grain buyer and unloads the silo. Afterward, the corn could change hands and be processed up to five more times: (a) between the grain buyer and the regional buyer, (b) between the regional buyer and a corn syrup processor, (c) between a processor and the Pepsi-Cola Company, (d) between Pepsi-Cola and a franchised bottler of Pepsi-Cola, and (e) between a bottler and a local convenience store. This total chain of exchanges would comprise the distribution activities for the corn that later became a sweetener in Pepsi sold at a local convenience store. By each actor performing its role in the distribution system, enormous economies of scale are realized with time and money saved by all. Imagine if the farmer had to take his corn and sell it as an ingredient at thousands of convenience stores. The time and expense would exhaust anyone. However, the market system that evolved on its own coordinates and links the efforts of a diverse array of actors. In the end, much is accomplished for relatively little expense.

Although today there is general acceptance of the place for legal and culturally acceptable marketing practices, at the time of marketing’s development, it was hard for scholars

to understand why middlemen seemed to proliferate as economies grew. At the same time, a parallel effort was underway on the other side of the world to pursue a socialist approach to organizing the production and distribution of society's goods and services. The approach was led by Communists in the Soviet Union, and it proposed no private ownership of the means of production in society and central planning of all public activities in society.

In such a socialist system, independent middlemen were eliminated, and so were field sales people. Independent wholesalers, retailers, advertising agencies, distributors, and marketing research agencies were eliminated as well. These actors in the aggregate marketing systems of a free society such as the United States were the focus of the first marketing scholars who attempted to understand and explain the plusses and minuses of having such intermediaries in the aggregate marketing system.

Today, it is readily understandable that intermediaries do not just handle material goods. They move information about market conditions and possible wants and needs of customers in many directions in their respective marketing systems. In many ways, such information is more valuable than the goods moved today because it can be used to “create, communicate, deliver and exchange” streams of future offerings that will be valuable to customers. In general, socialism as instituted in the Soviet Union ignored the invisible flows needed to allow an aggregate system of provisioning for a society to work beyond a rudimentary level. For example, prices were not allowed to float in markets (what Friedrich Hayek termed socialism's “fatal conceit”) (Hayek, 1988). Information about consumer demand was not detected, interpreted, organized, and moved to the right places in the system for timely action.

## Second-Wave Macromarketing Pioneers

After the first wave of interest in macromarketing in 1900–1920, a second wave of interest in macromarketing began in the 1970s. This was partly a reaction to many scholars' bedazzled interest in firm-centric marketing issues (“little m” for the most part). In the mid-20th century, marketing underwent a major refocus on managerial issues for the firm (Nason, 2006). With the success of a neoliberal approach in economics promoting the deregulation of state-regulated industries in the 1970s and 1980s, macromarketing and its concerns about externalities of operating businesses (such as environmental degradation and product safety) were less interesting to marketers and marketing scholars taking the firm as the focus of analysis.

Perhaps, as a result of their contrarian ways, a group of independently thinking scholars formed the *Journal of Macromarketing* in 1982 to encourage further research focused on the “biggest M.” Over the course of its first 20 years, the *Journal of Macromarketing* adopted an eclectic style that more than anything else offered thinking about marketing set in context. The elements of such context and important questions macromarketing scholars have pursued since then include:

