

**Business**  
& Finance

# THE PRINCIPALS CLUB

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The Merrion Hotel  
February 22nd 2018

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Remarks by  
Niall Fitzgerald, KBE,

The Principals Club Dinner

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## PRINCIPLES FOR PRINCIPALS

*Remarks by Niall FitzGerald KBE addressing the Principals Club dinner at the Merrion Hotel, Dublin, 22<sup>nd</sup> February 2018.*

"We are in the midst of an existential crisis - a crisis of leadership. People around the world have lost trust in leadership.

Political leaders - Religious Leaders - Business Leaders  
And most recently Leaders of Charities, NGOs and State Institutions.  
And it is hardly surprising.  
Leaders cannot be trusted to deliver what they promised.  
Leaders do not behave in ways consistent with their own rhetoric.

And the result

- The return of the populist politician with easy solutions
- The rise of business leaders consumed by their own self interest
- The collapse of moral authority in religious bodies and public institutions

Despite this dramatically broad canvas, this evening my ambition is modest, I seek only to deal with Trust in Business Leadership - what might be termed "Principles for Principals".

I spent many years with Unilever, which had its origins in the Lever Brothers soap company. William Lever, described a real social purpose to this enterprise in Victorian Britain. It was,

he said: "To make cleanliness commonplace; to lesson work for women; to foster health and contribute to personal attractiveness, that life may be more enjoyable and rewarding for the people who use our products." It was a remarkable vision in Victorian Britain.

Yet businesses were not created to be moral beings. They might operate in ways that we might regard as moral or immoral, but their primary purpose was the creation of wealth.

William Lever is interesting because of his far-sighted view of the purpose of his business and the way in which his factory treated its workers. He lived at a time when the fabric of society and the forces in society were very different from today. There was little or no state-funded social provision and many businesses operated in appalling conditions. He believed he had a moral responsibility to help, both through business and his personal actions.

He built a 'garden village' for his workers at Port Sunlight, on Merseyside. He introduced pioneering initiatives such as a shorter working week, sickness benefits, holiday pay and pensions. He made significant progress in health and safety initiatives. He built an art gallery for the employees.

He understood that it was in the interests of his business to act in this fashion. He said: "The truest and highest form of enlightened self-interest requires that we pay the fullest regard to the interest and welfare of those around us, whose well-being we must bind up with our own and with whom we must share our prosperity."

This idea of "enlightened self-interest" is an early recognition of the value for business of engaging properly with society, of making not just a moral case, but also a business case for that engagement.

Businesses have a huge effect on the world. They turn millions of consumers, employees, investors and citizens into players in global economic activity and growth. This is about improving standards of living and bringing people out of poverty. These will be the longer-term effects.

But, in the short term, globalisation has led to greater inequality - with a widening gap between the haves and the have nots - and damaging environmental impacts. Indeed globalisation is seen by many as the bogeyman who brought us Donald Trump and Brexit.

The two sides of the argument are well rehearsed. On one side of the balance sheet we have the benefits of goods and services, work, wealth, environmental protection, access to clean water, food, shelter and energy, the creation for individuals of higher standards of living and quality of life.

On the other we see a degrading of the environment, the use of finite resources, a concentration rather than a spreading of wealth, short-term profiteering rather than long-term building and sometimes dangerous products. Traditional societies are disrupted, peoples displaced and workforces exploited. There is pollution, deforestation and climate change.

The question is how do we get business operating in a more consistently beneficial fashion?

The simplistic way is through regulation. Greater regulation followed the failures we saw in the financial sector. I mentioned self-interest earlier. Alan Greenspan thought the banks would exercise a degree of self-control because it was in their self-interest to do so. He could not imagine they would undertake courses of action so reckless and so counter to the interests of their own customers as to bring about their own destruction.

Many financial institutions object to new regulatory controls. But the level of recklessness that we saw in financial markets made it difficult to defend the old system. In the words of Hector Sants, then head of the UK Financial Services Authority: "A principles-based approach does not work with individuals who have no principles."

When businesses use freedoms irresponsibly and in an unaccountable fashion, it is inevitable that governments will curb those freedoms through regulation. Indeed, society will demand it.

But I don't think regulation is the whole answer. I think it will be hard to make it work in practice and I think it ignores the most important point of principle. Leaders should not be let off the hook for the reckless behaviour in which they indulged.

When you have regulation, the temptation is to look at the rules and resolve to work - just - within them. It leads to a philosophy of "what can we get away with?" But just because something is within the rules, doesn't make it the right thing to do.

By concentrating on new legislation, on coercion, we absolve business from the need to think about how it acts. The question should not be: is this legal but is it right?

Regulation gives directors who run companies the chance to sit on their hands and say: we were told we were acting legally. If they start to give some thought to whether what is going on is right, then that would be an immediate improvement in the standards by which they operate. Think of those very large companies who have legally avoided paying tax in many countries in which they generate substantial revenues. It may be legal but is it right to avoid supporting the infrastructure of the society that generates your revenue.

So regulation cannot be a substitute for individual responsibility - a commitment to explicit values and transparency of performance is required.

