a blueprint for better business?

Uniting corporate purpose and personal values to serve society

Business Success Through Serving Society

24 October 2013

This booklet gives an overview of the presentations and discussions that took place at a conference held in October 2013.

For more information on the "a Blueprint for Better Business?" initiative and on the content of the Conference, to include a live podcast of the speeches and discussions, visit *http://blueprintforbusiness.org/*

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OVERVIEW

Vincent Nichols, Archbishop of Westminster opened the conference. This was followed by John Kay, academic and commentator who spoke about the business need for change.

Sue Garrard , from Unilever and Loughlin Hickey, co-chairs of a steering group working on the 'a blueprint for better business?' initiative, spoke about the work that had been done over the last 12 months and set out the objectives of the initiative from a business perspective.

A number of senior business leaders and representatives from wider society then debated the following questions, facilitated by Jon Snow from Channel 4 News:

What is the role of boards and management in leading the way?
Bob Walker, Chairman, Barratt Development & Genus plc
Sir Ian Gibson, Chairman, Morrisons
Paul Feeney, CEO, Old Mutual Wealth
Noreen Doyle, non executive board member, Credit Suisse & Newmont Mining

Are investors incentivised to serve society?
Saker Nusseibeh, CEO Hermes Fund Managers
Anne Richards, CIO, Aberdeen
James Macpherson, MD, BlackRock
John Kay
Jeremy Cohen, from Edelman also presented the results of a survey looking at trust in investors as a backdrop to the debate.

How can wider society promote positive change?
Frances O'Grady, general secretary, TUC
Dame Barbara Stocking, former CEO, Oxfam GB
Sir Richard Lambert, former director general, CBI & chair of new professional body on banking standards

The keynote address was made by Justin Welby, Archbishop of Canterbury

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"It is not a credible alternative to focus solely on maximising profit and making amends to society as an afterthought. All the actors in society need to play their part, from companies, investors in companies, and social commentators, to academics and institutions that represent people in society. Hence the broad range of our conversation today."

Vincent Nichols
Archbishop of Westminster

In his opening remarks, Vincent Nichols explained that the initiative originated in 2011 when he was approached by a number of business leaders concerned about the extent of the loss of trust between business and society. They came to him because they felt that, to restore trust, business and society had to work together and that the ethical traditions in 'Catholic Social Teaching' brought relevant insights to the reclaiming of the true purpose of business and to restoring trusted relationships. A conference was held last year to launch the initiative and since then the ideas have been tested and further developed.

He emphasised the importance of the next generation and introduced a short video representing the views of some young people on business and what they would like business to be.

He introduced the agenda for the day - "the need for a whole community to play their part in ensuring that business success is intertwined with the success of the society that allows business to thrive." This includes faith. He continued "some believe that in a secular society gifts emanating from faith traditions should be regarded with suspicion. But let us all be clear here today; what binds us together in this quest is not a narrow faith or religion but our common desire to be motivated to do the right thing by each other."

He ended:

" What has struck me about the work done since last year is the releasing of great goodwill and interest. There are many who have given huge amounts of time to an initiative about which they feel passionately, from their own careers and experience in business. I believe the fruit of that work offers a good challenge not only to businesses but also to other organisations and institutions, including my own, in thinking hard about what their purpose is, and whether or not they are consistently true to it. The common good can be a touchstone not just for business but for wider civil society too."

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KEYNOTE ADDRESS: WHAT IS THE BUSINESS NEED FOR CHANGE?

John Kay
Academic & Commentator

John Kay discussed the importance of purpose, with an example drawn from a well known company, asserting that its ultimate demise was due not only to a shift from stakeholder orientation to one focused primarily on profit maximisation, but also from one of innovation and 'responsible' application of chemistry and related sciences to a focus on existing businesses.

"The principle of obliquity is that complex goals are often best achieved indirectly." His observation was companies are likely to be more successful, even from the narrow focus of business profitability, if they pursue broader objectives. This broader pursuit needs to be authentic. It is not enough to pretend to focus on a broader objective whilst in reality focussing on a narrow objective such as making a lot of money; such instrumentality will be seen through.