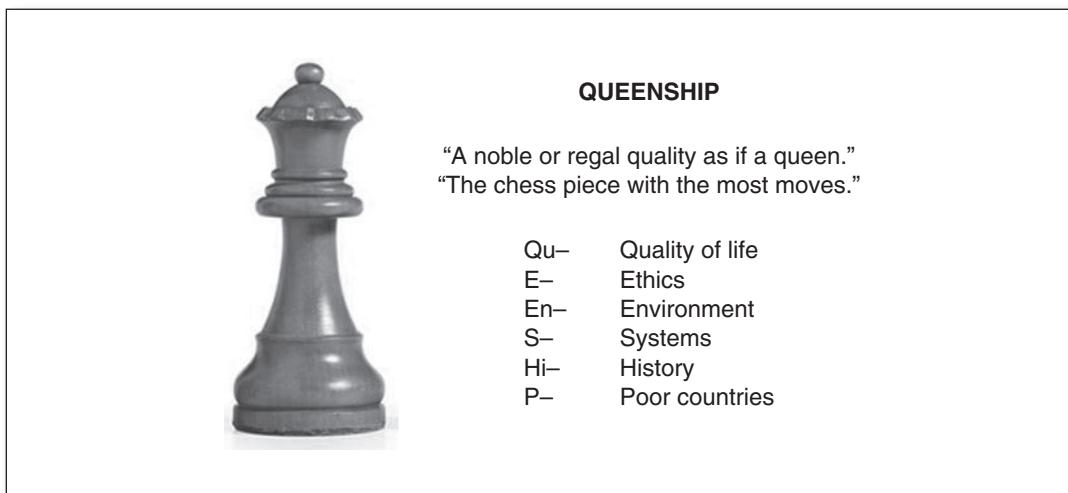
- *Quality of Life*: How does marketing affect material conditions of life, as well as happiness of individuals?
- *Marketing Ethics and Distributive Justice*: Why do marketers behave the way they do? Are the outcomes of marketing just and fair for all in society?

- *Global Policy and the Environment*: What role does marketing have in transnational phenomena, such as environmental degradation, financial crises, water and food shortages, and health problems?
- *Competition and Markets*: What happens in society when firms compete? What is fair competition?
- *Marketing and Development*: What does marketing mean for the current and future state of poor countries?

The traditional dimensions of macromarketing are recast as the acrostic “QUEENSHIP” in Figure 1.3. This acrostic suggests the versatility and ability to project power that the queen carries on the chess board. In military strategy, the infantry carries a similar designation as “the queen of battle.” By seeking to understand the interplay of marketing and society (the “biggest M”), more sustainable approaches to conducting business come into view for the 21<sup>st</sup> century business.

When reviewing the contextual dimensions listed, these are increasingly influential matters for leaders of firms today. Times have changed. Now and in the future, firms seeking success in the marketplace must go beyond the “little m” and “the big m”—the highly controllable aspects of doing business for the firm. Globalization, instantaneous communication in a networked world, the new reality of risk in financial markets, planetary limits, and the imperative of firms to increase profits by marketing to the poorest consumers of the world make it critical for today’s CEOs to understand the “biggest M.”

**Figure 1.3** Traditional Dimensions of Macromarketing



## The “Biggest M” & Business Acumen

According to Ram Charan, a long-time counselor to CEOs of major corporations around the world, business acumen is linking an insightful assessment of the external business landscape with the keen awareness of how money can be made (Charan, 2006). This managerial skill is the most important for the future success of a firm. If the firm’s assessment of the external landscape—how patterns of converging and diverging trends fit together is not correct, then the firm’s competitive positioning will be wrong. In short, if the firm’s leaders do not do well in the “biggest M,” the firm could be severely disadvantaged in the future.

Jeffrey Immelt became CEO of General Electric Company in 2001 with a challenging goal of increasing normal revenues of \$130 billion each year by \$10 billion each year (Charan, 2006). Immelt and his team stepped back and did serious thinking about GE’s future and the “biggest M.” They identified the forecasted growth of emerging-market economies (which are forecasted to exceed the growth of developed countries) as an opportunity. In the past, emerging-market countries were viewed by many business executives as too risky to pursue.

Immelt took another view on emerging markets—one that harmonized well with a macromarketing approach. Acknowledging the historical challenges of marketing in emerging markets made GE more sober about the challenges GE would face when entering emerging markets. GE knew that governments and citizens of emerging markets would need to make huge investments in basic services, such as reliable energy, clean water, and transportation systems. Because GE made equipment that would help improve such basic services, they calculated that the risk of investing in an emerging market would be worth it.

Although many emerging markets, such as China and India, desire economic growth to improve the economic prospects of their citizens, these same emerging-market countries also desire clean air and water. Again, GE’s innovations in energy-efficient and low-emissions technologies could help these countries pursue growth while addressing important quality-of-life concerns related to avoiding environmental degradation. GE also had alternative energy technologies in development that would help emerging-market countries become more energy independent. At the time, GE’s competitors had not aggressively pursued emerging markets, so GE faced lighter competition—another benefit for GE’s strategy.

