Many think that big business is devoid of higher purpose. John Browne, group chief executive of BP, argues otherwise.
n a world now filled with depressing news stories like the Enron debacle, many of us who lead major corporations are asking anew: “How can people make sense of big business?”

The issue that first triggered my interest in the subject is an uncomfortable topic for big business: our own unpopularity. In 2003, following the string of corporate scandals in 2002, the World Economic Forum asked 36,000 citizens in 47 countries to rate their level of trust in 17 different institutions “to operate in the best interests of society”. The results from this global snapshot were unequivocal. Big businesses are the second least-trusted institutions, only surpassed in perceived untrustworthiness by parliaments.

Opinion poll surveys tell a similar story. In the UK, MORI found, in the late 1970s, that the British public agreed by a margin of two-to-one that the profits of large companies helped their customers. Now they disagree by two-to-one. In the US, the Gallup poll on the honesty and ethics of US institutions and the Harris poll on confidence in leaders of institutions both show a gradual decline in business standing over time. Big business now stands toward the bottom of the pile, on a par with law firms and the US Congress, just slightly better than used car salesmen. Private polling commissioned by BP shows low approval ratings for business and business executives, particularly in the US and UK. The oil and gas industry, for instance, seems to inspire an extraordinary level of mistrust: recent polling across the US, UK, Germany, and France reveals that 72 per cent of respondents believe oil companies manipulate supply in order to raise prices.

Feeling down

This is depressing. Large majorities believe that big business is greedy, self-interested, and arrogant. Many believe that big business routinely engages in dishonest behaviour, such as the manipulation of governments and customers, and the breaking of the law. And they also believe that big business has little or no allegiance to community or employees. These opinions, if taken literally, are often absurd - because they imply that stable long-term relationships can be built on deceit and that markets that are open and competitive can be manipulated.

But these beliefs can’t, and shouldn’t, be dismissed. They have become stronger over time, fuelled by every example of imperfect behaviour in business. And, of course, there is imperfect behaviour because business is a human activity. But the belief that all, or most, of big business is a negative force is a problem for all of us. It makes it harder to attract talent and to take the risks that are a necessary part of business, and it creates an environment conducive to increasing regulation and control. This in turn poses a problem for society as a whole, since business, through its investment, wealth creation, and diffusion of knowledge is the main source of growth and progress.

If growth and innovation were driven solely by entrepreneurs and small businesses, the unpopularity of big business might not be a great concern. But this is not the case. Size gives big business the capacity to change things. Big business has the financial resources and the presence to make the large investments, and also to take the large risks of investing in new technology, and new markets. Big business is needed to meet growing global needs at a reasonable cost.

I am not saying that big business should take over the world. We are just one part of society. In fact, the 100 top companies’ share of world GDP has been fairly constant at around 4.5 per cent over the past 20 years. But if the unpopularity of big business leads to greater restraints, then the part of society which is the leading agent of change, which is capable of transferring knowledge across the world very quickly to provide new products in new markets, will be less effective. That would pose a serious threat to the whole process of economic growth and human progress. Why did this mistrust arise? Many explanations could be proffered, but I think the basic source of mistrust in business is simpler: big business is difficult to understand.

Big, complex - untrustworthy?

The bigger it is, the more difficult. And institutions that are difficult to understand, and which are large and powerful enough to influence people’s lives, are constantly vulnerable to mistrust.

So what should be done? What can business do to correct and improve its reputation? Firstly we need an explicit philosophy of business. By a philosophy, I mean two things in particular: a view of what business is for, its purpose - and a view of how business should be done, its behaviour.

The purpose of business is to generate a profit by satisfying human needs. This statement looks simple, but there is complexity hidden within. At a minimum, it assumes two sophisticated social institutions: a form of market mechanism for translating needs into prices, and a capital market which provides finance in return for profits.

For needs to be satisfied through a market, they have to be reflected in a price that people are willing to pay: that means effective demand. Firms can then compete to provide goods and services that meet that need in the most attractive way, which often means at the lowest price: the supply. Provided some boundary conditions are met, allowing the market mechanism - the interaction
of supply and demand – to set the price will lead to the most efficient outcome.

