

# BUILDING COMPANIES THAT GENERATE TRUST



**JORDI CANALS**  
Dean, IESE

A reflection upon the need to rebuild the vision of the companies and leadership that directly contribute to the development of a dynamic society.

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**T**he financial crisis that began in the summer of 2007 has escalated into a full-blown economic crisis without precedent in recent history, one that challenges the functioning of the economy and the political system in democratic societies.

This crisis has created a severe economic contraction attributable to the failure of governments to regulate the financial system; unsustainable public deficits; business misconduct; and a lack of corporate sensitivity toward unemployment and other social problems. As a result, the role of business and government, and their ability to build a prosperous and fair society, are in question.

In this context, governments appear to have succumbed to the lure of the short term, disregarding the longer-term interests of society. Their manifest failure to solve today's problems, coupled with systematic neglect of the long term, have fueled a growing distrust among citizens. Many voices call for civil society to play a stronger role; yet in times of crisis few social actors have the capacity to mobilize collective efforts. Despite these difficulties, now more than ever it is vital to rebuild the reputation of companies, entrepreneurs and

business leaders, not on the fragile foundation of public relations but through a renewed understanding of the firm's mission in a dynamic society.

Finance has become the dominant dimension of business. Finance is important, of course, but it is not the only relevant dimension of management. More specifically, the demand for an appropriate return on invested capital is fair, but a firm will only be able to generate good returns if it invests in the long term, gives customers good service, develops its employees appropriately, and so cements its reputation in society. The financial dimension of business is therefore not the only one to be considered. In fact, one of the lost values that needs to be recovered in listed companies is that of shareholder commitment, attracting shareholders who seek long-term value.

The dominance of finance has also led to an overemphasis on economic incentives that motivate top managers to achieve short-term financial results. Such incentives may have had a perverse effect. The subprime crisis in the United States, the mis-selling of bank products in Europe, or the recent LIBOR scandal are too important to be treated as isolated incidents.

While it is true that some incentive systems currently in use are not intrinsically perverse, the evidence



## A POSITIVE VIEW OF THE FIRM HIGHLIGHTS COMPANIES AS A GROUP OF PERSONS WHO SEEK CERTAIN GOALS

shows that business and society need leaders with ethical values that respect the long-term good of the firm, and are founded on truthfulness, justice, loyalty and diligence.

The modern company is one of the great social institutions of the 20th century. It has generated new investment, created jobs, stimulated innovation, helped solve many social problems, and driven unprecedented growth. It is true that a few firms have had a negative impact in recent years; but most continue to be solid pillars of society. Against this background, companies will win back the credibility a reckless few have squandered if we redefine the notion of the firm, based on the value of its contribution to society.

### A POSITIVE NOTION OF THE FIRM

- In opposition to an exclusively
- financial view of the firm, companies are groups of people who seek certain goals. Companies offer goods or services to customers and create long-term economic value in a context that allows people to grow. A firm so conceived cannot but have a positive impact on society.

Several aspects of this definition are essential to a new view of the company. The first is that the firm is a human reality, i.e. it is made up of people with differing aspirations and motivations, which senior managers must take into account. The second is that these people coordinate their efforts in the firm in order to serve customers. The third is that, in serving customers, the company must also create economic value; in other words, it must earn more than it spends in satisfying its customers. Moreover, a company must create economic value in the long term, which makes it all the more important to ensure – through innovation, education, continuous improvement, and investment – that the company's results are sustainable.

The fourth aspect is that, in doing all this, the firm must be able to offer the people who work in it an opportunity to grow professionally and personally. Growth here means

not only opportunities for development (which are always welcome) but also opportunities to grow as a person, thanks to the positive learning that takes place in the context of professional relationships. Professional growth and development of human virtues help people improve, find meaning in their work, and realize their full potential.

The fifth is that a firm that operates in this way has a positive impact on society through the goods and services it offers, through the wealth it generates, and the personal development it stimulates. A firm that acts in this way will grow, create employment, invest, and pay taxes. It will not put itself above the law, but will pursue the common good.

Furthermore, a company that acts in such a way deserves the trust of society. If, in addition, such a company decides to undertake philanthropic activity related to its specific objectives that has an impact on society, its transformative power may increase. Yet the essence of a company's contribution is not the result of so-called corporate social responsibility policies. Any company that does all the things we have mentioned is already having a positive, transformational impact on society.

A few companies may occasionally lose sight of the substance of their contribution to society (encapsulated in the notion of the firm proposed here) and be content with the incidentals, i.e., a few social initiatives that may be good in themselves but that are not crucial to the company's mission. Such initiatives can sometimes be a good complement; other times, however, they merely serve to conceal unclear objectives, or else hide a lack of conviction regarding the company's real contribution to society.

Some exaggerated notions of social responsibility can be countered by emphasizing the positive impact a company can have on a society just by doing what it is set up to do. In other words, the true mission, or ultimate purpose, of a company can

no longer be misrepresented as being only to maximize shareholder value. The mission of the firm in society is to be an organization of people who work to achieve certain objectives, both economic and non-economic, and to afford those who participate in the process the opportunity to improve as professionals and as people.

This is a great attribute of the firm: it catalyzes a process by which customers' material needs are satisfied, while at the same time generating economic value for shareholders and providing a context in which people are able to grow as professionals and as human beings. This dimension implies an ethical view of the company: only on ethical foundations is it possible for a company to achieve sustainable human development, genuine customer service, and a positive impact on society.