By 2011, GE had increased its operations overseas so that half of its revenues come from the more than 100 countries outside the United States. In hindsight, Immelt and his team took a macro approach, thought about the development needs of emerging-market countries, considered the political responses they would encounter in these countries, and then implemented their strategy in a highly effective way. In this way, GE’s strategic thinking reflects the kind of business acumen that a macromarketing approach can lead a firm to adopt.

## A Wide-Angle Lens Is Needed to Perceive and Pursue the “Biggest M”

Amory Lovins is one of the leading proponents of properly valuing nature and people when doing business. He does not use the word “sustainability” because he believes it

means many things to different people (Hopkins, 2009). Lovins uses a wide lens to view capitalism and does not only see capitalism as the productive use of financial and physical capital (money and goods), but he also sees two additional forms of valuable capital—people and nature. In firms across 30 sectors of the economy, Lovins and his team from the Rocky Mountain Institute (RMI) have seen that firms that use all four kinds of capital “make more money, do more good, and have more fun.”

Despite some widespread (but dated) thought among business executives that taking an approach to business with the four types of capital in mind would result in higher costs, Lovins’s RMI projects with industry (totaling more than \$30 billion) for new facilities or for retrofitting of existing facilities typically save approximately 30% to 60% on energy consumption. This significant benefit comes with a two- to three-year payback—one of the highest return, lowest risk investments possible. Pursuing such a green course for a firm means that a firm turns waste into profit. Wastes and emissions are reduced because they are designed out of the systems of the firm. This quickly leads to enormous innovation and competitive advantage. Dow Chemical invested \$1 billion to save \$9 billion in energy expenses. United Technologies cut its energy intensity 45% in five years.

Similar to Lovins’s view of capitalism, a five-capital view of capitalism partitions the “people” dimension in Lovins’s view into two kinds of capital—human capital (talents, abilities, and focused interests of people) and social capital (the willingness and capability of people to cooperate with others). Firms pursuing a five-capital approach to capitalism become poised to take advantage of other benefits that increasingly elude firms with a two-capital approach to capitalism. Five-capital firms, which use a triple bottom-line or a balanced scorecard, are the kind of businesses that people want to do business with because people feel good about supporting such firms. More and more, environmental and social blunders lead to devastating setbacks for firms that are perceived as violating a tacit license agreed upon by the public and the firm (Rousseau’s idea of the social contract). According to Lovins, networked activists today scare the leaders of two-capital firms more than regulators do.

**Table 1.3** Comparison of the Two- and Five-Capital Views of Capitalism

<i>Two-Capital View of Capitalism</i>	<i>Five-Capital View of Capitalism</i>
Financial capital (money)	Financial capital (money)
Physical capital (goods)	Physical capital (goods)
	Human capital (talents, abilities, and focused interests of people)
	Social capital (willingness and capability of people to cooperate)
	Natural capital (sum total of the ecological systems that support life and cannot be produced by human activity)

In sum, five-capital firms see the landscape of business in a more complete way and are positioned to maneuver across the landscape of business in a more nimble fashion than two-capital firms. Firms that take such an approach can be characterized as taking a five-capital marketing approach that articulates a firm's tactical marketing moves with the other functional areas of the firm in order to achieve triple bottom-line success. Such success means earning profits while doing the best for the planet and people (and communities). In this way, five-capital firms manifest the broad view of markets and marketing characteristic of macromarketing—the “biggest M.” Lovins points to the importance of the “biggest M” in the following way:

If you are a company that sticks to its knitting, minds its own business and doesn't pay attention to what's happening in the world around you, you're probably riding for a fall and missing some big business opportunities, because in any business I can think of—30 sectors we've worked in so far—it's the hidden connections between your business and other opportunities that you think are well outside your boundaries that create extraordinary opportunity or risk, depending on the way you handle them. This is another way of saying that you need a really wide-angle lens. You can still have a sharp focus, but you sure need peripheral vision. (Hopkins, 2009, p. 40)

## Implications of the “Biggest M” for Entrepreneurship

The “biggest M” influences all areas of marketing—including entrepreneurship. Specifically, the “biggest M” has influenced entrepreneurs by causing them to focus on more than the two-capital approach, considering factors such as the environment. Through the following examples from both the for-profit and nonprofit sectors, we can see how the “biggest M” is influencing modern entrepreneurs.

