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Towards a Human Centered Theory and Practice of the Firm

Presenting the Humanistic Paradigm of Business and Management

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Towards a Human Centered Theory and Practice of the Firm - Presenting the Humanistic Paradigm of Business and Management

Michael Pirson and Ernst von Kimakowitz

Management theory and practice are facing unprecedented challenges. The lack of sustainability, the increasing inequity and the continuous decline in societal trust pose a threat to 'business as usual' (Jackson & Nelson, 2004, p. 214). Capitalism is at a crossroad and scholars, practitioners and policy makers are called to rethink business strategy in light of major external changes (Arena, 2004; Hart, 2005). As current management theory is largely informed by economics, it draws substantively from neoclassical theories of human beings (Ghoshal, 2005). Accordingly, humans are materialistic utility maximizers that value individual benefit over group and societal benefit. A 'homo economicus' engages with others only in a transactional manner to fulfill his or her interests. He/she is amoral, values short term gratification and often acts opportunistically to further personal gain. Theories of the firm and ensuing business strategies as well as organizational designs have been largely based on the economic assumptions, and, in turn, are blamed by others for creating negative externalities (Ghoshal, 2005; Ghoshal & Moran, 1996). Argyris (1973) for example claims that organizational mechanisms based on principal-agent theory create opportunistic and short-term gain oriented actors in a self-fulfilling prophecy (see also Davis, Schoorman, & Donaldson, 1997). Other critical scholars argue that management theory needs to be rethought based on psychological insights rather than theoretical assumptions (Ghoshal 2005; Tyler 2006). Tyler (2006) finds overwhelming evidence that people look for respect, acceptance, communion and shared values instead of short sighted personal utility increases. Seligman and Diener (2004b) find that 'Leading a meaningful life' is more important to most people than money, power, and status. De Cremer and Blader (2005) underline the importance of a sense of belongingness, which is contradictory to the individualization aspects of economic theory. We hence suggest that we need a broader way of understanding human beings

on which we can prescribe a renewed theory of the firm, better understand leadership and management, design our organizations and formulate business strategy.

In the following we will review the challenges to the current economic system, and proceed by presenting two competing paradigms- the economistic and the humanistic paradigm of business. We then develop the consequences of the humanistic view for the theory of the firm, business strategy, governance structures, leadership styles, and organizational culture. Afterwards we outline the tenets of humanistic management, and illustrate them based on global case examples. In this manner we hope to contribute to the discussion of alternative theories of the firm by centering the debate on authentic human needs and its consequences for management theory.

1. Current Challenges to Shareholder Capitalism

With the increasing severity of a multitude of crises, it becomes ever more evident that the dominating Anglo-Saxon model of shareholder centered capitalism falls short with regard to its sustainability and life-conduciveness on a systemic level, organizational level, and individual level (Spitzeck, Pirson, Amann, Khan, & Kimakowitz, 2009).

The systemic level

Environmental destruction is one of the most obvious problems of our current system. Overall, humanity is currently using the productive capacity of more than 1.3 planets to satisfy its needs (WWF 2006). If everybody on this planet were to consume natural resources at the rate of an average American, five planets would be required (Boyle, Cordon, & Potts, 2006). The current economy uses more resources than can be replenished, leading to unsustained growth and further economic bubbles. In financial terms, we are living off our planetary capital and not the interest generated by it, which is very poor management of resources. This lack of sustainability is, however, supported by the logic of our current system. Shareholder capitalism is short term oriented and, when applied rigorously, rewards plundering over preserving.

Increasing inequality is another problem that is likely to have significant repercussions on the stability of our political and economic systems. Current trends in

globalization have led to a world in which the rich get richer, and the poor get disproportionately poorer (Sachs, 2005). One-sixth of the world's population lives in extreme poverty. The level of poverty and inequality pricks the conscience of many people, but is also a threat to the stability of the rest of the world. Political unrest, collectivization, and terrorism are fed by such inequality, which require significant investments in preserving the status quo (see increased security budgets) rather than innovation. Shareholder capitalism is mostly blind to these consequences and has not yet provided satisfactory answers to deal with these issues.

The organizational level

At the organizational level, businesses face the challenge low reputation levels and ever decreasing stakeholder trust (e.g. World Economic Forum, 2006). Trust is, however, commonly viewed as the key enabler for cooperation, motivation, and innovation, all of which are required to achieve an organization's peak performance and its eventual success. Surveys indicate that stakeholder trust in businesses is decreasing dramatically, specifically in shareholder value maximizing, large and global companies. Research finds that the decline in trust is heavily contingent upon a lack of value congruency between stakeholders and the organization (Pirson, 2007; Pirson & Malhotra, 2008, 2010). Profit maximization goals are perceived as inherently opportunistic which makes it ever more difficult for the business community to re-establish trust (Child & Rodrigues, 2004; Pirson, 2007; Simons, 2002).

We observe that many corporations are facing a decreasing level of employee commitment, indicative of the growing lack of mutual commitment. The Hay group (2002), for example, finds that 43% of American employees are either neutral or negative towards their workplace. According to several Gallup studies more than 70% of U.S. employees are either not engaged or actively disengaged showing an alarming inner withdrawal rate. Jensen (2001: 278) argues that the goal of profit maximization is partially responsible for this. He posits as self-evident that: "Creating value takes more than acceptance of value maximization as the organizational objective. As a statement of corporate purpose or vision, value maximization is not likely to tap into the energy and enthusiasm of employees and managers to create value." Hence, shareholder-value-maximizing organizations are under-utilizing their employees' potential.

