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HOW BUSINESS LEADERS CAN REBUILD TRUST AND RENEW THE SOCIAL CONTRACT

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IT HAS BEEN NEARLY a decade since the financial crisis struck, sending the global economy into a downward spiral and prompting business leaders to talk of the need to acclimatize to a “new normal.” Now, those dark times appear to have been all but forgotten. Many leaders are acting as if things are back to normal, back to how they once were. But they are not.

Even if, statistically speaking, more people are better off than they have ever been, there is a widening gulf between the richest and the poorest in societies around the globe. In emerging markets, including some of the BRICS countries, the rays of hope have dimmed. In developed markets, many people have a strong feeling of being worse off, certainly relative to others and even more so relative to expectations.

There is also a widening gulf between the elites—business leaders, politicians, the intelligentsia—and the rest of society. Scandals, fraud, and a sense that the people who led the world into crisis have not suffered the consequences of their actions—

these have eroded trust. For many, the social contract, the unwritten bond between leaders and the people, has been breached.

It is not too much to say that in many parts of the world, society is at a crossroads. But which way to turn? In our view, the time has come to act: specifically, to rebuild trust and to renew the social contract. Everyone has a responsibility—but business leaders have a particular obligation. Companies are the engines of the global economy. They hold the keys to the future. It is imperative, therefore, that business leaders take a new approach—one that signals that this time things *are* different, that lessons *have been* learned, and that they *will* manage for the benefit of the company, the business network, and the wider community.

Leaders can do many things to fulfill their obligation. Here, we present six actions. They are not intended to comprise a comprehensive list. But if leaders pursue them, there is every reason to think that trust can be restored, the social contract renewed, and the global economy put back on track.

Lead by Example: Do the Right Thing

Nothing exposes the gulf between the richest and the poorest, between the elites and the rest, like corporate pay. Although the pay gap varies by country and by industry, it has widened almost everywhere, and dramatically so. In the US, the top 500 CEOs earned 347 times the average worker's wage in 2016, according to a report by the AFL-CIO, the largest federation of US unions. It should be no surprise that such rewards are questioned—especially in the aftermath of the financial crisis and corporate scandals, and in the absence of a demonstrable link between higher executive pay and better corporate performance. In Sweden, CEOs generally earn significantly less than CEOs in the US and UK. Yet Swedish companies perform very well in international comparisons.

Corporate boards have been seemingly powerless to restrain rising pay packages, pointing to the exigencies of a global market. But there is another option. Leaders themselves could—and should—act. In their heart of hearts, they must know when too much is too much. It is time for a measure of self-restraint in the C-suite. Ultimately, this is what leading by example means. Business leaders need to be aware that they are role models. If they behave in a fair way, if they do the right thing, they will send a visible signal of moderation for others to follow. If they don't, others may still follow, thus compounding society's inequalities.

Manage for Profitable Growth: Be Ambitious, but Be Inclusive

Over the years, companies have found clever ways to boost their share price. But does this mean that they have created real value—that is, *profitable* growth? Not necessarily. If anything, it has led to the cynical view that corporate leaders are focused on short-term shareholder value rather than on long-term stakeholder value in order to inflate the company's share price and, with it, their own pay.

Going forward, leaders should emphasize value generation for customers, employees,

and suppliers as well as shareholders (who will ultimately see greater benefits through improved and sustainable returns). For customers, that means creating an excellent buying experience that could turn them into brand advocates. For employees, that means creating a working environment that offers purpose beyond the day-to-day quest for profit. For suppliers, that means creating an inclusive, collaborative relationship, welcoming them into the corporate family.

One company doing this effectively is Mercadona, the Spanish family-owned grocery retailer. It aims to satisfy “the boss,” as the consumer is called, by taking account of the interests of employees, suppliers, and the wider society. In this way, the company tries to obtain “benefits as a consequence of doing things properly.”

Another example is Natura Cosméticos, the Brazilian beauty products maker. Sourcing many ingredients from the Amazon rainforest, Natura has grown into an international enterprise by doing good, promoting environmental consciousness, and paying more than 1.4 million customers—many of them former stay-at-home mothers—to become direct sales consultants.

Empower Employees: Invest in Their Future, Invest in Your Future

A company is nothing without its employees. By investing in them—by empowering them—executives are investing in the future of the firm. We often hear companies complain that insufficient numbers of skilled workers are coming out of schools and universities these days. That may be so. But companies are well placed to do something about it. They must take the initiative.

For a start, they can actively engage with local schools and universities—as many do. Companies in Austria, Germany, and Switzerland, for example, work with public schools to run apprenticeship programs that train young people to be everything from electricians and plumbers to assistant managers. In addition, many large and midsize companies around the world support pio-

neering R&D at universities—helping professors and their students understand the needs of business in the process—and offer programs that prepare new hires for success in the workplace. For example, in the UK, the inventor James Dyson, faced with the need to double his number of engineers to 6,000 by 2020, has partnered with the University of Warwick to launch a four-year “immersive” engineering degree that offers employees the chance to make contributions to inventions during their studies.

Investing in upskilling and reskilling programs is another way to empower employees. In this digital age, job requirements don’t stay the same for very long. In some cases, work is being automated, but skilled people are nevertheless in short supply, and it is essential that companies help their employees adapt and develop. Ultimately, the best people will go where they have the best opportunity for advancement—companies with well-resourced training programs.