### The Major Influencing Factor: A Focus on More Than Two Types of Capital

Using a two-capital approach, economists who have dared to consider entrepreneurship have defined entrepreneurship “as any entity, new or existing, that provides a new product or service or that develops and uses new methods to produce or deliver existing goods and services at lower cost” (Baumol, Litan, & Schramm, 2007, p. 3). As one can see, the focus in such a definition is on financial and physical capital. However, by using a wider lens and a five-capital approach, entrepreneurship can be seen as not just developing (a) new goods and services, or (b) using new methods for providing existing goods and services at lower cost, but also developing goods/services and methods of production and delivery that (c) improve the well-being of the environment or (4) society-at-large. In other words, entrepreneurs pursuing the accumulation of capital beyond the traditional two capitals (manufactured and financial capital) innovate to improve stocks of environmental, human, and social capital, as well as that of manufactured and financial capital.

For decades, Ray Anderson of Interface, Inc. was a two-capital entrepreneur. The story of the mid-course correction at Interface to try becoming an environmentally neutral company is one of primarily becoming a three-capital company (physical, financial, and natural). Along the way, Interface improved the human capital of its employees who

worked in cleaner and less toxic industrial settings, as well as developed a transcendent purpose for the firm. This purpose is showing industry and business all over the world how a firm like Interface can transform itself to be a leader in sustainable business practices. In sharing its story and its knowledge with others, Interface accumulates social capital, which is the willingness of others (individuals and institutions) to cooperate with each other in productive endeavors. Interface's efforts also lift society, making individuals and institutions better able and more willing to cooperate in solving sustainability challenges for modern businesses. General Electric's strategic decision in 2003 to pursue opportunities in emerging markets with its more fuel-efficient and low-emission equipment shows signs of two-capital entrepreneurship possibly evolving into a five-capital one. Increasingly, though, new entrepreneurial ventures are emerging that pursue business with a five-capital approach instead of a two-capital one.

### **Examples of Five-Capital Entrepreneurial Endeavors**

#### *For-Profit Ventures*

Canadian Tom Szaky dropped out of Princeton University in 2002 to lead TerraCycle, a company he founded to make useful products out of garbage (Szaky, 2009). Called by *Inc.* in 2006 the "coolest little start-up in America," TerraCycle is a privately owned small business headquartered in Trenton, New Jersey. TerraCycle began by producing organic fertilizer that was, in fact, worm castings (excrement) packaged in used soda bottles (Szaky, 2009). Since then, TerraCycle has grown into one of the fastest growing green companies in the world. TerraCycle's purpose is to eliminate the idea of waste. This is done by recycling (turning chip bags into a trash can) or upcycling (turning juice pouches into a pencil case). TerraCycle lists more than 280 products it has made and sold, which range from fashion accessories, like over-the-shoulder bags and backpacks made from juice packs stitched together, to toys, like kites made from Oreo packages. Many of these products are available at major retailers such as Wal-Mart and Whole Foods Market.

Called by some an "eco-capitalist company" (Szaky, 2009), TerraCycle has created national recycling systems for previously nonrecyclable items. The process starts by offering collect programs (many of them free) to gather waste and then converting the collected waste into a wide range of products and materials. More than 14 million people collect waste in 11 countries for TerraCycle, thereby diverting billions of pieces of waste from landfills.

With the exception of countries ruled by dictators, it would be difficult to find any countries today that do not truly desire to see more entrepreneurial activity in its society because of contributions to the economic growth of the country. As a result of the disruption entrepreneurs tend to engender as a result of introducing better ways of doing things, dictators instinctively oppose entrepreneurs and prefer the status quo. In open societies, successful entrepreneurship means more tax money for the government and less pressure to meet the well-being needs of members of society by income redistribution programs resented by many. Fueled by personal computers, mobile phones, and the Internet, the democratization of entrepreneurship is well under way in countries around the globe (The Economist, 2009). China and India have certainly awakened to traditional, two-capital entrepreneurship (Khanna, 2007).