The individual level

On the individual level, we observe an interesting anomaly. While the current system is credited with creating more wealth for many, the average level of life satisfaction has not necessarily increased (Easterlin, 2001). GDP growth and growth in well-being have decoupled. Factors that contribute to well-being have a relatively low correlation with material wealth once a certain wealth level has been achieved (Diener & Seligman, 2004a). From a systemic perspective, the quality of a government in terms of democratic and human rights, the level of corruption, the stability of the system, high social capital, a strong economy with low rates of unemployment and inflation all contribute to subjective well-being. On an individual level, the quality of social relationships, good physical and mental health, and a generally positive attitude towards life are central drivers of well-being. Materialism as an attitude, for example, is considered toxic for well-being (Diener & Seligman, 2004a; Elias, 2002). The current system, however, largely sustains itself by serving material needs that lie beyond those that increase well-being and by an endless attempt to generate new needs, which can in turn only be satisfied by the unsustainable use of available resources.

2. The Problem of an Economistic Paradigm

The above problems are created and sustained by the way we think about people, management, and business. The current economistic paradigm puts economic motives not alongside but above all other objectives of human action – and in consequence often bars other concerns, e.g. moral and cultural view points, as illegitimate in theory and as irrelevant in practice (see Ashley, 1983; Gasper, 2004). While it represents a powerful and simple way to think about life, the economistic paradigm is seriously flawed and could prove suicidal (Pirson & Lawrence, 2009).

Origins of Economism

The discipline of economics originated from Scottish moral philosophy during the European Enlightenment. In contrast to prevailing philosophy that focused on deity, Scottish moral philosophy centered on the human individual. It emphasized the

human ability to reason and was therefore hostile to collectivist and naturalistic anthropologies. Classical economic theory was similar in that regard and also closely bound to utilitarianism. Jeremy Bentham (1789) one of the founding fathers of utilitarianism, tried to create rational normative criteria for good legislation, where every single person was considered equal, independent from social status and origin. John Stuart Mill, one of the leading economic theoreticians, was both a utilitarian and an ethicist at the same time. However, while economics and ethics were originally closely linked, they gradually became disconnected. Following Nida-Rümelin's (2008) analysis, utilitarianism has several flaws that eventually led to the de-ethicalization (or de-moralization) of economics. Despite its liberal, universalist and rationalist origins utilitarian principles can, in fact, be used to justify collectivist practices: "To maximize the total sum of happiness efficiently can include the instrumentalization of one person for the sake of one or several others. Under certain conditions even slavery can be justified by utilitarian principles (p.10)." In addition, utilitarianism does not provide an understanding of unalienable individual rights and thus enables instrumentalization of human beings. Integrity and morality are not considered intrinsic to human beings.

The economistic view of the individual

As stated before, economism views the human being as a fixed entity, predetermined by a stable utility function. This economic man (homo oeconomicus) is utterly self- serving and only interested in maximizing his immediate utility. The economic man is therefore only engaging in transactional, short-term oriented encounters with others. His engagements are interest based and other people are a means to an end. He acts opportunistically and is mainly motivated by the lower level needs in Maslow's hierarchy of needs (physiological and safety needs). His actions are not evaluated for universal applicability, and hence he is amoral (Dierksmeier & Pirson, 2008b, 2010).[1]

[1] We are aware that the notion of economic man has been enlarged and adapted. Most notably, Jensen and Meckling promote the model of REMM as a better fit version of economic man (one who is not only maximizing money). However, the main postulates of limitless needs (wants) and of maximization remain.

The economistic view of the firm

In a purely economistic view organizations are not needed, as the market would suffice to coordinate individuals in their maximization of fixed utility functions. Utilitarianism fails to explain why and how cooperation is needed, as economic men with similar preconceived utility functions only need coordination (Nida Rümelin, 2008). Nevertheless, based on some additional assumptions, namely transaction costs and bounded rationality, humans are thought to engage in cooperation only when the market provides suboptimally efficient results.

Business Strategy

The organizations that are based on the notions of homo oeconomicus are designed to fit the maximization imperative. An optimal way to ensure utility maximization is for organizational leadership to focus on the shareholder interest only. In his refutation of stakeholder theory, Jensen (2002) argues that there has to be a single objective for the firm otherwise one could not purposefully manage it. He bases this claim on assumptions of economic theory, which posit that maximization strategies are required in situations where there are no externalities. "Two hundred years of work in economics and finance implies that in the absence of externalities and monopoly (and when all goods are priced), social welfare is maximized when each firm in an economy maximizes its total market value" (p.2).

Externalities, however, are very real, negative, drastic, and persistent, as can be witnessed in the environmental crisis as well as the social inequity crisis. Monopolies are also very real without aggressive anti-trust enforcement, so it is clear that the economistic setup is suboptimal.

Governance The governance notions in the economistic setting are largely informed by agency theory. In order to maintain total control in the hands of ownership, agency theory governance mechanisms focus on creating an environment where opportunistic, self –serving managerial agents are in check to not harm the fulfillment of whatever goal the owners intend to fulfill. Top-down control mechanisms are essential to the governance structure of economistic organizations, since otherwise self interested economistic managers will abuse the firm.

Structures Structures in the economistic paradigm have to serve the maximization strategy and are efficiency oriented. To reduce transaction costs the

organizational structure is centered on hierarchies and top-down decision making. In economistic organizations incentive systems are central. They are an important structural element to align diverging interests and the only way to deal with opportunistic agents effectively. These economistic incentives are mainly monetary in nature (such as financial bonuses), and target the individual. The incentives are also short-term oriented because they are mostly based on yearly financial results.

Leadership In the economistic view, the organization is generally seen as a nexus of contracts that is continuously negotiated. The role of the leader requires being involved in a constant negotiation process and the task is to clarify goals and desired outcomes with followers. Bass and Avolio (1994) call the economistic type of leader a transactional leader. The transactional leader is primarily involved in ensuring compliance and setting incentives so that followers deliver. Nurturing quality long-term relationships is rather irrelevant and oftentimes hindering (Hiring and firing, e.g. is a capacity that requires leaders to be emotionally disconnected from followers). Followers are mainly considered human resources (not human beings) and a skillful transactional leader is one that is efficiency maximizing.