He observed that it was possible to plan a focussed objective and get there, but only in a system that we know and is specified, where things are stationary over time and the system is not significantly affected by our interaction with it. This is not the case in business. We don't have complete knowledge of how business works, the environment in which we operate is changing all the time and it is affected by our interventions. ***"When a characteristic is selected for an uncertain and imperfectly known environment, deliberate action to promote that characteristic is often self-defeating..."***

He discussed the role of virtue ethics and Alasdair McIntyre's analysis in relation to virtuous 'practices' as they might be applied in a business context - although McIntyre remained sceptical about their place in business. John Kay's analysis showed that where there was reliance on individual skills and initiative together with teamwork, as opposed to supervised repeatable tasks and silo working, the motivations and values inherent in seeking excellence in skills ('practices') that are inherent in virtue ethics provides a superior model.

Financial success is a by-product of running a good business. Ethical dilemmas are real however. John Kay concluded: ***"The purpose of business is not to do good, the purpose of business is to be a good business."***

As well as using the example above (and the dramatic impact on the organization from a change in purpose and focus), John Kay discussed examples drawn from NASA (and the intricate journey to place a satellite in position to take pictures of Mercury) and the fishing industry (and the impact of industrialising skills, initiative and community).

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Sue Garrard
Unilever

Sue Garrard set out the objectives of the initiative from a business perspective. She had worked on the initiative with a small team from Unilever and spoken to a large number of leaders of large organizations over the last 12 months.

"The objective is to give leaders with courage who want to lead in a different way a simple, actionable framework."

From a leadership perspective she likened business to a three legged stool consisting of Compliance, Profitability and Purpose. A great deal of work continued to be done on Compliance and Profitability but many business leaders wanted to find their way back to the origins of their purpose - when the business purpose more clearly also served a social purpose. This distance from original purpose has coincided with a 'grass roots' climate of fear in people of losing their job which meant that people were 'checking in' part of their enthusiasm and capability at the front door of the organization. Most people wanted to have a value, meaning and purpose in what they did with most of the time in their daily lives and it was amazing the "power you can unleash in people when they understand how they can contribute to the purpose of their organization"

Sue set out the following 5 principles of a purpose driven organisation:

- Performance aligned with clearly defined purpose
- Responsible approach to employees and suppliers
- Deals fairly with customers and suppliers
- Behaves as a good corporate citizen in the communities it touches today
- Behaves with conscience as a guardian for future generations

Aligned to these themes need to be the right personal behaviours as that is what people are judged by. As she put it:

"You can't talk your way out of something you have behaved yourself into."

She explained that the initiative is independent in the broadest sense (both of business and any other one single viewpoint such as faith or NGO's) and it is voluntary, being designed for people who want to run their business to a higher standard. She emphasised that it is not an attempt to create a kite mark or a compliance burden. It is also not about scoring points over other organizations. It is about helping organizations who have the courage to embark on what is likely to be a long journey to discover and evidence what good business and good behaviours looks like for that organization.

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Loughlin Hickey
"a blueprint for better business?" steering group

Loughlin Hickey explained that a lot of work had been done to test the nature of and need for the initiative. Each interaction brought new perspectives but there were some common questions which he addressed:

Where does this initiative fit in and why is it valuable? There is a spectrum of organisations looking at this issue - regulators: *outside* business but focusing on what business absolutely must do in respect of behaviours as well as systems and processes; *business funded* institutions: (such as Business in the Community, Tomorrow's Company, CityUK, City Values Forum the Institute of Business Ethics, New Economic Foundation, etc.) doing some great work on implementation tools to go beyond the minimum; and then this initiative, which stands *alongside* business and society, not captured by either, looking at *why* this is the right thing to do. Each is necessary and has a role across the spectrum.

Do I need to be religious to do this? Everyone has their part to play, including faith institutions, but you do not need religion to have a strong set of values and a sense of what it is to be a good person. The Blueprint for Better Business Framework is about how the human person acts when at their best. As one business person put it during a discussion of the concept "I see this is a 'hard-wiring diagram' of how people are motivated to do good. That means I can design a work environment and people development to tap into that and expect, rather than hope for, a good outcome."

What would I need to do if I did sign up? It is not joining a membership but a movement of courageous people who want to go on the journey. The first courageous thing is to actually make a public statement of purpose that clearly demonstrates respect for the people that make your organisation work (employees, customers, consumers, suppliers, investors, citizens etc.) and also helps contribute to a common good. The next step is to demonstrate truth to this stated purpose - that growth, profitability, goods and services - over time - align to this stated purpose, so that it is a real purpose and not a purpose stated as just a PR tool, or a strapline.

What happens if there is bad behaviour? You would only join this journey if you if cared about building better business practices and you wanted to build trust in the people you rely on to maintain a sustainable business. If you are not authentic to your publicly declared purpose, the people you have sought to build trust with will judge you against the meaningfulness of the purpose to them and your alignment to that purpose; through their actions and collective discussion, through social media and independent commentators and by calls for less or more regulation. This is a powerful 'motivator and sanction'.