### *Not-for-Profit Ventures*

Through mostly not-for-profit and NGOs, social entrepreneurs build or transform institutions to advance solutions to social problems, such as poverty, disease, environmental degradation, illiteracy, human rights abuses, and corruption (Bornstein & Davis, 2010). In these ways, social entrepreneurs pursue a different kind of entrepreneurship that is typically focused on boosting human, social, or natural capital.

Previously known as humanitarians, social entrepreneurs such as Florence Nightingale used an analytical mind with unrelenting persistence to transform the care of wounded British soldiers in the Crimea War of the 19th century in Eastern Europe (Bornstein, 2004). She pioneered what would become known as the profession of nursing.

Today, social entrepreneurs like Fábio Rosa of Brazil have helped bring electricity to parts of Brazil that had never experienced life with electricity (Bornstein, 2004). Rosa's "Project Light" succeeded in its very first attempt to raise the living standards of low-income rural families by taking cheap electricity to their homes and farms. He did this by using steel wire, which is much cheaper than copper wire. The first experiment took place in Palmares do Sul, a rural community in the southernmost Brazilian state, Rio Grande do Sul. As many as a million rural residents of the state have no electricity, refrigeration, indoor plumbing, water pumps for irrigation, or other common household and farm electric appliances (Ashoka, 2011).

Rosa's pilot project from 1984 to 1988 boosted the living standards for 400 rural families in Palmares and brought results far beyond his expectations. His low-cost electrification not only stopped the flow of rural residents to cities, but also it reversed the flow. A study two years after the project's implementation showed that one in every three beneficiaries was someone who returned from the city to resume living in his former rural area. This was in large part because of the newly affordable electric service (Bornstein, 2004).

"The moment they have better living conditions in their native rural areas, people return from the cities," Rosa said. These results substantiate Rosa's contention that poor people are not lured to the city because it is better; rather, they are expelled from the countryside because it is unlivable. Given the means to live better, people stay near their rural roots. In the social change realized by Rosa's own engineering innovations related to simple electrification, and his effective work collaborating with government, business, and social institutions in Brazil, Rosa's story manifests some of the best qualities of social entrepreneurs today. As a result of his work, the quality of life for thousands of rural-dwelling Brazilians has improved dramatically.

More will be said about social entrepreneurs later (see Chapter 13), but what needs to be noted now about social entrepreneurs is (a) that their personal approach to business (which is often an extension of themselves) influences the business world and society's expectations of business, and (b) that an entrepreneur's success in creatively increasing capital stocks is usually ignored by traditional for-profit firms. As corporations increasingly seek profits in more challenging corners of a globalizing world, such as poor communities and those needing infrastructure improvements, they will increasingly learn from social entrepreneurs like Rosa who succeeded in these difficult settings first.

In the stories of their NGOs, social entrepreneurs often achieve a purpose for their endeavors that elude traditional two-capital firms. John Mackey, founder and Co-CEO of Whole Foods Market (one of the most profitable public food retailing business in the United

States), looks beyond the accumulation of two capitals in the success of his business. Mackey explains:

I believe that business has a much greater purpose. Business, working through free markets, is possibly the greatest force for good on the planet today. When executed well, business increases prosperity, ends poverty, improves the quality of life, and promotes the health, and longevity of the world population at an unprecedented rate. (Elkington & Hartigan, 2008, p. 54)

## CONCLUSION

Businesses are more mindful of society today because of a changing environment for business. Technology improvements have shifted power to those in a knowledge economy who can harness the groundswell of information available on the Internet. As a result, businesses have more forces of accountability for their actions, such as empowered consumers and NGOs. At the same time, society has become more affluent, more brand aware, and more concerned about stewardship of the environment. Additionally, new competitors are emerging from unexpected corners of the planet and increasingly from countries such as China and India. As a result, the macromarketing imperative has emerged in marketing strategy.