If you run your business on that basis, you learn important things about it - from the public, from your customers, from your own staff. When a company begins to gain a reputation for treating its workers badly, for abusing the environment, for reducing the quality of its goods, it comes under public pressure.

And if companies that behave badly provoke a hostile reaction from customers, so those companies that behave well will encourage the trust and support of the public.

But there is now a still more important initiative that companies must take for themselves. Business leaders need to acknowledge what has gone wrong and move to rebuild trust in business. They have a particular responsibility and opportunity to take the initiative. They must hold themselves to the highest standards of accountability.

Trust is not a property that can be bought. It is a quality that must be earned. There are times in life we may take people on trust, but we rarely trust them again when they let us down. Someone once said “trust departs on a fast horse and returns if ever slowly on foot”. We must learn to trust on the evidence before us. This is how businesses rebuild trust - brick by brick.

In simple terms business cannot work, banks cannot lend and societies cannot flourish without mutual trust and respect.

What are the principles that encourage trust? Perhaps the main one is embodied in all the great religions of the world, the idea that we do unto others as we would have them do unto us.

I hesitate to trade scriptures in this setting, but let me start with Matthew: “All things whatsoever ye would that men should do to you, do ye so to them; for this is the law and the prophets.”

We see similar sentiments in Buddhism: “Hurt not others in ways that you would not have them do unto you.”

In Islam: “No one of you is a believer until he desires for his brother that which he desires for himself.”

In Judaism: “What is hateful to you, do not do to your fellow man. This is the entire Law; all the rest is commentary.”

Perhaps helpful when the daily images on TV suggest that religious difference leads to hate to remind ourselves that the underlying philosophy in all mainstream religions is almost identical.

Or, if some feel it uncomfortable to look to religion for guidance, we can look back to the “self-interest” identified more than 100 years ago by William Lever.

In other words, it makes sense for businesses to behave better.

They should behave in a socially responsible way not because they think they ought to - attractive as that moral probity might be - but because it is absolutely in their longer-term commercial interests to do so. For a business to be sustainable in the long term it needs a properly functioning society around it. Intelligent business leaders realise that they share responsibility for building and maintaining that society. You cannot have a sustainably successful business in a broken society.

Social responsibility has to become a core value of the business, a central tenet that affects

the way it works. When companies invest for the long term in the productive capacity of an economy, they can fuel a virtuous, stabilising circle of economic activity. In making strategic decisions, the business must understand the impact of its actions and seek to minimise any negative effects.

Businesses should be explicit about these values and ensure that all employees understand that they will be judged on their contribution to this core value of social responsibility as much as they are judged on such things as production and sales.

Sometimes the benefits of behaving properly are brought home to you in graphic form.

But don't think this is easy. Commercial decisions do not necessarily have obvious and indisputable social benefit. There are tensions between commercial opportunity and social impact. Tough trade-offs have to be made. These issues are rarely clear-cut or straightforward. There are sometimes no right answers. If, in hindsight, we get some wrong, at least let us make them with social responsibility in mind. Then we must find it easier to say sorry - quickly - when we make mistakes - and easier to learn. Reputation is often destroyed not by a bad event but by the absence of an apologetic, honest and transparent response. Think Oxfam.

So let us have companies set out their values and standards of behaviour, apply them in a way that is consistent with their culture, and then be prepared to explain why they take the actions they have. Trust is about being consistent in how you apply your values. Lack of trust comes when you say one thing but do another.

If you want to see what happens when you don't behave like that, look at the banks in the run up to 2008. The actions taken by many bankers were not in accordance with any values that could conscientiously have been laid down by a socially responsible institution or even one with its customers interests at heart.

Most financial institutions were not immoral in the sense of dishonest - but they were reckless and they were greedy and they grossly misled their customers and shareholders.

They developed financial systems that no longer bore any understandable relationship with the real world that we have always worked in, the world of products and tangible assets.

Perhaps we now understand that there is a difference between making money - which is certainly what the banks were doing - and creating sustainable wealth that is ultimately beneficial to society. It is the difference between trading and building.

When we start looking to the future we look naturally to the next generation, to finding ways to encourage bright young talent into an industry of which they can be proud. The view of business has been tarnished for many young people. They do not envisage the long careers in a single industry that my generation expected. We have to give them reasons to want to spend their lives in it. They need inspiration as well as aspiration.

People have become suspicious of business as a whole. That trust has to be won back. It will take time. We have to be clear that the world of business is an integral part of the wider world, with the same, long-term interests of those communities in which it operates.

It must again become deeply ingrained in our business leaders that customers are citizens who live in communities. If our business does not behave in a way, which is respectful to these communities, they will lose the respect of citizens and then their support as customers. This is enlightened self-interest.

Society receives substantial benefits from business - in goods and services, jobs, increased prosperity - and allows big rewards for successful business leadership.

Now it is entitled to demand better leadership - from men and women who combine returns for shareholders with responsibility for social and environmental performance. These must be leaders not only of their business but also within society.

Business works best when it has freedom to operate. Now is the time for business leaders to step up and show by their actions, that they deserve that freedom.”