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Transcript

Rebuilding Trust: The Road to Economic Recovery

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Jan du Plessis:

It's a pleasure to be here at Chatham House tonight to talk about how we rebuild trust in business – a topic which can fairly be described as current, controversial and complex. At a time when public trust in most of our major institutions is arguably at an all-time low, the topic is most certainly current. And to describe it as controversial must surely be an understatement. In fact, in thinking about tonight, I have over the last week more than once questioned the wisdom of – potentially – rushing in where angels would fear to tread. It's also not just about applying cold logic to a set of problems – there's a high emotional element here that makes this issue highly complex and I therefore thought I might start by telling you a very simple story.

It is a story I heard from a friend of mine who once ran one of the world's largest consumer goods companies. On a visit to Indonesia shortly after the fall of the Suharto regime, he asked one of the Colonels why the army appeared to have switched allegiances in such a short period of time, considering that for almost three decades they were prepared to support the status quo. The Colonel said it was very simple. For many years the average Indonesian family would wake up in the morning, look at their bowl of rice and realise that, although the bowl of rice was pretty empty, it certainly seemed to contain a few more grains than the week before. This scene played itself out over and over again, and over many years.

And every time this Indonesian family looked at their bowl of rice, it appeared to be ever so slightly fuller than the week before. Over time, this created a confident expectation that life was getting better. As overtly corrupt as the Suharto regime was, they were forgiven all manner of sins because people trusted that their lives would continue to get better. Then came the 1997 Asian financial crisis and to their utter consternation, our Indonesian family could see, week after week, that the rice bowl was getting emptier. What followed was a complete breakdown of trust. They were no longer able to overlook the shortcomings of a corrupt regime and the rest, as they say, is history.

I cannot think of a simpler metaphor to explain the breakdown of trust that we have witnessed across most of the developed world in recent years. During most of the 1990s and the first half of the previous decade, we seemed to live in almost utopian times. People's lives were generally getting better and there was little incentive for anybody to ask really probing questions. In the world of business, society's support was mostly taken for granted. But when the global credit bubble burst – incredibly, already some five years ago – that relationship began to change. The powerful link between economic progress and trust was yet again demonstrated. The single most important reason why this trust has so completely broken down and why people are today asking questions that for so long remained unasked, is of course simple. In the memorable words of Bill Clinton, ‘it’s the economy, stupid’.

In the late 1990s, Peter Mandelson famously said that he was ‘intensely relaxed about people getting filthy rich’. No doubt most of us in this room tonight find that statement intensely embarrassing, although if we are honest, we have to admit that at that time it reflected a widely held view. This was absolutely true during the boom years. People were relaxed about it. But now that the tides of fortune have turned, the sight of a small number of people getting ‘filthy rich’ has become anything but ‘intensely relaxing’. On the contrary and understandably, it has become a source of much anxiety and sometimes intense anger.

We have all witnessed the manifestations of this anger in public debate and public protest, the scale of which we simply haven’t witnessed for many years. The Occupy movement, under the banner of ‘We are the 99%’, is inaccurately characterised as having been confined to St Pauls and Wall Street, but it actually stretches to 95 cities in 82 countries, from Tunisia to Toronto. They claim to speak for the majority of people whilst increasingly the big institutions only seem to be serving a small elite. At the very least, they play on insecurities that we ignore at our peril.

The banking sector has been on the receiving end of much of this public anger and it is easy to see why. The extensive reputational and other challenges of the banking sector have received so much air time in recent days, that it is impossible for me to add anything original in this regard. However, from the perspective of the broader business community, we must be under no illusion that the extreme discontent with the banking sector and its pay practices have, over the last three or four years, morphed into criticism of the rest of us.

But the bankers have not been the only ones to feel the rage. Around the world, public trust in the political class has fallen off a cliff edge in the last two or three years – reflecting not only dismay at the expenses scandal that we have seen in this country, but more broadly growing impatience with their failure to get to grips with the economic challenges of our time and consequently to restore rising living standards.

And, of course, let us not forget about the media who have – in the context of the on-going Leveson enquiry – also been on the receiving end of much criticism. Like bankers, businessmen and politicians, the media are having to come to terms with severely diminished reputations.

Wherever you look around the world, you see the consequences of this breakdown of trust.