Savvy firms of the 21st century will need to apply a wide-angle lens to issues outside of the firm, so that the firm's leaders can make sense of these issues in a timely way to navigate the firm successfully into the future. In short, business acumen increasingly means considering macromarketing dimensions. Macromarketing—the biggest M—traditionally has focused on the six QUEENSHIP dimensions of Figure 1.3 (quality of life, ethics, environment, systems, history, and poor countries). When applying a wide-angle lens to issues outside the firm, marketing strategists and entrepreneurs do not have to begin from scratch. Happily, they can draw on the accumulated knowledge of more than 30 years of macromarketing research about these QUEENSHIP dimensions that address marketing systems and the interplay between marketing and society.

Reconceptualizations of capitalism are emerging in this new day for businesses when sustainable business practices are of keen interest to business persons and scholars. One of these new views of capitalism features a five-capital view of business—instead of a traditional two-capital view (focused only on manufactured and financial capital). This view proposes that thriving businesses in the future will increasingly be characterized as seeking to accumulate five types of capital—(a) manufactured, (b) financial, (c) natural, (d) human, and (e) social.

## QUESTIONS

1. What were surprises you encountered in reading Chapter 1?
2. What are “little m,” “big m,” and the “biggest M?”

3. What is macromarketing?
4. What have been the interests of scholars during the first wave and second wave of macromarketing?
5. What are the six dimensions of current macromarketing thought?
6. What is business acumen? How does it relate to the “biggest M?”
7. What is the difference between two-capital firms and five-capital firms?
8. In your opinion, what would it take to reverse business becoming more mindful of society?
9. How have some entrepreneurs integrated the biggest M in their ventures? How have some industrialists?

## MAVERICKS WHO MADE IT

### Labor of Love—and Respect

#### Family farm uses success to help others

By Stephanie E. Ponder (2009)

**G**ROWING UP ON a farm in Yakima, Washington, 15-year-old Ralph Broetje had a dream: to have his own apple orchard and to help starving children in India. And like a lot of dreams, it faded . . . but it didn't die. It simply lay dormant until it sprouted more than 20 years later.

Today Costco supplier Broetje (pronounced Bro-chee) and his wife, Cheryl, farm around 6,000 acres (including a few hundred organic acres) in southeast Washington, where they grow apples and cherries.

Their path to success included a few false starts, but by turning to their faith and the servant-leadership model of business (see sidebar), the couple created an \$80 million business that packs around 5 million boxes of apples a year. (Cherries are packed elsewhere.)

Most of their fruit is packed under the label FirstFruits of Washington. The name comes from a Biblical passage in which God asks people to bring Him the first fruits of their harvest. True to the name, the Broetjes donate up to 75 percent of their annual earnings to needy groups around the world.

And while they work hard for a successful harvest, they are also dedicated to cultivating their employees. The result is a quadruple bottom line: profit, people, planet, and purpose.

“We're interested in bearing fruit that will last,” Broetje tells *The Connection*. “We're working on the production of fruit and how it's doing in terms of people. It's our work, call and passion all in one.”

*(Continued)*

(Continued)

## An Idea Takes Root

Ralph and Cheryl both come from farming families in Washington, so it's little surprise that shortly after they married in November 1967, they bought a few acres of cherries about an hour away from their Yakima home.

After seasons of bad weather, their crops and business thrived throughout the 1970s, and Broetje purchased more and more land. "I kind of lost track of why I was farming," he says.

And then came the 1980s. Between high interest rates and their bank's refusal to lend them operating funds, they had to sell everything. They moved with their three daughters to Prescott, Washington, where they started over, planting apple trees in land that until then had grown nothing but sagebrush.

### Leading by Serving

WHEN ASKED ABOUT their individual strengths, both Ralph and Cheryl Broetje hesitate before replying. Ralph finally says that he's "good at planting trees," and Cheryl says, "I'm into social justice."

The Broetjes took those strengths and combined them with Robert Greenleaf's servant-leadership approach ([www.greenleaf.org](http://www.greenleaf.org)) to define the family's business model.

In the 1970 essay, "The Servant as Leader," Greenleaf wrote, "The servant-leader is servant first. . . . It begins with the natural feeling that one wants to serve, to serve first. Then conscious choice brings one to aspire to lead."