Culture Economistic organizations support cultures and organizational identities that are oriented mostly towards the individual (Brickson, 2007). These cultures are also often described as transactional in nature (Bass & Avolio, 1994). As a consequence, economistic organizations are following rather linear, mechanistic, and closed-loop thought and interaction processes(Dierksmeier & Pirson, 2010). As Collier and Esteban (1999) argue, mechanistic organizations attempt to transform the environment "adversarially and competitively rather than seek to respond to it (p.176)." Uncontrolled change is viewed as a threat, because it interferes with the optimal implementation of the maximization paradigm. There is a need to control the outside and to manage and manipulate the environment, particularly government, in order to support firm profitability (Dierksmeier & Pirson, 2008b).

The economistic view of the societal system

In an economistic view the main function of the corporation is to accumulate wealth, whilst the main function of the state is to provide safety. In this division of labor the state is creating rules to coordinate organizations and organizational leadership's main responsibility is to obey those rules while maximizing profits. These

rules, however, are based on “laissez faire” assumptions so that individuals and organizations can follow their respective utility functions. Any further commitment to societal causes is incompatible with the individual and organizational level utility maximization. Talk of responsibilities is generally viewed as systematic interference with liberty. Calls for corporate responsibility and sustainability are only heeded when they are compulsory and part of the legal infrastructure. Voluntary engagement for societal issues such as equity and intergenerational justice do not fit with the economistic view unless they make strategic sense in terms of increasing material wealth (Dierksmeier & Pirson, 2008b).

3. A Humanistic Paradigm as an Alternative

Despite many popular misconceptions, Humanism as a philosophic tradition, and utilitarian Economism have very similar roots. Humanistic philosophy also takes the human individual as its starting point and emphasizes the human capacity of reasoning. It is therefore equally hostile to any form of collectivism[2]. In contrast to Economism, however, Humanism assumes that human nature is not entirely a given, that it can be refined, through education and learning. In addition, the ethical component remains a cornerstone in humanism in that it attributes unalienable rights and dignity to everybody, independent from ethnicity, nationality, social status or gender. Humanism addresses everybody and is universal in its outreach.

The humanistic view of the individual

The philosophy of humanism views the individual as a zoon politicon, a relational (wo)man, who materializes freedom through value-based social interactions. People he or she engages with are means but also an end in themselves. Human beings in the humanistic view are guided by universally applicable principles and aim at long-term relationships. They are intrinsically motivated to self-actualize and serve

[2] Collectivism here is defined as the theory and practice that makes some sort of group rather than the individual the fundamental unit of political, social, and economic concern. In theory, collectivists insist that the claims of groups, associations, or the state must normally supersede the claims of individuals."

humanity through what they do. They do not have fixed preconceived utility functions, but their interests, needs and wants take shape through discourse and continuous exchange with the outside world. As such, human beings are not maximizing their own utility, but balancing the interests of themselves and people around themselves in accordance with general moral principles (Dierksmeier & Pirson, 2008b).

Recent scientific developments supporting the humanistic perspective

Humanism and Economis have their traditions, but so far, no real test of these theoretical assumptions was possible. Lawrence and Nohria (2002), however, took up the task of evaluating recent findings from neuroscience, behavioral economics and evolutionary psychology and developed a theory that allows viewing human beings in a more complete fashion. Lawrence (2007b, 2010) in his most recent follow-up works calls it a renewed Darwinian theory (RD Theory) of human beings, referring to Darwin's groundbreaking insights on human behavior that are often overlooked or misunderstood. In essence RD theory illuminates how the human brain has developed via natural selection and also through sex and group selection mechanisms to make complex decisions regarding all aspects of life (personal, communal, and societal). It posits four basic and independent drives, ultimate motives that underlie all human decisions. There are two ancient drives which are shared by all animals with some capacity to sense and evaluate its surroundings; the drive to acquire (dA) life-sustaining resources, and the drive to defend (dD) from all life-threatening entities. The two newer drives, that evolved to an independent status in humans, are the drive to bond (dB) in long-term mutually caring relationships with other humans, and the drive to comprehend (dC), to make sense of the world around us in terms of its multifaceted relations to ourselves. The posited independence of these drives contradicts the economist view in which all human motivation could be subsumed under the drive to acquire; the drives to bond, comprehend, and defend merely playing a supportive role.

The Drive to Acquire (dA) Lawrence (2010) argues that humans, in common with all animals, have a fundamental drive to get what they need to stay alive and have progeny: food, water, warmth, sex, etc.. Modern neuroscience provides evidence to support the biological basis of the drive to acquire (Glimcher, Camerer, Fehr, & Poldrack, 2008; Ridley, 2003). Becerra et al. (2001), for example, have identified an

area in the brain called the nucleus acumbens which lights up with increased blood flow when people and animals experience pleasurable sensations from objects they acquire, ranging from tasty food to the sight of a beautiful face. This drive is commonly acknowledged by much of economic and management theory (e.g. Jensen & Meckling, 1994), as it is the basis for utility maximization.

The Drive To Defend (dD) Lawrence and Nohria (2002) claim that for most species, the drive to defend is a mirror image of the drive to acquire. What needs defending is what needed acquiring—food, water, warmth, mates, and so on. Carter and Frith (1998) present evidence that the drive to defend seems, like the other drives, to be housed in the limbic area of the brain, specifically in a module called the amygdala. They find that depending on what part of the amygdala is stimulated, the response will be appeasement, flight, or aggression (pp. 90-91). Lawrence and Nohria (2002) further argue that for humans, with their four drives, the drive to defend covers much more ground—not only the physical necessities of life and procreation, but also relationships, cooperative efforts, and the understanding of the world (see the idea of protected values(Baron & Spranca, 1997)). As with the drive to acquire, humans are able to satisfy their drive to defend in a huge variety of ways and oftentimes in cooperation with others (Lawrence, 2010).