In India, for instance, Infosys offers fast-track “nanodegrees” designed to help employees become job-ready by training them in sought-after disciplines such as data science and machine learning. Meanwhile, in the US, John Deere, which has its own corporate university, is preparing for the day when the world’s population reaches 9 billion—probably 2050—and there will be a need for increased agricultural output. The company runs two-year associate’s degree programs to ensure a strong flow of employees with the skills to keep its farm machines operational and efficient.

Build the Business Community: Look Outward, Look Beyond

There is an old African saying that’s much quoted but rarely heeded: “If you want to go fast, go alone. If you want to go far, go together.” Never has this message been more relevant. Every company is part of the business community in which it operates, and while “hardball” competitiveness is essential to enduring success, so too is cooperation. The two, in fact, are intertwined. Competition among good compa-

nies leads to better products and services. And a strong network of business partners is in everyone’s interests.

One way companies can build a robust business community is by creating strong ecosystems—networks of suppliers and business services providers. The automotive hubs in Mexico, India, and Central Europe, are a good example.

Another way is to work with key government institutions in the development of core infrastructure, including the digital and transportation networks that are so vital for conveying information, supplies, and products. Mining companies, for instance, often invest heavily in roads, railroads, and ports to ensure that their ventures can operate effectively. Some even invest in social infrastructure—such as housing, hospitals, and schools—to ensure that their employees are fit, healthy, and happy. For example, in an education initiative in Roxby Downs, South Australia, BHP cooperates with the local schools and with parents to improve learning outcomes for students by introducing best-practice models. Anglo American invests in housing, sanitation, schools, teacher training, and local procurement in various communities in South Africa.

A third and increasingly important way that companies can build the business community is by fostering startups—the next generation of great companies. This can be done through wholly owned subsidiaries, through encouraging employees who want to build new businesses, and through supporting students and entrepreneurs who have interesting ideas. The big tech firms, such as Google and Apple, are renowned for doing this. It was, after all, not so long ago that they were startups. But some of the oldest companies—such as GE, Siemens, ABB, and Philips—are doing this. They are each more than 100 years old, yet they are nurturing startups and entrepreneurs.

Support the Wider Community: Give Something Back

Companies are part of society. Business leaders sometimes seem to forget this.

There is, of course, much talk of public-private partnerships, but this term mostly describes the legal and financial arrangements for large infrastructure projects. In our view, a true public-private partnership needs to be altogether broader and more encompassing.

One way that companies can signal their readiness to support the wider community relates to taxation. Avoid paying taxes, and companies cheat not only the taxman but also their employees, their customers, their suppliers, and themselves. It is often said that companies have a fiduciary duty to reduce their tax burden. Yes, but they also have a duty to society. If companies go too far in avoiding taxation, even without violating the law, they risk undermining the system that they rely on for their very existence. Taxes are the subscription to a civilized society. They pay for the police-women and policemen who keep the streets safe, the teachers who educate future customers and employees, and the doctors and nurses who keep them healthy.

Tackling carbon emissions is another way that companies can contribute to society. Around the world, new targets on limiting emissions are being set, and these clearly represent a big challenge for many companies. Some business leaders complain bitterly about them. But surely protecting our environment is in the interest of everyone? In our experience, emissions targets force companies to become more thoughtful about how they use energy and other resources—and ultimately to become more efficient. (See “The Urgency—and the Opportunity—of Smart Resource Management,” BCG article, September 2017.) In other words, it is possible to do well by doing good. Thankfully, many CEOs are taking this seriously—as suggested by the commitment of many companies to ensure that the targets of the Paris Agreement are met. But more CEOs could be doing so.

Companies can also help the wider community by focusing on key topics of human and economic development. Many companies claim to do this—but frankly, their

efforts amount to little more than window-dressing. The companies that take this seriously make significant contributions to a limited set of causes over many years: Danone, for instance, focuses on food security in Africa; DSM also works to fight hunger, supporting the World Food Programme.

Give Voice to a New Way of Doing Business: Speak Up, Speak Out

In the wake of the financial crisis, business leaders, so visible and voluble beforehand, fell silent. This was understandable. They had a job to do: ensuring that their company would survive the credit crunch. Now, however, they need to participate in public debates, share their views, and come up with ideas and solutions. Staying silent so as not to become a target may look like a safe option, but it isn't. If business loses the trust of society, the economic system as we know it will come under pressure, to the detriment of us all.

It is sometimes said that the economic system works for the few, not the many. This needs to be reversed. It is important for business leaders to spend time understanding the true needs of people—employees, customers, suppliers, shareholders, members of the local community. And then, by communicating widely, they can show their commitment and willingness to be beacons of change. With 24/7 media and social networks, it has never been easier to do this.

In Indonesia, a country with a population of 260 million, President Jokowi makes a point of getting out of Jakarta, the capital city, to meet the people. Every week, three days out of seven, he is out and about, hearing for himself what people have to say. Business leaders would do well to follow his example.

CHOOSING TO DO the right thing isn't always easy: showing restraint on pay when your rivals don't; resisting the temptation to artificially inflate your share price when others don't; paying for upskilling and reskilling your employees, who may

then leave to join a competitor; strengthening the business community even if that may increase competition; paying your fair share of tax, and protecting the environment, when others avoid doing so; speaking up and facing the added scrutiny that comes with greater exposure.

Ultimately, it's a choice. But a lot rests on it. Companies make the world go round: they create the jobs and the opportunities for people to shape the future together. They can make a difference. They can make *the* difference. If you're a business leader reading this, what choice will you make?

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