The basic tenets of servant leadership call for leaders to

- Devote themselves to serving the needs of organization members
- Focus on meeting the needs of those they lead
- Facilitate personal growth in all who work with them
- Listen and build a sense of community

While Greenleaf created his model for the business world, the Broetjes recognize how it fits in with their Christian faith. Cheryl says they've always gone to church, and she realizes that business-people "haven't always been thought of as the best Christians."

Greenleaf also put forth the idea that people can lead from a for-profit business.

"We believe we're marketplace ministers," Cheryl adds, surprising herself with this new definition of their roles as servant leaders.

"We thought, 'We are our own business now, so we can do some stuff.' If we're not willing to see business as a possibility for helping, we're missing an opportunity."—SEP

The change in scenery served as a harbinger of the internal changes heading their way—and of the reawakening of 15-year-old Ralph's dream.

In addition to the apples, they planted more cherry trees—which weren't doing well. Ready to replace the cherries with more apples, Broetje decided to give the trees to the ministry. The next year they flourished. Since then, all of the profits from those trees has gone to ministries around the world.

## Sowing Seeds of Compassion

In 1984 the family went on a mission trip to an orphanage in Mexico.

"At this point in the story I like to say that at that time the labor market changed from white seasonal workers to young male Latinos," Cheryl Broetje says. "We went down [to Mexico] to see if we could understand what was going on. What we saw was that these people were economic refugees. When we returned it changed how we looked at employees and what our role was as employer."

"For me [the trip] was a wake-up call," says Broetje. "We were building more and more stuff. It made me realize that the dream was a vision for my life."

The first problem they set out to address was how to create sustainable work. Ralph began planting different varieties of apples—such as Fuji and Gala—which resulted in year-round work for his employees.

The next problem presented itself in 1987, when the Broetjes made the move to vertical integration by building a warehouse and packing line. The new building saved them the 100-mile drive to a packing facility, but it brought to light a new problem. The warehouse staff comprised mostly women, and the Broetjes learned that many of their employees were locking their children inside their homes all day or keeping older children out of school to watch their siblings.

So, the Broetjes built an affordable daycare. Today the daycare has 23 employees and has the capacity to take care of 77 children, from infants to 4-year-olds. Most of the Broetjes' nine grandchildren have spent their days there while their parents and grandparents worked a few hundred feet away in the main office.

Next, the Broetjes knew they needed to address the poor housing conditions their employees faced. "We learned that sustainable jobs, daycare and affordable housing were the keys to the workers showing up," says Cheryl. "Any one of those issues could run them out."

After hearing from employees who lived in cars, garages and other cramped quarters, more often than not paying bloated rents, the Broetjes invested \$5 million of their own money to provide affordable housing.

Vista Hermosa, a community of 121 houses, opened in 1990. The residents named the community, which means "beautiful view." Just a few minutes' walk from the office and warehouse, the community is made up of mostly three- to four-bedroom homes. Rent, which has been raised only twice since the houses were built, costs around \$485 for a four-bedroom home. In addition to the houses,

*(Continued)*

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residents have access to an elementary school, public library branch, chapel, laundry facility and convenience store.

The Broetjes have kept on top of the issue by creating housing for seasonal workers and funding a community in nearby Pasco, Washington, that's designed to help their employees become homeowners.

"The housing piece is the one that's had the most influence," says Broetje. "It's an investment, so it has to be something you believe in."

One of the problems they have yet to solve is the ongoing issue of immigration. While the company follows all of the obligations that Social Security and the Internal Revenue Service place on any employer, they see beyond the paperwork. Their goal under comprehensive immigration reform is "for immigrants to be granted the legal process in order to secure short-term employment in this country, as well as a path of opportunity available for those who qualify and choose to go through the process of permanent citizenship," says Cheryl Broetje.

## Healthy Harvest

Broetje, trim and gray-haired, is soft-spoken and often defers to his wife with a point of a finger before answering a question. Cheryl, in turn, points back at him, encouraging him to speak. She offers a suggestion to understanding her quiet and unassuming husband: "Just remember, Ralph's into apples and kids."

Which leads to the realization of the second part of his dream. Not only have Broetje Orchards' charitable donations aided numerous people in India—and throughout the world—but the couple have adopted six kids from that country, bringing their total number of children to nine, ages 23 to 41.