The Drive to Bond (dB) Aristotle already hinted at the drive to bond when he stated that human beings are social animal (Dierksmeier & Pirson, 2008a). Darwin (1909) further observed the drive to bond in humans, when describing: "Every one will admit that man is a social being. We see this in his dislike of solitude and in his wish for society beyond that of his own family. Solitary confinement is one of the severest punishments which can be inflicted" (p. 110) or, "Under circumstances of extreme peril, as during a fire, when a man endeavors to save a fellow-creature without a moment's hesitation, he can hardly feel pleasure; and still less has the time to reflect on the dissatisfaction which he might subsequently experience if he did not make the attempt. Should he afterwards reflect over his own conduct, he would feel that there lies within him an impulsive power widely different from a search after pleasure or happiness; and this seems to be the deeply planted social instinct" (p. 122).

Of course, we all have observed that people tend to form bonds with other people. Lawrence (2010), however, suggests that we need to reevaluate this utterly familiar phenomenon not simply as "the way people are" or as "the innate goodness in people," but as one of four survival-oriented criteria. A number of experiments have

offered evidence that there is an independent drive to bond supported by our brain. LeDoux (1996, 2002), for example, found that when certain parts of the limbic area— the hypothalamus and anterior thalamus— are impaired, individuals have a difficult time forming any meaningful or stable social relationships. Similarly, d'Amasio (1994, 2003) suggests that brain damage in certain parts leave people without emotions and without the ability to make rational decisions and form new bonds. In experiments that examined group bonding mechanisms Tajfel (2010) found that a group of strangers, divided into arbitrary subgroups, form surprisingly strong attachments to members of the same group, even if the group is completely meaningless and has no prior history together. To further support the innate, and independent drive to bond, Warneken and Tomasello (2006) found that human infants (between 18 and 24 months old) show a spontaneous, unrewarded impulse to help others when they seem too young to have emulated this behavior from adults. In these experiments, researchers, who were strangers to the toddlers, accidentally dropped items and pretended to unsuccessfully reach for them. The children retrieved the items for the experimenter 89% of the time. Henrich et al. (2001) find that the value of fairness exists across cultures and trumps the drive to acquire in what is called the ultimatum game. Lawrence (2010) also argues that all humans, except the rare psychopath, experience pain at the loss of an important long-term relationship, whether by death, divorce, emigration, downsizing, or many other causes. In many cases, this pain is so deep that a mere reference to the drives to acquire and defend does not seem sufficient. Emigration to the United States from a mother country in which one is not only doomed to poverty but also subject to violent persecution is, rationally speaking, a net gain in terms of maximizing self-interest, yet it will still cause deep and lasting grief (Lawrence, 2010, p.34).

The Drive to Comprehend (dC) Aristotle observed the drive to comprehend, when he qualified humans as social animals endowed with reason. Many scholars since suggest that humans have a fundamental drive to understand themselves and their environment (Lawrence & Nohria, 2002; Maslow, 1954; Weick, 1995; Weick & Sutcliffe, 2006). Gribbin and Gribbin (1995) refer to it as mankind's insatiable curiosity. Darwin (1909) also referred to the drive to comprehend: "As soon as the important faculties of the imagination, wonder, and curiosity, together with some power of reasoning, had become partially developed, man would naturally crave to understand what was passing around him, and could have vaguely speculated on his own existence" (p. 95). Lawrence (2010) states that the drive to comprehend can be

witnessed in the curiosity of children, who ask questions without knowing whether the answers will ever be of any use to them in fulfilling the other drives. Even newborns, once fed and secure, are exploring the world with their eyes and their hands. The popularity of puzzles, sudoku, or trivia quizzes is also a testimony to the independent drive to comprehend, since solving them provides immediate gratification but only remotely serves in other terms. Another supporting argument is the fact that anthropologists seem not to have found a single culture that does not have a creation story and few that do not have an afterlife story (Sproul, 1979). People seem to need these theories to give meaning to their lives (Weick, 1995; Wrzesniewski & Dutton, 2001), regardless of whether or not the stories confer any advantage in acquiring, bonding, and defending. Lawrence (2010) even argues that religions arose in all societies primarily to help fulfill this drive. Pinker (2002) argues that the drive to comprehend has helped humans to survive against stronger and faster animals, by devising weaponry, create tools, and building houses. Increasing empirical evidence points to the physical existence of the drive to comprehend in the brain as well. Biederman and Vessel (2006) found that a part of the brain which helps recognize what we see seems to be equipped with its own reward system of opiate receptors, which give a pleasurable "high" when stimulated by a new image (see also the emotional reaction to the Eureka effect, or the joy of solving a SUDOKU). They also found that this pleasure response diminished when the same image was recognized repeatedly. As Biederman and Vessel view it, these opiate receptors get bored by repetition and need new stimulation, which leads us to curiosity (e.g.Loewenstein, 1994). As Lawrence puts it, we are rewarded directly with pleasure for learning something new. Comprehending is independently rewarding, time and again, and only secondarily does this make us more competitive than species that do not keep learning (Biederman and Vessel, 2006).

Psychopathy: A Three-Drive Genetic Defect and source of bad leadership

Lawrence (2010) argues that over the history of human survival, some people did not develop the independent drive to bond. These people were asocial and usually outcasts in society. Throughout evolution they had been marginalized, but never completely eradicated. In fact, it is estimated that about 1% of the population does lack that independent drive to bond, causing what is otherwise known as psychopathy

(Hare, 1999; Neumann & Hare, 2008). Hare, describes psychopaths as "social predators who charm, manipulate, and ruthlessly plow their way through life, leaving a broad trail of broken hearts, shattered expectations, and empty wallets. Completely lacking in conscience and in feelings for others, they selfishly take what they want and do as they please, violating social norms and expectations without the slightest sense of guilt or regret (1999, p. XI)." They have "an insatiable appetite for power and control"(1999, p. 218) combined with "a deeply disturbing inability to care about the pain and suffering experienced by others—in short, a complete lack of empathy (p.6)."

