

## THE DUTY OF COMPANIES

CONTRIBUTING TO  
THE CREATION OF  
A FAIR WORLD**ANTONIO ARGANDOÑA**

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Business has a transformative role to play in society and business people and executives have a responsibility to facilitate this change. In what way is a company an instrument of social transformation? Here we publish an edited version of the speech Prof. Argandoña gave at the Global Alumni Reunion in November.

OPERATIONS • INNOVATION AND CHANGE  
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Many people, particularly in advanced Western countries, have a highly critical opinion about the company as an institution. This opinion is often based on circumstantial arguments: its managers made errors of strategy (they over-borrowed, for example); they made investments that were too risky; they implemented dysfunctional control systems; they gave themselves or got their boards of directors to give them disproportionate compensation packages which generated perverse incentives that ended up driving some companies out of business; risk management was inappropriate and they made unethical decisions, allowing themselves to be drawn by greed, pride, arrogance, lack of transparency or opportunism, among other vices. But at other times the reasons given are more of a general nature: for example, when companies as a whole are given a goal that is considered harmful to society, such as maximizing short-term shareholder value.

Although, to a greater or lesser degree, I can agree with these criticisms, I also feel bound to say that the modern company also has many positive qualities. If we were to make

a list of praiseworthy institutions, we would probably include hospitals, schools, universities, churches, non-profit organizations, research centers, ... Well, I would say that the company compares very favorably with all of these because it too seeks to satisfy a broad range of human needs. It creates wealth and jobs, it trains, empowers and motivates its employees, it mobilizes incredible amounts of material and human resources for far-reaching projects that have a significant impact on society. It operates efficiently and fosters efficiency in society. It innovates, it is flexible and it is able to recreate itself in highly-changing environments to assure its continuity.

The basic thesis of my presentation is very simple: the company is called on to be a transformational factor, a force for change and improvement in society. Even better: it already is this force: with difficulties, with setbacks, with errors, like any human endeavor, but with great possibilities, which we need to know and develop.

The immediate corollary of this thesis is that the responsibility for making this transformation falls upon you, entrepreneurs, managers and business owners. You cannot expect government leaders, politicians, philosophers, thinkers, economists or business school professors to do this, although you have every right to ask them to help you in this task.

How and why is the company such a powerful tool for the transformation of society? To answer this question, we first need to pause and think about what the company is.

#### WHAT IS THE COMPANY?

● I would like to give at this point a definition of the company which I read a few years ago and which I liked, perhaps because it was not made by an academic but by a man of action: **Giovanni Agnelli**, Fiat's former CEO. "A company – he says – is composed of people with different backgrounds, different cultures, different inclinations, different aspirations, different jobs. And all of these people, with different ages and cultures and different jobs, have to perform the miracle of working together, so that the company's results are those required. Today and tomorrow."

**Agnelli's** definition carries implicitly within it the definition of the task of management. Prof. **Juan Antonio Pérez López** has described this very succinctly: "managing is leading human teams for action, to change reality while obtaining results." Thus, the manager is the man or woman – or, more often, a team of men and women – whose responsibility it is to take all these reasons held by different stakeholders – owners, managers, employees and, very often, also customers and suppliers – and engage them in the common task, which must be performed effectively, because the goal is to change reality while obtaining results. External results, because the world will be different after a company has passed through it to change reality. And internal results: because the company will also transform the people who take part in that common task.

And this involves a number of requirements. First of all, economic requirements: the value of what is produced must not be less than the value of the resources used and, if possible, it must be greater, much greater, as proof that it satisfies consumers' needs and uses resources efficiently. The economic dimension

is essential, because the company is an economic institution, that is, it is responsible for a large part of the planet's productive resources and for using them efficiently for the benefit of everyone.

Then, there is a requirement that we could call the social dimension. Beyond generating wealth and satisfying the needs of consumers and customers, the company is a nexus, a network of human relations, where employees can not only find adequate remuneration but also satisfaction from the task they perform in it, and the development of knowledge, abilities, attitudes and values that they need as individuals. To quote Prof. **Antonio Valero**, who was IESE's first Dean, the company is a place of professional coexistence, in which "each individual is responsible for the level to which he applies his abilities to his work and can achieve his own goals within the framework of the company's aims."

And this is very important because it is these abilities, attitudes, values and knowledge that create the company's distinctive capabilities, something that only it can do that particular way, and which does not depend on machines, technology or financial resources, but on people.

And this leads to the third dimension, ethics. The reason for this is that we learn knowledge, attitudes and values in our actions and, above all, in our interactions with others. We learn to cooperate with others, to appreciate and respect them, or to ignore and hurt them. We learn to serve customers, or to act selfishly towards them. We make the company's goals our goals, or we try to put those goals at our service. And we learn to trust the company, that is, its owners, its managers and its employees. But we will only trust them if we believe, if the case should arise, that they will place the legitimate interests of customers, employees and the community before the share price and the managers' bonuses. Because without trust, no distinctive capabilities will be created and there will be no enduring company.

## MANAGING IS LEADING HUMAN TEAMS FOR ACTION, TO CHANGE REALITY WHILE OBTAINING RESULTS

## A COMPANY IS MADE UP OF PEOPLE, ALL OF WHOM ARE NECESSARY. EVERYONE MUST TAKE PART AND BE INVOLVED. THIS IS THE BASIS OF ONE OF ITS MAIN STRENGTHS

To recapitulate, the company is a team of people. Everyone is necessary, everyone must be a part, everyone must be involved. And there lies one of its strengths. Because everyone has their own knowledge and abilities, which they must place at the service of others. And achieving this is part of the manager's tasks.