A company that has this orientation may face more demanding challenges, but it will also have two extraordinary assets: the commitment of its people, and its reputation in the eyes of customers, shareholders, and society at large. The demands placed on a company that frames its task in this way are enormous. On the other hand, it will know that it has committed professionals and, also, the most valuable asset any organization can command, namely, a good reputation.

It is no exaggeration to say that the loss of reputation of certain companies has been due not only to alleged misconduct by some managers but also to their having reduced their mission to strictly financial goals. Companies that have a clear understanding of their true role in society are extraordinarily important today; they are in the best possible position to convey the message that a business firm is a long-term project, aimed not only at achieving economic results but also at having a positive social impact.

A notion of the firm such as the one outlined here also addresses an acute problem facing Western societ-

ies: the commercialization of social life, by turning economic value into the foremost guide for our behavior. A company that adopts a multidimensional view of its mission is also a model for society as a whole, insofar as it helps put economic objectives in proper perspective.

#### THE ROLE OF ENTREPRENEURS AND SENIOR MANAGEMENT

● According to **Peter Drucker**, ● the function of the manager is to set goals, implement policies to achieve those goals, and organize and mobilize people to work to that end. Though this definition remains valid, it is incomplete. A senior manager, or business leader, must do what **Drucker** suggests, but for one clear reason, namely, to accomplish the particular company's mission. This notion shifts attention away from the view of the CEO or senior manager as someone focused mainly on getting results. Results are important, but we must remember that there are many different dimensions of results to be considered, and also that it can never be a matter of getting results at any price. At the same time, this notion reminds us that a good manager must also achieve results; otherwise, the specific function of the manager would be neglected.

Once again, the company's mission helps us delineate more precisely the function and role of a senior manager. A senior manager's efforts will be directed to ensuring that the company's long-term mission is accomplished?????. The mission is not a constraint but a platform that gives stature to a senior manager's work.

This notion of the firm highlights that a company is first and foremost an organization made up of people. The human dimension becomes the core of the firm. Enabling the company's people to grow and improve must be an explicit goal of the work of any senior manager. People improve through the company's ordinary activity and through the exercise of their particular function

#### A FIRM

- 1 ...is made up of people with aspirations and motivations.
- 2 ...is geared towards serving customers.
- 3 ...needs to create economic value not only in the short term, but also in the long term.
- 4 ...offers its employees an opportunity for personal and professional growth .
- 5 ...seeks to have a positive impact on society.



### KEY ROLES OF SENIOR MANAGEMENT

- \* Develop the mission that the company has in society.
- \* People development offer a long-term perspective.
- \* Professional excellence.
- \* Decisions based on ethical values.

in the company, i.e., serving customers, whether directly or indirectly, and thereby generating economic value. A positive idea of the person helps understand people's motives and use incentive systems that appeal to their better nature, so that they work in a cooperative way; induce them to commit to a project; correct them when their work is not up to standard; and deploy a whole range of core human virtues, from justice to prudence.

This view also stresses the need for professional competence in management. Without professional competence a person can neither serve customers well, nor generate economic value or manage a group of people effectively. Management competence is acquired through experience, and also through training and lifelong learning, in regular educational programs or in interaction with other senior managers in other companies and industries.

A senior manager with this view puts into practice a set of core ethical values: concern for each person who works in the company; a sense of justice in dealing with customers, employees, suppliers, and society at large; vision to propose forward-looking projects; strength to tackle complex tasks or acute problems; humility to admit mistakes and the possibility of personal fragility; prudence not to make hasty decisions or unnecessarily delay the solution to conflicts; and magnanimity to make decisions without being guided solely by personal preference but also by the common good.

Orientation to serving others is another key attitude. An entrepreneur or a senior manager needs to have a very clear service orientation. Just as a surgeon, with all the experience and knowledge that are vital for the exercise of the surgical profession, must still cultivate the dimension of service to the patient and the patient's health, so a senior manager, too, must cultivate this essential attitude. It has a considerable impact on the company's reputation and to the management profession.

### THE FIRM IS KEY TO BUILDING TRUST IN SOCIETY

The current financial crisis of the Western world shows a crisis of ethical values, manifested in a lack of faith among citizens in the ability of governments and companies to solve the problems that beset us. The solution to this crisis will not come only from wise policies that get the economy back on its feet but also from the efforts and commitment of large numbers of individual companies and citizens who work to build a better society.

Firms must play a role in a dynamic society and are therefore key to rebuilding trust. At the same time, businesses today face the added difficulty of weak domestic markets in many countries, strong international competition, and credit constraints that prevent them from taking on new projects.

Entrepreneurs and senior managers need to be able to recognize the problems, but without being overwhelmed by them. They must prospect for new markets, invent and launch new products, and discover new ways of serving customers better and more effectively; and in the process develop magnificent professionals. Doing all this will help to build trust.

But it may not be enough. To bring about a sustainable recovery of trust, companies – especially those most in the public eye – must renew their commitment to a positive notion of the company, coupled with a desire to have a positive impact on the common good of society. This does not demand great economic resources; what it demands is a new management's mindset. Now more than ever, the well-being of citizens and the recovery of trust depend to a large extent on the performance of companies and the work of entrepreneurs and senior managers. The good news is that neither companies nor senior managers are called upon to do anything extraordinary, merely to perform in full their mission and role in society today.

#### MORE INFORMATION:

- *Building respected companies*, Jordi Canals. Cambridge University Press, 2010.
- *Towards a new theory of the firm*, Joan Enric Ricart and Josep Maria Rosanas, BBVA Foundation, 2012.