Researchers have identified psychopaths (whom biologists and economists call "free-riders" and whom sociologists and some psychologists tend to call "sociopaths") as people with a genetic defect (Weber, Habel, Amunts, & Schneider, 2008). They are incapable of empathy and have no skill set of conscience or morality (Cleckley, 1982). Their jaw-dropping selfishness and lack of empathy does not come from exaggerated drives to acquire and defend; these drives are normal—which means they are innate, unconscious, independent, and insatiable—but are not checked and balanced by a drive to have trusting and caring relationships with others (Buckholtz et al., 2010). Lawrence (2010) describes them as wild animals—motivated mainly by the two universal animal drives—but with all the advantages of a human drive to comprehend.

Hare estimates—conservatively, he insists—that "there are at least 2 million psychopaths in North America; the citizens of New York City have as many as 100,000 psychopaths among them (p.1-2)." Hare and Babiak (2006) even argue that many of these psychopaths are able to gain influence and power and that the current corporate environment allows them to do so effectively (see for a similar argument Bakan, 2004; Sutton, 2007). In fact, historians have made the argument that many examples of bad leadership over history can be traced to psychopathic personalities incl. Hitler, Stalin, even Napoleon (e.g. Neumayr, 1995).

The concept of economic man resembles the psychopath in that it assumes that humans are exclusively motivated by the drive to acquire and the drive to defend. In effect, therefore, the drive to bond with fellow humans and the drive to comprehend and make sense of the world only exist as secondary drives to fulfill the former two. In contrast, the RD theory supports a humanistic view in that we have four independent underlying natural drives that need to be continually balanced. While the drives to acquire and to defend still remain viable and important factors in determining human behavior, the drive to bond with fellow humans and the drive to comprehend are also

strong independent forces. Thus RD theory provides a humanistic understanding of behavior. It is also able to provide higher level insight with regard to organizational principles and decision making. Furthermore, it can be rigorously tested by natural science. Below we will examine what the implications of this humanistic paradigm (based on RD theory) are for organizations and societies.

The humanistic view of the firm

Business Strategy The humanistic view of organizations and firms (Mele, 2008, p.15), in contrast to the economistic perspective, is that they are much more than mere set of contracts or mechanisms for profit creation. This is consistent with some of the foundational work in the knowledge-based view of the firm (Kogut & Zander, 1996), where it is argued that firms exist not only for coordination but for learning and identity building purposes. Humanism views organizations as a social phenomenon essential to the relational nature of human beings. Because humans have a need for friendly and cooperative relationships, humanistic organizations embrace a balance of qualitatively desirable outcomes. Firms therefore aim to support the individual drives for acquisition, bonding, comprehending, and defending at the same time. In fact, when firms do that they not only motivate their employees and other stakeholders better, but they produce more desirable organizational results (Nohria, Groysberg, & Eling-Lee, 2008). In the humanistic view, we do not assume stable utility functions, but ever changing adaptive processes. Therefore discourse based social processes are central to the notion of organizing and supporting the creation of mutual goals. The aim of these processes is to achieve a balance and therefore any imperative for maximization of one single objective is rejected (such as shareholder value). In light of RD theory, a corporation aiming to maximize financial value is akin to a psychopathic individual aiming to fulfill the drive to acquire only, without needing to fulfill the drive to bond. In the end it will be unsustainable and unfit for survival as can be witnessed in the recent financial crisis.

The universal ambition of humanism requires that multiple objectives are integrated and harmonized. Shared value creation processes are theoretically and practically imperative; a balance between multiple stakeholders and between short and long-term interests is essential. At best humanistic organizing endorses a satisfying or

holistic optimizing strategy (Frederick, Davis, & James, 1988; Simon, 1979, 1982) around goals that benefit humanity at large (e.g. well being creation).

Governance In contrast to governance theories based on agency theory, humanistic governance theories such as trusteeship or stewardship theory focus on reinforcing the other-regarding positive aspects of human nature (Blair, 1995; Blair & Stout, 1999; Turnbull, 2002). According to Davis, Schoorman, and Donaldson (1997) stewardship theory assumes intrinsically motivated human beings that are mainly driven by higher-order needs such as social and self-actualization needs (Maslow, 1954). Stewards are guided by the intention to serve all stakeholders, demonstrate a high level of commitment to total value creation, to focus on long- term results and an equitable distribution of rewards to all stakeholders. As such, governance mechanisms focus on strategic support for the steward and less on hierarchical control. Economistic types of top-down control (such as time clocks, monitoring systems etc.) are thus deemed detrimental to the motivation and performance of stakeholders (Donaldson & Davis, 1991; Macus, 2002; Muth & Donaldson, 1998). Checks and balance systems are essential in humanistic organizational structures so that power abuse can be prevented. Lawrence (2007a) argues that checks and balance arrangements parallel the function of the prefrontal cortex in the human brain rather than hierarchical control. That is why he argues that checks and balance systems (such as instituted in the U.S. constitution) are better able to fulfill the role of representing all major stakeholders in strategic decisions. Akin to democratic institutions, humanistic organizations can use different stakeholder councils (e.g. worker councils) to prevent decisions that favor one group over the other in the long term. These internal checks and balances will mutually reinforce each other to serve various stakeholder needs in a balanced form (see also Gratton, 2004).