"We believe this can make a fundamental difference to those who want to make a fundamental difference"

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The panelists each gave their insights into the role of boards and management and the dilemmas they face.

Bob Lawson discussed some practical examples, in two diverse industries, of the choices and dilemmas that flow from pursuing a clear purpose, and the Board's primary responsibility to make the right choices. He expressed the view that the authenticity of the Board in pursuing purpose has the most wide ranging impact on employees, customers and potential investors.

"the Board should be the guardian / creator of the company culture and ethics "

Bob Lawson
Barratt Developments plc & Genus plc

Ian Gibson described how the Morrisons Board initiated a 'grass roots' programme to unite a workforce to build a common purpose they would be proud of, alongside a set of values and personal accountability. He talked about the Board's role in keeping this connected with the financial outcomes demanded by investors.

He also observed how different the dialogue of top management in the UK and US is to other countries. He also felt that in other countries the dialogue with investors is focussed on wider agendas and less on financials and that there is much less turnover of shareholders.

Sir Ian Gibson
Morrisons

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Noreen Doyle
Credit Suisse & Newmont Mining

Noreen Doyle spoke about the dilemmas facing boards of banking and mining. She observed that banks have moved from being "dull and reputable to complex exciting and disreputable!" They had also lost the thread with clients and customers. The mining industry had been on a different trajectory; prompted initially by NGO's and local communities to take environmental responsibilities more seriously, they had moved on to become more focussed on social and community issues. This led to different conversations in Boards; in banking there was an increased focus on the culture and behaviour of employees which was consistent with a regulatory shift in focus, and in mining there was more time on social issues and working with local communities and NGO's.

Paul Feeney
Old Mutual Wealth

Paul Feeney described how a technical, 'corporate engineering' vision was received well by the investor community but failed to engage his people, who did 'care' about what they did and did want to 'make a difference'. The impending social crisis of inadequate pension savings provided a platform to make a real difference to create 'real solutions for real people'. This prompted the company to think through what it would have to do and the consequences, including governance and new product design to truly meet the needs of customers, and to close product lines that no longer served them properly. This purpose had to also deliver on the financial promises made to investors who provided the capital to make the change. He ended:

"We don't have a better map - we don't know what the future is going to be - what I'm trying to do is build a better ship to weather the storms by connecting with employees and customers and re-building trust."

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From Edelman survey of investors June 2013

As a backdrop to the debate, Jeremy Cohen presented the results of a survey looking at trust in investors carried out by Edelman PR, together with the CFA institute, in June 2013. The survey showed that, overall, trust in the Investment Management industry is fragile, with half of investors trusting investment managers to do what is right. It showed that investors are looking for more than performance and financial gains – they care about their firms' and investment managers' behavior.

He concluded that investment managers should always have an eye toward performance and fees, but behaviours come above performance in building trust .

Jeremy Cohen
Edelman PR

In response to the question posed, Saker Nusseibeh explained that the issue with asset management is that it has broken the value chain and, because of this, asset managers "are incentivised not to achieve total value but to achieve very small specific targets …which might not be the right targets in the long term."

He then posed the question - should the industry try to do good? He said, there is no amorphous group of 'investors' - everyone is an 'investor' everyone who will be a pensioner at some point and we can tell the people who run our pension schemes what we want them to do with our money. He explained that Hermes is unusual in that it is owned by pensioners and has union representation to reflect that - "my shareholders are interested in returns of course but are also interested in doing good." He emphasized the importance of a longer term view of the value chain - investments that have a more holistic approach benefit everyone in the longer term.

He concluded that we should empower ourselves to be more controversial and sometimes to take decisions that might not be the correct business decisions in the short term but because it is the right thing to do.

Saker Nusseibeh
Hermes Fund Managers

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Anne Richards
Aberdeen

James Macpherson
BlackRock

John Kay
Academic & commentator

Anne Richards agreed that the complexity of the value chain is an important issue and would like to see government help with this by providing a long term stable cross party approach to eliminate some of the things that build in the short term focus.

She also felt it was important to define what we mean by 'doing good'. She felt that what was good to a beneficiary might depend on the time horizon in terms of when their pension is likely to be drawn. She said, pension pots of money are other people's savings - and we should think carefully about what we are dictating should be done with that money. Underlying owners have the right to say how they would like their money invested.