So, the big question is, how did we get ourselves in this position? I want to address this question more prosaically than we have become accustomed to, because in the enthusiastic blame game and finger pointing that we have seen in recent years, it has become fashionable to simplify and personalise the causes of this crisis. That is why we have seen the vilification of individual bankers, individual regulators and individual politicians. It might help us all to find solutions if we were prepared to acknowledge in less emotional terms that almost all of us have some responsibility or played some part in creating the dominant economic problem of our time: indebtedness.

The rapid industrialisation of China during the 1990s and the establishment of that country as the most efficient and awesome factory the world has ever seen contributed greatly to an increase in living standards right across the developed world. The China phenomenon, in my view more than any other, contributed to that long period of strong economic growth across Europe and North America, without the inflationary pressures that would normally have been associated with such growth.

Economists struggled to understand the impact of China and central bankers – with their eyes and their mandates firmly fixed on consumer price inflation – allowed interest rates to drift lower and lower. To everyone’s surprise and delight, we appeared finally to be celebrating the death of inflation. Right across Europe and North America we all participated in the feast, merrily enjoying the Goldilocks economy, happily tucking into our porridge which was neither too hot nor too cold – in fact, just right.

In retrospect, it is obvious that for too many years we were operating within an interest rate environment that was wholly inappropriate to our needs. Interest rates maintained at such low levels for so long invariably led to an explosion in credit. With the same certainty that night follows day, we all should have known that the credit explosion would lead to the massive asset price inflation which, years later, banks, businesses and home owners are still struggling to digest.

So, although everyone is today looking for someone to carry the can, the truth is that in some respects we are all responsible. Everyone borrowed more than they could afford. The banking sector saw unprecedented levels of leverage. The private equity industry flourished. Regulators believed in a light touch.

Businesses over-extended themselves. Governments not only borrowed more than they should, but were spending as if they genuinely believed in the end of boom and bust. And home owners accepted obligations at previously unimaginable levels.

Andrew Haldane of the Bank of England has quite rightly described the credit crisis as the 21st century equivalent of the South Sea bubble. I think this is an excellent analogy, not only because the two bubbles reflected a kind of collective madness, but because in both instances a number of highly regarded institutions and individuals were involved. Looking back, I believe historians will conclude that the failure to spot the credit crisis of the early 21st century was attributable to a collective failure on the part of bankers, businesses, investors, central bankers, regulators, and governments – so, in other words, most of us.

This assessment is important, because a touch of humility by all of us could do wonders to take the emotion out of the current debate and help us all collectively to design rational solutions that may break the current cycle of finger pointing. The important thing now is to focus on how we get out of this mess.

The one thing we all know is that, despite the very best efforts of governments, governments cannot create wealth and without wealth creation we will continue to be stuck in the current cycle of going nowhere in particular. And wealth creation depends on business – big business, medium sized businesses, small businesses and indeed sole traders. All of them are important and all of them require one essential commodity in order to grow – confidence. And for confidence to be re-established we will not only require a considerable change in mood music, but it is absolutely critical that we re-establish the relationship of trust between society and business. Because, whilst it might be tempting for business to blame politicians and journalists for the music they make, frankly it is up to business to change the score.

However, based on my earlier analysis, economic livelihoods and economic progress will need to be restored before we could really re-establish trust. We therefore find ourselves in a classic catch 22 situation. Economic recovery will require trust, but I am afraid trust will be very hard to re-establish in the absence of a meaningful recovery. So, how do we get around it?

Starting at the top, this is going to require leadership within the business community. We are going to have to accept that trust is no longer a given and we are going to have to make every effort to re-earn and re-build the trust that we all so desperately need.

In particular, large corporations and multi-nationals now really need to take up the challenge. We need to reassess how we do business and the decisions we make, in order to identify those areas where we know stakeholders rightly expect us to do better. But once we have done that, we also need to go out proactively and explain to the numerous stakeholders around us why they need big business. I am afraid, all too often in the popular mind, small and medium size businesses are seen to be good and, in simple terms, big businesses are suspected of being bad. Business – in particular big business – has a good story, but unless we are going to stand up and be counted, we cannot expect others to do so on our behalf.

Let me start straight away with the vexed topic of remuneration. It is absolutely clear that the spiral in executive remuneration that we have seen over the last two decades, simply cannot continue. Unfortunately, too many businesses sometimes appear to have lost all touch with reality and for too long boards and remuneration committees of public companies have been all too prepared to support remuneration levels that were not necessarily demanded by the marketplace. We are going to have to be much more responsive to how the public perceive us, more responsive to how our shareholders perceive us and more sensitive to how our employees perceive us.

