

Restoring Respect in a Damaged Institution

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A new book by Jordi Canals, dean of IESE Business School, revisits the firm's essential purpose, and explores how firms can become respected institutions again through better leadership and governance.

With so many bright people leading our corporations, why was the financial crisis not averted? Rather than finger-pointing, in [Building Respected Companies](#), IESE Dean [Jordi Canals](#) gets to the root of our current woes: corporations are suffering from a crisis of identity and purpose. Only by rethinking the true nature of corporations and their role in society will firms be able to retake their rightful place as one of our key institutional pillars.

"We consider firms to be vital institutions for society and believe we cannot afford to see them and their reputations crumble," says Canals.

Regulation can go some way toward address the shortcomings, but Canals believes the debate needs to go further. The book aims to shift the debate from a strictly regulatory one to refocusing on the firm's primary mission and purpose.

"It is imperative that we rethink the notion of the firm, what its purpose is and what role it should have in society. Unless we reframe this notion, opportunism and short-term views will dominate any debate about the firm."

Changing the dominant paradigm

Canals suggests that if the dominant ideas do not change, then not only is the success of firms at stake, but the well-being of individuals and progress of society are also placed in

jeopardy. Retaking their place among society's most respected institutions may be a long and complex process. Canals offers the following considerations.

- *The Firm's Purpose*: This is the starting point - putting a proper focus back on the firm's fundamental mission and purpose, which affects everything else: what goals are set, what strategy is adopted, and the speed and effectiveness of their execution. Canals challenges prevailing views of the firm that would put "maximizing shareholder value" as the supreme goal. Emphasizing that firms are made up of people who serve clients with goods and services, he enlarges the limited indicators of corporate success to include social as well as purely economic value. "The firm has to be profitable," he writes, "but profitability alone is not enough to ensure the firm's long-term survival or improve its reputation as an institution." Helpfully, he devotes an entire chapter to elaborating the key pillars upon which a respected company is built, laying out the institutional framework that will structure a firm for success over a long period of time.
- *Governance*: One of these key pillars relates to governance. Since the recent financial crisis, greater attention has been paid to certain governance mechanisms, such as the role of the board of directors. Again, Canals is quick to move the debate beyond the obvious areas of regulation and the statutory structures and functions of boards. Boards are central instruments in firms' long-term health, and they are stewards of a corporation's reputation; as such, they must be inspired by four basic principles: transparency, specialization, collegial decision making and unity, all linked to having healthy working relations with the management team.
- *The Role of the CEO*: Ultimately, the CEO plays a central role in affecting corporate performance and assuring that the firm reaches its destination. To do so successfully, the CEO must embody the firm's mission and set an example through professionalism, innovation, initiative, integrity, team building and a shared culture and values. These all come from the character and experience of CEOs and senior managers themselves, not from external regulation, Canals emphasizes.

Throughout the book, the author spotlights companies such as Henkel, Nestlé, Medtronic and Bertelsmann. These and other companies demonstrate how remaining faithful to a multidimensional mission is indeed compatible with financial performance.

The book's recommendations reveal the shortcomings of flawed notions of the firm as a profit maximizer, or the belief that regulation alone will solve everything. Instead, Canals points the

way for firms to reclaim their rightful place as problem solvers, investors in people and innovators able to meet the challenges posed by society. In doing so, firms will once again command the respect they deserve.

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