Transforming companies into respected institutions

Respect for business has fallen. IESE Dean Jordi Canals suggests how to make companies respected institutions in society once again. His framework, based on a holistic view of people and the firm, will help CEOs restore credibility to business.

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By Jordi Canals

Respect for companies, which had been improving since the 2008 global financial crisis, seems to be in decline again. At the end of 2015, Edelman's annual Trust Barometer showed that the public's trust in business had fallen in 16 of the 27 countries surveyed, sitting below 50 percent in most countries for the first time. One contributing factor is the declining quality of leadership in large companies.

The erosion of respect for business can be linked to the unquestioning focus on shortterm profit maximization and shareholder returns that has come to shape decision-making in the business world. Although profit is a necessary condition for firm survival, problems arise when business strategies, the selection and compensation of CEOs, managerial incentives and other board decisions all revolve around that single-minded goal. The problems are compounded when shareholder value becomes more important than service to customers, employees and other stakeholders.

In addition, business in the 21st century has become more complex. The interconnectedness of our systems means that a firm's impacts are felt much more on society. Consequently, the problems get amplified, as in the case of the global financial crisis. But the upside is that companies have a greater potential to do good – if they broaden their vision beyond profit maximization to include what they can and should do in society in exchange for what society

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gives them. Some of today's most pressing social concerns – from global warming and immigration to pensions and youth unemployment – would benefit from public-private partnerships in which companies play an integral part in the solution.

This article suggests how to make companies respected institutions in society once again. I start by arguing that a firm's heterogeneous goals cannot be limited to short-term economic performance. Instead, managers need to embrace a much more holistic view of the firm and its goals. Then, I outline the qualities that make a firm a respected institution and present a framework to assess the firm's performance in this regard. Finally, I offer some implications for CEOs to help restore their credibility as leaders.

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