Structures While economistic structures aim to reduce transaction costs, humanistic organizational structures on the contrary center on the development of human capabilities and on effectiveness. To enable individual growth, humanistic structures reduce authority levels in the organization, which allows employees to enjoy high levels of responsibility. In humanistic organizations decision rights are spread throughout the entire organization in a way that utilizes the expertise of all employees. To further use the capabilities of employees, humanistic organizations employ integrative mechanisms that cut across the vertical lines of control: i.e. product or project managers, task forces, matrix elements, innovative information management

systems. Such structural elements help to keep the focus on over-all organizational goals but also provide opportunities for employees to put meaning into their work and fulfill their drive to comprehend (dC) and extend their bonded network of trust (dB). In humanistic firms the use of intrinsic motivational levers is prioritized, especially those aiming at normative and hedonic intrinsic drives (Deci & Ryan, 1985; Gottschalg & Zollo, 2007; Lindenberg, 2001). Incentives are usually tied to holistic organizational goals, reward not only the individual but also the team and are primarily tied to long-term organizational goals. These methods prevent an over-stimulation of competitive (dA) drives compared to collaborative drives (dB).

Leadership What Bass and Avolio (1994) term transformational leadership, fits well with a humanistic view of leadership. Transformational leaders are actively balancing their personal four drives and also engage their followers to do so. Based on moral values, transformational leaders inspire followers, stimulate them intellectually and engage them emotionally with the organizational tasks. They base their influence on the power of the argument rather than hierarchy and demonstrate care for the individual follower and his personal development. Transformational, humanistic or four-drive leaders are able to create a climate in which people clearly understand cognitively and embrace emotionally the purpose of the organization (drive to comprehend), are able to maintain very positive long-term relationships with each other (drive to bond), create financial value (drive to acquire) and can count on their collective strength to weather the storms of competition (drive to defend). But humanistic leaders do not only stop acting and influencing within their own organization. They act as responsible stewards of the economy and society at large (Hernandez, 2008; Sitkin, Lind, & Siang, 2006) are able and compelled by their active four drives to contribute to a society that is balancing the four drives as well. Lawrence (2007) therefore argues for a much more active role of business leaders in the public policy process, not as is currently seen in terms of a laser focus on firm profitability (dA), but rather in terms of creating a balance in society among all four drives. Culture The different paradigm, unsurprisingly, also contributes to the creation of distinctive organizational cultures. Humanistic organizations support cultures that are more transformational in nature and create organizational identities based on inter-human relations (relational) inclusive of a larger group (communal) (Brickson, 2007). They are driven by all four human drives and are creating balanced cultures. The humanistic organizational culture is organic, circular, constantly changing and evolving, and

engages with outside forces as parameters of internal action. As it thrives from the exchange with the outside, it fosters constant dialog amongst and with its stakeholders and is guided by a dialogically generated set of values (Dierksmeier & Pirson, 2010; Pirson & Lawrence, 2009). It not only balances the four drives of internal stakeholder groups, but also aims at contributing to a balance of the four drives for external stakeholders. Google, Nucor, Medtronics or the Grameen bank can be seen as typical organizations with four-drive cultures.

View of the societal system

In the humanistic perspective individuals, organizations and the state all play important roles in balancing the four drives. As there needs to be a balance on each level respectively, there is no real division of labor in terms of fulfilling the four basic drives. Rather, there is cooperation in terms of ensuring that the checks and balances enable an optimal balance of the four drives on all levels. In the humanistic view, personal morality is connected with responsibility for the systemic consequences. Business leaders accept and assume responsibility for consequences of their actions both on the systemic level, the organizational level, and the individual level. As such, organizations engage with the outside and view responsibility to stakeholders as elementary for conducting business. Liberty is contingent on morality; individual and organizational freedom materialize through care and concern for the other. Sustainability and corporate responsibility are endorsed parameters in the humanistic view of business; attempts to alleviate social problems through business are an imperative. Only in that mutual responsibility for individuals, organizations and the wider system is a balance of the four drives possible (see also Table 1).

TABLE 1
Economism and Humanism (adapted from Pirson and Lawrence, 2009)

Paradigm	**Economism**	**Humanism**
Individual level		
Model	Homo Oeconomicus	Zoon Politikon
Motivation	Two drive motivated Drive to acquire Drive to defend	Four drive motivated Drive to acquire Drive to bond Drive to comprehend Drive to defend
Goal	Maximization of utility	Balance of interests

Disposition	Transactional	Relational
View of other	Means to an end	Means and end
Organizational level		
Organization	Nexus of contracts	Social community
Governance	Shareholder oriented	Stakeholder oriented
Model in management theory	Agent	Steward
Leadership style	Transactional	Transformational
Goal setting	Command and control based	Discourse Based
Goal	Profit maximization	Financial, social, and environmental sustainability
Motivation incentives	Geared to 1st and 2nd need (Maslow) Drive to acquire Drive to defend	Geared to 3rd 4th order needs (Maslow) Drive to acquire Drive to bond Drive to comprehend Drive to defend
Culture	Mechanistic	Organic
Time frame	Short term	Long term
System level		
State orientation to business	Laissez faire	Subsidiary actor
State-Managerial responsibility	Financial value creation	Supporting a balanced society

4. The Notion of Humanistic Management

Within the humanistic paradigm, we develop the notion of humanistic management, which we consider the intra, and inter-personal approach to creating and supporting the firm. It is as such not a theory of the firm, but a theory about the practice of the firm. We understand humanistic management on the basis of three interrelated dimensions. Firstly, that unconditional respect for the dignity of every person is the foundation for interpersonal interaction including any interactions taking place in business contexts. Secondly, that ethical reflection must form an integrated part of all business decisions. Thirdly, that seeking normative legitimacy for corporate activities is crucial for assuming corporate responsibilities. This third dimension, which is to be understood as the dialogical extension of ethical reflection on corporate conduct, allows for the aligning of good intentions with activities that have the potential to produce good outcomes. Taken together, these three dimensions promote

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

Unconditional respect towards human dignity

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

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

This presents a challenge to the general notion of input-output oriented management. This orientation entails a tendency to objectify human beings (as human resources); managers influence the managed in favor of predefined objectives, thus turning them into a means to achieve an end, reducing people to little more than the equivalent of a piece of machinery. If humanism demands seeing every individual as an end in itself, while managing people implies turning people into means, instrumental to achieve predefined objectives, is humanistic management even possible?