James Macpherson observed that most people find Financial Services 'boring' and spend an average of only 15 minutes a year thinking about their investments - they don't like doing it, so want to be able to put their funds with people they can trust.

In response to a question from the audience as to whether he agreed with the assertion that management teams cannot pursue the agendas they would like because the asset managers push them to focus on short term results, James agreed that there is short term pressure, but was not sure that companies cannot execute a long term strategy because of these pressures; many companies want to grow for growth's sake - even when it is not economically sensible to do so. A lot of good companies take long term decisions and take lower returns in the short term, and this pays off.

John Kay felt a relationship culture has been replaced with a culture around transactions and trading - and that the consequence has been the erosion of trust. He continued: the world at large needs to understand how much damage financial market regulation has done to the objectives the regulation was designed to achieve. Detailed supervision does not work. He felt that the answer was to address questions to do with the structure of the financial services industry, rather than the supervision of the behaviour of people in individual companies within it, such as the growth of the length of the chain of intermediation and the cost of this, and the endless scope for misalignment of incentives because every intermediary has its own business model. He felt we needed to move to one or two links at the most.

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" at the heart of business ethics...is human dignity. We need to keep coming back to that."

"We have to ask ourselves: what is the social purpose of business? What kind of society do we want to be in and want our children to inherit?"

Justin Welby
Archbishop of Canterbury

Drawing on the parable of the generous vineyard owner - with his 'deep sense of belonging to community' - the Archbishop used his keynote speech to propose perspectives that "should be at the heart of our ethics" in order to tackle issues of regeneration. The Archbishop called for a financial services system which is "positive about entrepreneurs" recognising the "dignity" and "integrity" of human beings and allowing them "to take risks, to succeed, and to fail."

He put forward five perspectives that he thought should be at the heart of our ethics if we are going to think about, let alone tackle, the issues of regeneration. Firstly, valuing human beings in every part of society and not just within the M25.

Secondly, more flexibility in attitudes to the aspects of risk-taking, liquidation, failure and insolvency, to help better deal with what happens when people cannot face their obligations and gives small businesses the chance to take the risk of failure.

Thirdly, the static structure of regulation - he said Solidarity demands not merely a sense of responsibility for others in society, but the exercise of initiative in driving forward wealth-creation in a responsible manner. Fourthly, culture - "we cannot end up with a business culture that sees ethics as confined to corporate social responsibility..."

Finally, he concluded that this is all essentially comes back to motivation:

"Is being good in business merely about keeping the rules? If you keep the rules you're OK - that's pure Friedman. I think that's been utterly disproved. One of the things we saw on the Parliamentary Banking Standards Commission most clearly was people were constantly asking what was legal and never asking what was right. And that is the question we have to get back to asking."

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Barbara Stocking
Former CEO Oxfam UK

Frances O'Grady
General Secretary,TUC

Sir Richard Lambert
Chair of new professional body on banking standards

Barbara Stocking responded to the question posed asserting that there is an element of accountability of business to society. Society can tell business what it thinks - consumers, in particular, can show business if they don't like something. Protests, media interest, and employees in particular - all of these can influence companies' behaviours. The issue is at what point companies actually listen - they can get to better solutions if they listen early and enter into a dialogue.

Frances O'Grady cited an example of positive change when unions and NGOs worked together, following the Bangladesh disaster, to convince many businesses to sign up to a charter to protect workers, which meant companies taking moral and practical responsibility.

She felt that one of the reasons there is so little trust in all sorts of institutions is that we have seen a degradation of democracy, not just in the political sphere but in the economic sphere too. There is a need to look at structures as well as institutions, for example corporate governance to consider worker participation. Workers feel they have less opportunity to be listened to, to have a dialogue, at a time when we have seen a massive inequality in pay. This inequality drives disconnection - 5 million people on the end of a long value chain on less than the living wage, that are faceless to their employers.

Richard Lambert wants to see a return to codes of professional integrity. He agreed with earlier statements that rules and regulations are not enough, but being good is not enough either. Some of our big global banks were led by people of unquestioned moral authority and integrity but that did not stop some parts of their far flung empires being engaged in unethical or illegal activities. There has been a 'managerial approach' to responsibility which is more about compliance than personal integrity and accountability. Also banks seemed to have changed their sense of purpose from client service to profit maximisation.

He agreed it is harder for wider society to influence the financial services sector because of the lack of competition in the sector and to some extent inertia. However, in response to a question as to whether there is hope - he responded that we can learn lessons from the recent catastrophe - good people have learnt lessons and he believed they will address the shortcomings.