Much the way the Broetjes have encouraged employees to explore their strengths, they have given their children the freedom to see where they best fit in with the business.

Suzanne Broetje, who heads the family's charitable-giving foundation (see next page), says her parents have created a solid management team that will one day run the business. She explains, "My parents always stressed that the orchard is *their* dream. 'We don't want to push it on you.'"

Six of the Broetje children—three boys and three girls—perform a variety of functions, doing everything from working in the orchards, warehouse and elementary school to processing payroll.

As for day-to-day operations, Cheryl has an office at their first nonprofit endeavor, the Center for Sharing ([www.centerforsharing.org](http://www.centerforsharing.org)) in Pasco, where people are encouraged to explore God's call in their lives.

Ralph meets daily with crew leaders at 5:15 in the morning. His role is more teacher than farmer these days as he shares what he knows about planting, grafting and harvesting.

"I struggled to get through high school. It's not like I have any right being in management or business," says Ralph, who adds that he relied on shop and agriculture classes to get by. "But God had a plan; otherwise it wouldn't have happened."

## Vista Hermosa Foundation

GIBRAN ESCALERA just completed his master's degree in English at the University of Washington in Seattle. Since leaving for college he's returned every summer to spend time with the kids at Broetje Orchards' Camp Vista program and serve as an example of what's possible for those who grow up in the Vista Hermosa community. He volunteered at the on-site daycare, where his mother is the director. He went to the elementary school, and after graduating from high school received a scholarship for each year of his undergraduate studies. The common thread is that the Vista Hermosa Foundation funded each of those steps.

Begun in 1990 and now managed by Suzanne Broetje. Ralph and Cheryl Broetje's oldest daughter, the foundation has given away upwards of \$50 million. In addition to funding the daycare and elementary school, the foundation also supports the following:

- **Camp Vista.** This summer-long program is for children entering first through sixth grades and is designed to offer a fun environment for improving or sustaining reading, writing and math skills. It's also meant to boost English reading, writing and comprehension skills in native Spanish speakers.
- **Scholarships.** Scholarships are awarded to children of Broetje employees, employees who want to further their professional development and low-income adults in several counties in southeast Washington.
- **Cherry Committee.** Each year the entire profit from the cherry harvest of 50 designated acres is given away. To foster a feeling of control and ownership, the Broetjes have removed themselves from the decision-making process and ask their employees to decide where the money will go. Past recipients have included communities in India, East Africa, the U.S. and Mexico.
- **Grants.** International grants are given out to faith-based, community-oriented initiatives. They've focused on Haiti, Kenya, Uganda, India, Mexico and Central America to help with issues of immigration, hunger and economic empowerment.

"We [Broetje Orchards] are successful; we make a profit. But it doesn't stop there," Suzanne says. "We're all for going the next step and looking at the whole person."

With Suzanne at the helm, the foundation not only tracks all of the projects and their progress, but also forges relationships with the groups and people they're helping.

"There are a number of things that we focus on, like education, leadership, agricultural training and empowering people to use the gifts and talents they have," she adds. "We don't want to just throw money at problems. We're in it for the long haul."

—SEP

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### Supplier Profile

**Company:** Broetje Orchards

**Founders:** Ralph and Cheryl Broetje

**Employees:** 1,000 permanent employees; 2,800 during harvest

**Address:** 1111 Fishhook Park Road Prescott, WA 99348

**Phone:** (509) 749-2217

**Web site:** *www.firstfruits.com*

**Items at Costco:** Apples and cherries

**Comments about Costco:** "For years our desire to run a socially responsible business was considered quirky with partners like Costco, we can encourage each other as well as other businesses to pay attention to their people as well as their profits."—*Cheryl Broetje*

"For years they've been one of our top partners. We have similar models of management and codes of conduct. We're excited to be one of your suppliers."—*Ralph Broetje*

*Source: The Costco Connection*

### Questions

1. In your opinion, what are the factors for success for FirstFruits of Washington?
2. How would you describe the Broetje's business model?
3. What is a "quadruple bottom line" according to Ralph Broetje?
4. How important are the social values of the Broetjes to their approach to the design of the business model and their work in markets?

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