It is undisputed that people need to be instrumental in production processes in order for a business to thrive. Within humanistic management, though, people need to autonomously assume their roles as a result of a self-determined process. Only then are they not instrumentalized in their human capacity; instead, they are themselves assuming an instrumental role within their job. The utilization of people in humanistic management must therefore always be limited to the role a person assumes, never to the person itself. It must result from the autonomous will of an individual to be instrumental, to turn himself or herself into a means. Within this understanding, people

will only become instruments to businesses which they consider aligned to their personal values and congruent with what they perceive tobe worthy of being instrumental to. A person will not autonomously choose to become a means to an end that is profoundly inconsistent with his or her values and aims.

An example for corporate practice that values individual autonomy and allows for a high degree of self-determination is the Brazilian Conglomerate Semco, which has roughly 200 million dollars annual turnover, about 3000 employees and enjoys over a decade of yearly double digit growth. At Semco employees quite literally choose their jobs within the company. In addition, they form ad-hoc committees and task groups addressing specific issues. These groups are formed without managerial supervision and anyone can join who wants to contribute to the topic in question. The founder of Semco, Ricardo Semler, attributes a great deal of the company's success to its humanistic foundations, 'our insistence [is] that workers seek personal challenges and satisfaction before trying to meet the company's goal.' (Largacha, 2010). They want to give people room for exploration and self-discovery. 'Once employees feel challenged, invigorated, and productive, their efforts will naturally translate into profit and growth for the organization.' In simpler terms Semler states that 'we don't make our employees ask permission to go to the bathroom … we get out of their way and let them do their jobs' (Largacha, 2010).

Integrating ethical concerns into managerial decisions

The need for respecting people as ends in humanistic management leads us to the impact it has on the economy and society at large. In its broader context, humanistic management is based on the insight that claims of assuming corporate responsibility remain rhetoric without integrating ethical evaluation into business decisions. If one follows through on unconditional respect towards the dignity of all persons, one must accept that decisions that impact others must be examined in terms of their consequences for all those affected. Humanistic management criticizes one-dimensional managerial objectives such as profit maximization. Economic rationality becomes incompatible with protecting human dignity whenever it leaves no room for the balancing of interests of stakeholders based on the quality of the arguments articulated. When factual power overrides argumentative power – as any paradigm that proclaims the maximization of particular interests demands – those interests that

cannot enforce their consideration are excluded and suppressed. This leads to situations where the interests of weaker stakeholders are disregarded and their vulnerability exploited. Therefore, economic success criteria must be formulated that no longer exclude the respect for human values but are inclusive of them (such as general well-being).

Spain's seventh largest company, a cooperative called Mondragon, provides a rich example for the integration of ethical evaluations into managerial decision making. Employees at Mondragon are owners of the firm and believe they are in business together with consumers, suppliers, and the community; they are oriented towards serving society and derive motivation and joy from serving the common good rather than shareholders. As a consequence a business that does not serve the common good is not worth pursuing for Mondragon, despite potential profitability. This approach leads to the integration of ethical concerns into managerial decision making as part of the organization's DNA, not as an afterthought e.g. under a risk management perspective (Kasmir, 1996). Furthermore such an approach satisfies all four motivational drives in that it creates a safe (dD), and friendly (dB) environment, in which income can be earned, and a higher purpose is served (dC) (Moellner, 2010).

The dialogical extension of managerial ethical reflection

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

Legitimacy can be considered the general recognition of an entity's conduct as desirable or apposite within a system of norms and values. Humanistic management bestows legitimacy if the normative evaluation of an organization and its activities results in the perception that it is 'doing the right thing with the right intention'. This

differentiates normative legitimacy from pragmatic legitimacy, while the former is based on values and reason the latter can be based on mere self-interest and strategic business calculus (e.g. business case).

As Max Weber pointed out, seeking legitimacy helps determine the choice of means for an exercise (Weber, 1978, p. 214). The sincere seeking of legitimacy therefore forces a company to continuously assess its conduct, to rationally justify its behavior and compare it to expectations and the desirability of its impact on society, which is best achieved in a dialogue between all those affected. The world market leader in insulin production, Novo Nordisk, has radically shifted its business model towards one where shared responsibility and legitimacy seeking through stakeholder dialogues takes center stage. Following an initial stakeholder model in the 1990s where Novo Nordisk perceived itself as the center of a stakeholder universe with various predefined stakeholders around it, they have changed their perspective towards a reflective stakeholder model. In its current form Novo Nordisk sees itself as one point of intersection in a dynamic web of stakeholders. Under its reflective model Novo Nordisk aims to increase transparency so that stakeholders can gain access to the information they are interested in. as a result the company gains legitimacy and simultaneously learns about the issues that are of interest to its stakeholders whilst it enables an open dialogue based on mutual learning and the desire to improve the company's performance (Palacios, Pirson, & Bader, 2010).

In short, humanistic management is the pursuit of strategies and practices that seek to create sustainable human well-being. Humanistic management derives its legitimacy from preserving human dignity in business through submitting its practices to societal critique. By engaging in an open dialogue about the values that should serve business as criteria to assess managerial success, corporate decision-makers realize that the value proposition of business is ultimately to serve people rather than to make money. The shift from one-dimensional profit maximization towards a multidimensional and value-integrative understanding of corporate success is as necessary today as it is imminent.