This reminds me of an anecdote I read some time ago. A new chairman was appointed at a North American company, who started to visit the different factories. At the entrance of one of them, the manager was waiting for him and as they entered, he suggested, "Let's say hello to the receptionist." Surprised by the proposal, the chairman looked at him and the manager explained, "Mr. Chairman, every day, how many customers do you and I talk with? Ten, twenty,...? She talks with hundreds of people every day; she is the company's voice, she is the one who gives them their first impression of us. So let's say hello to her, make her feel that her job is important, ask her about her children or the traffic problems she has to deal with every morning."

The advice is good, although the motivation is not quite right: the receptionist should be treated with kindness, politely inquiring about her personal matters, not because this improves the company's image, customers' loyalty and, ultimately, profits but because she is a person who deserves full respect and appreciation. But what I wanted to draw your attention to here is that the company, as a community of people, is all of us, from the chairman to the receptionist, and everyone is important. And everyone will be more willing to cooperate if they know that they are appreciated, the customers' interest is high on the organization's agenda, sufficient resources are used to protect the environment and the local community views the company as a "good citizen". To quote **John Mackay**, the founder of Whole Foods: "Business is simple. Management's job is to take care of employees. The em-

ployees' job is to take care of the customers. Happy customers take care of the shareholders. It's a virtuous circle." Organizing, coordinating, motivating, involving everyone - this is all part of the manager's job. He cannot do everything but he has the most important task of all: give unity to everyone's action.

### THE COMPANY'S ROLE IN SOCIETY

● No, I haven't digressed from the  
● subject we are concerned with today: the company's transformative capacity in society. Because, in essence, the list of the company's impacts, responsibilities and capabilities to carry out this transformation can be reduced to the three dimensions of the company that I have referred to earlier.

First, the economic dimension: to produce and sell goods and services that may satisfy consumers' needs - and I say may satisfy them because we cannot be sure that it will achieve this, although it can try. It must do it efficiently, which means creating value, which should then be distributed fairly. By this means the company contributes decisively to the efficient use of society's resources, for everyone's benefit: prosperous companies create prosperous societies.

Next, the social dimension, striving to make the company a place where employees and managers can develop satisfactory relationships and generate learning that will improve them as individuals, while at the same time contributing to create the organization's distinctive competencies. And, as with the previous dimension, the company must have the ability to offer this, even though it is not guaranteed that it will achieve it. For example, even though the company cannot guarantee a "meaningful" job, it can guarantee an organizational and human framework that makes it possible for people to freely find the meaning in their task that best aligns with their personal goals. A good example is that old story of three stonemasons in the Middle Ages who were asked what they were doing. One answered: "I'm

cutting stone,” another answered “I’m earning a living for my family,” and the third said, “I’m building a cathedral.”

And, lastly, the ethical dimension. Because the company can play a major role as a creator of attitudes, values and virtues in society. It can have this role, even though it does not always have it.

#### **THE COMPANY AS THE CREATOR OF A FAIR AND EFFICIENT WORLD**

● All of this has a lot of implications. I will only point out three here. One: companies have a responsibility for the ethical renewal of society – in fact, all of us have this responsibility because no one is exempt from developing their talents to fruition.

Two: society does not facilitate this renewal, but companies cannot afford to not undertake it, not for altruistic reasons, but because their own *raison d’être* and survival depend on it.

And three: not just any ethics can be used for this regeneration. It must be an ethics that takes into account the person’s full development within an organization whose common goods must be shared by all and, therefore, whose ethics everyone must help to develop, while bearing in mind that often it has been the company itself that has fostered those inappropriate ethical conducts. For example, we ask our managers and employees for loyalty, dedication and initiative but, at the same time, we tell them that, in the name of job flexibility, we will dispense with their services at any point when this is justified by the balance sheet.

Or we have transformed the CEO into a brilliant individual, a unique leader, capable of obtaining any result, but without taking into account his team, who are thus excluded from their responsibility and recognition for their work. Or we have thinned the structure when profits contracted only to find later that we have squandered the company’s human capital, which was precisely what

made it unique. And so the list of errors could go on.

But managing well goes beyond adding social and ethical responsibilities to the financial responsibilities. Managing is a unique task, with three dimensions – economic, social and ethical – and there can be no good management if any of these dimensions is lacking. The company’s and manager’s transformative function is nothing other than the function of managing well.

This task, in turn, accepts a wide gradation of objectives and efforts. It can never be considered finished: it is a path, not a result – although it should give results, which will be used as indicators of the quality of the organization’s mission and of the manager as an individual.

What I propose to you today is not so much the application of a theory or a model but the outcome of a reflection that all business owners and managers should have about what a company is, what his company is, what he would like his company to be; what its external mission is, that is, what needs of which people does it try to satisfy, and what is its internal mission, that is, what are the needs of its managers and employees that it seeks to satisfy, while at the same time the latter identify with the external mission and undertake to satisfy the needs of customers and consumers – because, as I have already said, it is a task in which everyone must play a part.

And this also means that defining the organization’s purpose and mission does not correspond solely to the president or CEO but requires everyone’s participation. This participation is not limited to formal mechanisms but starts by acknowledging everyone’s dignity, accepting that everyone has something to contribute, actually asking them to contribute, and giving them training, empowerment and responsibility precisely to enable them to do this. This is the only way to manage a community of people who cooperate freely, voluntarily and creatively in a common purpose.

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