In laying down this challenge, I do not pretend for one second that it is going to be easy. On the contrary, it is fraught with difficulties. For example, for multi-nationals with a UK base, the challenge of managing internal organisational dynamics and the constant movement of executive talent across geographies in such organisations, can become extremely difficult to manage. However, robust challenge will have to replace the lazy thinking that in the past so often characterised the pay debate.

This takes me to my second point which is more general: we in the business community must get better at listening and responding to what people really are saying. As Chairman of a mining company, I know that it is critical for us to listen and respond to the concerns of our various stakeholders. That is what gives us our licence to operate. When we establish significant operations, especially in remote locations, it is critical that we deal with great sensitivity with the environmental and other concerns of local communities. Failure in this area will jeopardise our business and we know that enshrining fairness and responsibility as core values that guide our approach, are essential to ensure that our work is sustainable.

So we should act in a way that is responsible: to the local labour market in terms of jobs, to the local government in terms of tax and to the local community in terms of community projects. However, I am sure we sometimes make mistakes and I have no doubt that we should always try and do better.

I am a non-executive director of Marks & Spencer and just the other week they received yet another major award for their Plan A initiative. That is M&S's approach to becoming the most sustainable retailer covering some 180 commitments the company wants to achieve by 2015. The plan covers issues such as packaging and supply chain management and is guided towards creating the kind of corporate practices, processes and policies which modern consumers demand. It is about behaving responsibly. It is about behaving ethically. And it is about behaving sustainably.

We now live in a world where society is continually upping its expectations of companies – in particular those that operate in the multi-national arena. Many of our annual shareholder meetings have long ceased to be meetings for shareholders in any real sense of the word, as they have effectively become a forum for a whole array of NGOs and special interest groups to promote their cause, sometimes quite forcefully. But I have increasingly come to accept that all those stakeholders play a very important role in connecting companies and society, and I always go to great lengths to ensure that they are treated with absolute respect and given ample opportunity to state their case.

There are also other areas in which multi-nationals can be a powerful force for good. I was born and brought up in Africa and it is a continent that will always be close to my heart. But, I have also seen how bribery and corruption has devastated much of that continent. That is why I think the Bribery Act is so good for Britain and the world that we live in. I know that some people in the business community have at times expressed reservations about this legislation, but I disagree with them. The principles of the act are clear, the guidelines published in relation thereto are practical, and overall I think it will go a long way to supporting better governance in parts of the world where it is badly needed.

In this context, Rio Tinto this year published a highly transparent and ground-breaking report which shows, in detail, all the taxes that we have paid last year, broken down by type of tax and by country and, in respect of countries with federal political structures, those taxes that were paid on a provincial or state basis. We believe that this is the most transparent such report ever published by any company operating in the extractive industries. We are confident that this will assist in the worldwide fight against corruption, and enhance the scope for citizens to hold their governments to account.

A final criticism I want to level at our largest corporations, is our collective failure to explain to society at large why they need us to be successful and profitable. Many of the essential things in life that we all take for granted can only be produced by companies that sometimes operate in highly capital intensive industries. Unless those industries are allowed, indeed encouraged, to be profitable so that, in addition to serving their shareholders, they can set aside enough capital to re-invest, the world will find it very hard to prosper.

Large corporations also need to be profitable because of their essential role in providing pensions for an ageing population. Precisely how many pensioners and prospective pensioners really understand the extent to which their material comfort in old age will be dependent on dividend flows? And again, despite the warm regard in which many of us hold smaller businesses, it might interest you to know that in 2011, the dividends paid by the FTSE's ten largest multi-nationals amounted to some £37 billion – representing more than 50% of all dividends paid by the 600 companies that make up the all share index.

Ladies and gentlemen, in conclusion, I am sorry if you feel that I have provided you with a very detailed diagnosis of the sickness but without offering a magic prescription or guaranteed cure.

But getting the diagnosis right is half way to finding the cure. We must start by accepting how we got into this mess and accepting our own responsibilities for that – individually and institutionally.

This is a time for leadership – to demonstrate trust at the top. If we show trust at the top and move the debate into something more dignified than that which we have seen in recent times, we can begin the long, slow process of rebuilding trust with those whom we seek to serve.

There is a long haul ahead. But we must start the work of rebuilding trust today, because without trust there can be no confidence and without confidence we will struggle to build the road to a genuine, sustainable economic recovery.

Thank you.