People often shy away from talking about profits. Perhaps that is because many people associate profits with greed, and see greed as an unattractive trait. But profits are not necessarily about greed. They are the return on investment, the reward for taking risk, and the essential lifeblood of a market economy. The capital markets provide finance through equity and debt in expectation of a return and, by choosing the investments with the highest return, they also – assuming that prices reflect human needs – drive progress, by allocating investment to where it is most needed.

Profits also finance returns to shareholders. In the case of major listed companies, such as BP, this does not mean returns for a small circle of rich individuals, but returns to pension funds and institutional investors who invest their funds on behalf of millions of people. At BP, for instance, around 50 per cent of our shareholders are in the UK. Those shareholders are ultimately individuals, investing through funds to provide themselves with pensions. If you do the calculation, you find that the return we pay out to those shareholders accounts for £1 in every £6 of the income of UK pension funds. That is where the profits go, and creating and distributing wealth in that way is one of the fundamental tasks of business.

That isn’t our only social function, of course. Provided certain conditions are met, the market mechanism and capital markets create the conditions where business can be a fundamentally constructive force in society, not just creating wealth, but also solving problems.

Judged by its record, the modern system of business, which emerged in the nineteenth century, has been phenomenally successful. The most reliable data we have are Angus Maddison’s long-run estimates of GDP, which clearly demonstrate the historically unprecedented acceleration in growth as large-scale, joint stock business enterprises were created.

Measured in constant dollars, Maddison calculates that GDP per capita in Western Europe grew at an average annual rate of about 0.4 per cent over the three hundred years prior to the nineteenth century. Thereafter, from about 1820, as the industrial revolution picked up, growth averaged about 2 per cent per annum over the period to 2000. The cumulative impact of this difference in growth rates is staggering: average income would be a fraction of what it is now if we had continued at pre-industrial revolution rates of growth.

Socially responsible success

So, what are the conditions that allow business to both succeed commercially and play a positive role as a source of social progress? There are several factors: First, there must be a distribution of income which ensures that human needs are met, and that may involve some redistribution and collective funding of public goods through government.

There must also be a merit-based system of human development, which encourages and rewards effort; genuine competition protected, where necessary, by effective regulation, and a process which puts a cost on externalities. By that, I mean a system that ensures that no single enterprise can ignore the burdens that its activities impose on others. Pollution is the obvious example.

Business alone cannot guarantee that these conditions are met. Law, regulation, the pattern of opportunity, and the distribution of income are shaped through the political process. But we should acknowledge that these issues do matter and that, in their absence, business will be constrained in the contribution it can make. We need good government, just as government needs good business.

And, in particular, we need good government to compensate for market failure, and to ensure that markets work effectively. Perfect markets are very rare – most are imperfect and transitional – and corrective action to improve their effectiveness is often necessary. If these broad conditions are in place, business can make a strong positive contribution to society. And we have some powerful natural advantages in doing that.

One of the unique capabilities of business is the capacity to take a view of the future that is longer term than many other institutions in society, including government. Business makes long-term investments, anticipates and creates future demand and constantly scans the horizon for the next shifts in technology and taste. Business is also dynamic and, in Andy Grove’s words, “driven by paranoia”.

As big businesses, we are very well aware of our own mortality – only one of the 30 companies in the original Dow Jones Industrial Average, and in the Fortune 100 list in 1896, is still there. Big business has a strong interest in taking a longer-term view in order to endure. All this means that...
business has a unique role to play in balancing preparation for meeting the needs of the future with continuing to meet the needs of the present.

The energy to make things right
To regain trust we have to make sense of business to people for whom size, and perceived power, can be threatening. We have to be clear about our purpose - meeting needs - and in the process, generating profits for those who trust us with their savings. We have to show where the profits go. Then, through our behaviour, we have to demonstrate that we support the conditions that enable the market to work effectively and sustainably.

We have to show that we really do accept the need for open competition and for regulatory regimes that deal with externalities. We have to prove that we are not looking for a free ride. And finally, we need to demonstrate that we are using our power to deal with the challenges and problems that society faces.