5. Humanistic Management as Practice

To examine the practice of humanistic management the Humanistic Management Network has selected 19 case examples of companies from around the globe, in a variety of industries, and with different ownership structures and sizes (see Table 2). These cases explore the principles of humanistic management and examine its theoretical merits by assessing its practical feasibility(Kimakowitz, Pirson, Spitzeck, & Dierksmeier, 2010). They show how businesses can unite social value generation with financial success. What we found is that:

TABLE 2

Overview of Humanistic Business Analyzed (adapted from Kimakowitz et al., 2010)

Company		**Location**	**Size**	**Industry**
1	ABN Amro Banco Real	Latin America (Brazil)	Big / National	Financial Services
2	AES Corporation	North America (USA)	Big / Global	Industrial Goods
3	Broad Air Conditioning	Asia (China)	Big / Global	Industrial Goods
4	Brummer and BracNet	Asia (Bangladesh)	Small / National	Services
5	Cascade Pulp and Paper	North America (Canada)	Big / Global	Industrial Goods
6	DM	Europe (Germany)	Big / National	Services
7	Grameen Danone	Asia (Bangladesh)	Small / National	Consumer Goods
8	Hongfei Metal Limited	Asia (China)	Small / National	Industrial Goods
9	Level Trading	North America (Canada)	Small / National	Consumer Goods
10	Micromatic Grinding Technologies	Asia (Based in India)	Big / National	Industrial Goods
11	Mondragon	Europe (Spain)	Big / National	Conglomerate
12	Novo Nordisk	Europe (Denmark)	Big / Global	Consumer Goods
13	Sekem	Afrika (Egypt)	Small / Regional	Consumer Goods
14	Semco	Latin America (Brazil)	Big / National	Conglomerate
15	Sonae Sierra	Europe (Portugal)	Big / Global	Industrial Goods
16	Tata Group	Asia (India)	Big / Global	Conglomerate
17	Terracycle	North America (USA)	Small / National	Consumer Goods
18	Wainwright Bank and Trust	North America (USA)	Small / National	Financial Services
19	Zipcar	North America (USA)	Small / National	Services

- Managers from the businesses in these companies acknowledge the shared human vulnerability and recognize the resultant need for protection of human dignity. These companies integrate ethical reflection to all business decisions, thereby abrogating conflict between ethically sound business conduct and profit-related aims. They will not pursue business opportunities that may conflict with ethical evaluation. Managers of these companies are also aware that they can make honest mistakes in their evaluations and thus seek to share responsibilities with internal as well as external stakeholders.

- The companies are steadfastly purpose based. Their purpose provides the platform needed for the autonomous individual to make decisions for the organization's benefit. The purpose is a universally sharable, legitimacy-inducing goal, providing stakeholders with a reason for wanting the company to succeed. In turn, the company can count on motivated employees, loyal customers, trusting business partners, and a high degree of goodwill from other stakeholders.

- Humanistic management styles as implemented in these cases aim to promote human development, which includes psychological, physical, social, and financial dimensions.

- Humanistic management is learning oriented. There is no state of perfection, but only a constant drive to improve and organically evolve.

- The businesses provide for decentralized structures, based on trust, allowing its members autonomy, while providing a sufficient level of integration to create a sense of community. Humanistic management structures are modeled after democratic systems that create checks and balances, guarding against the imbalances of a corporate control and command structure. In general, managers in these businesses assume that trust is reciprocal – one needs to show trust to gain trust – and at one stage in the firm's development, management has made a leap of faith, trusting their employees and business partners, and have gained their trust in

return. This allowed management to do away with control mechanisms that impede creativity, innovation, productive interpersonal interactions, and that inflict transaction costs.

- Managers in these firms are ‘servant leaders’ and regard themselves as stewards for the greater good. They are often spiritually grounded, self-effacing, and humble. They see their roles as guardians of a culture of dignity and serve as co-developers of a learning community. Humanistic leaders do not see the need to dominate others to experience gratification in their career, but derive great satisfaction from being able to share their passions and convictions with their communities. They are grateful for, and excited about the opportunity that they have been given to contribute to create a better world.

6. Conclusion

If we, as management academics, want to help solve the current crises, we need to go back to the fundamentals. We need to question the understanding of how we view ourselves as human beings and how we build organizations based upon that understanding. The proposed humanistic paradigm for the development of a renewed theory of the firm is only a starting point, but it is firmly rooted in tradition, culture, as well as philosophy, and is supported by increasing amounts of scientific evidence. However, much of that evidence is scattered and much more rigorous, ingenious, and interdisciplinary studies need to be conducted. To that end, we need to work more across disciplinary boundaries to better understand these fundamental issues. We also need to not only cross academic boundaries, but boundaries to practice and policy. We need to work outside of the academic purviews and allow research to focus on the problems of practitioners with regard to solving the current crises. When doing so we need to take seriously the boundaries and logics established by the institutional arrangements. Many of the structural setups are a consequence of the current paradigm and we need to be able to propose superior alternatives.

One of the main barriers that needs to be overcome is the depth to which the economistic view has penetrated the minds and hearts regarding the dark side of business and management. We do not only need to propose alternative paradigms, but support the creation of an alternative human centered narrative of business. In order to achieve that we need to find, create, and tell different stories about business. As academics we might therefore need to collaborate more with the media to penetrate main stream opinion more effectively.

Undoubtedly, a lot of challenges lie ahead for those concerned with solving the current crises. The scope and scale of change involved in re-designing our economic system are so grand that only collaborative efforts can hope to be successful. Under the auspices of the Humanistic Management Network (www.humanetwork.org) and the Humanistic Management Institute, generously supported by the Humanistic Management Foundation, we are reaching out to interested academics, practitioners, and policy makers to work together on the many open issues. There lies much work ahead and we are looking forward to collaborating. As such we want to conclude with an invitation to be in touch at: info@humanetwork.org.

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