Responsibility is not something outside the process of doing good business. It is absolutely integral to everything we do. Our commitment to responsibility has to be expressed not in words, but in the actions of the business, day-in and day-out, in every piece of activity, and every aspect of behaviour. The common picture - of amoral business requiring constraint - misses the point. Good business should generate a profit by satisfying human needs, and it should do this in a way that is sustainable. And it should contribute to the lives and progress of individuals - giving them opportunity in ways that no other element of society can offer.

So that’s the theory - expressed in a very rapid and imperfect way. Can it be applied in practice? I think so. In fact, I think it is what many different companies, big and not so big, actually try to do every day. Let me just talk about our sector.

Despite the unpopularity that I quoted earlier, the sector is a very effective vehicle for meeting multiple needs; a source of social progress, in different ways and in many different places; and a provider of answers to some of the major challenges that society faces.

The history of the last century is the story of that contribution. One hundred years ago most people never travelled more than 10 miles from their home. They lived in what we would now consider minimal conditions, and their lives were short and often harsh. Energy has brought heat, light and mobility to ordinary people. Energy has fuelled the growth in living standards here and across large parts of the world and, of course, the growth in population numbers.

That energy wasn’t delivered by magic. It was delivered by business - mostly big business - investing in the development of resources, developing technology, building infrastructure, and taking goods and services to people who wanted to buy them. A similar process is going on today in the growing economies of Asia.

Thinking ahead
The process isn’t complete. There are still far too many people living, or rather subsisting, without the ability to buy the energy they need to improve their lives. That is one of the challenges for the new century. It’s a big challenge, but I have confidence that business, if it is able to operate freely under reasonable rules, can - and will - meet that challenge.

Just as business works to expand the market it serves, so I believe it works to resolve the challenges that stand in the way of sustainability. Big business is a long-term activity. Most of the investments we make are designed to run for 40 or 50 years or more. That means that business has to think ahead.

That’s why, with very few exceptions, business in our sector, for instance, takes very seriously the challenge of climate change and global warming. When the scientific academies of each of the G8 nations produce a unanimous statement saying there is a problem, and that precautionary action is necessary, it would be arrogant and foolish for a business, or anyone else, to ignore that conclusion. And business is not ignoring that conclusion.

We in BP, and many others, are taking precautionary action; cutting emissions from our own operations; improving the quality of products; beginning the process of development and investment that will, in the medium and long term, produce real alternatives; enabling the world to reduce its dependence on any single source of supply and also making possible the transition to a safe, and sustainable, low-carbon economy.
That is what we have been doing over the last couple of weeks, with a very significant long-term investment in alternative energy. And there are comparable stories from other sectors that can match what is happening in energy. I think big business is also paying attention to the question of people in the context of globalisation.

One of the reasons large global companies can become unpopular is the sense that they work without reference to local culture, and they seek to impose an anonymous, distant “global” model on every society in which they operate.

In fact, that is changing. We in BP – and I believe many others – are learning that, to be successful, being global isn’t enough. You need to be local as well. In the places where we operate we are not just a foreign company. We are a local company. And for the people who work for us, wherever they live, we are both the local employer – responsive to the particular circumstances of each different community – and simultaneously a global employer, offering new, previously unattainable opportunities for people to develop on the basis of merit and to become part of a global team.

I think we are beginning to realise that people are not just Chinese, or British or American, or black or brown. They are many things at once, and the paradox and challenge of globalisation is to understand that, and to see that an employee who is a citizen of Russia or Egypt or Trinidad can, at one and the same time, be part of his or her local community and part of the wider global community of the company. There is no trade-off.

So, in these different ways, business is coming to terms with its role in society, and I hope is beginning to demonstrate the true value of that role. Big business can’t impose decisions on people. We have no legitimacy to make laws or regulations. But we can offer people choices – better choices – that respond to their needs. That’s what business has done historically, responding to need, offering choices, rewarding investment and, as a result, contributing to human progress. To me that is how to make sense of business, because it explains what we do – and the way we try to do it – in straightforward terms.

Perhaps if business can be successful in getting its story across we can change opinion and remove the cloud of unpopularity. Perhaps we can even persuade people that business is an honourable and noble activity – a source of human progress, without which our world would be poorer in every sense – something rather more than a necessary evil.

We need to demonstrate that we are using our power to deal with the challenges and problems that society faces.