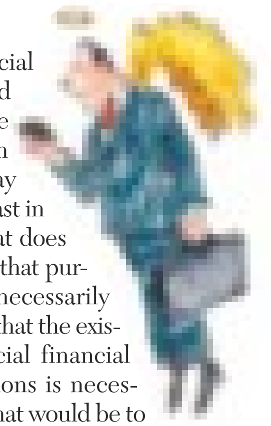
Business angels

If a financial services firm shares values with society it will generate social capital from which it will also profit, say Antony Elliott and James Dempsey



In February, Stephen Hester sent a memo to Royal Bank of Scotland staff setting out his expectations of the organisation: "To be purposeful, calm, and do our jobs to the best of our ability." This idea of "purpose" has arisen more than once in recent commentary on financial services. The pursuit of a valuable purpose could be viewed as a way of addressing criticisms of the sector, not least that its activity is "socially useless". However, talk of "purpose" risks being just so many words unless those words are weighed carefully.

The idea that business activity can be judged by how well it fulfils its proper purpose goes back at least as far as Aristotle, who viewed it as one among many arts, all of which were properly focused on the ultimate aim of promoting human wellbeing.

But this tradition also reveals complexities. Purpose can be about identifying a worthwhile or justified aim. It can also have other connotations. A "defining purpose", for example, is the feature of an activity that allows us to categorise it. Twenty-two men running around a field is, after all, not a game of football unless they are organised into two teams, each trying to kick a ball into opposing goals.

Similarly, a "motivating purpose" identifies what it is that persuades people to engage in an activity. One individual's motivating purpose for business activity might be making money. Others could have different aims. It is only when we get to a "justifying purpose" that there is a step-change toward examining what society considers worthwhile. Such a purpose legitimises the activity in question from the perspective of the wider community. To have such a purpose is to be socially useful.

That society has a role to play in legitimising activities takes us back to the idea that all such activities have an ultimate goal in promoting what is good for people. It finds recent expression in the idea that businesses must earn a societal "licence to operate", and is reflected in another tradition of philosophical thought: that of the social contract. Thinkers such as Hobbes, Locke, Rousseau and Rawls have made compelling arguments, albeit in slightly different contexts, that the obligating power of contracts, so familiar in the business world, can be invoked to govern social relations. Such relations include those between business and society, generating implicit contractual obligations. On such a contractual analysis, society permits business on the basis that it produces results that are of value to society.

Recently, Christian church leaders have been speaking out on the subject of such purpose in business. This debate assumes that each life seeks fulfilment and that the concept of vocation can be translated into the role of financial services. Pope Benedict said that "financiers must rediscover the genuinely ethical foundation of their activity, so as not to abuse the sophisticated instruments, which can serve to betray the interests of savers". The emphasis has moved from condemnation to a need for the financial services industry to redeem itself.

These points highlight that business organisations, just as much as the individuals within them, are in need of a justifying purpose: they must understand the terms of their contract with society. At stake is not just the legitimacy of the operations of the business, and the social acceptance that goes with it, but also, as Hester says, the confidence and pride that an organisation can take in its work.

This raises the questions of how to identify the justifying purpose of financial services organisations, and how business leaders can gear their organisations towards such purpose. Calls to promote human wellbeing, in this context, might not be much of a guide.

However, some common mistakes can be avoided. The pursuit of profit may define a commercial organisation, and many people employed by such organisations may be motivated, at least in part, by profit. That does not mean, though, that pursuit of profit is necessarily socially useful and that the existence of commercial financial services organisations is necessarily legitimate. That would be to confuse defining and motivating purposes with a legitimising purpose.

Of course, a commercial focus can be socially useful. After all, the wealth of society is built upon the economic success of its businesses. But a focus on profit in itself is not enough. The invisible hand has always been an imperfect arranger of economic activity and, as recent events have clearly demonstrated, the pursuit of private profit cannot guarantee socially beneficial results. Furthermore, society puts a value on many aspects of its activity beyond the generation of pure economic wealth.

Determining what is of value, however, necessarily runs into ideological divides that might threaten attempts to make practical progress. A solution to the challenge of engaging commercially oriented financial services organisations with their social purpose must be realistic about the obstacles, and recognise that sustainable change takes time to implement. A useful idea to introduce here is that of "shared value", as conceived by Michael Porter and Mark Kramer in their articles in the *Harvard Business Review*.

"Shared value" argues that the interests of businesses and of society are mutually dependent. In addition, it suggests that the question of how to identify and promote social value need not be a mysterious one. Within their areas of expertise, financial services organisations are second to none at identifying and creating value. While it may take imagination for such organisations to work out how they are best placed to create value beyond the confines of the business, and what value means in the social context, this is not a sector short of imagination and innovation. Just ask HM Revenue and Customs.

Thinking differently does, however, mean there has to be strong leadership. Surveying consensus opinion rarely leads to innovation. The Fairbanking Foundation is an independent charity, trying to provide such leadership in the area of retail financial products. Its “fairbanking marks” are designed to assist and encourage providers to develop products that improve the financial well-being of their customers.

Professional bodies are another source of leadership. The idea of serving the public interest is strong in the professions, and financial professional bodies are working to develop a contemporary understanding of this notion and communicate it to their members. For example, the Inter-Disciplinary Ethics Applied Centre at the University of Leeds has recently worked with the Chartered Insurance Institute and the Actuarial Profession to develop training programmes focused on codes of ethics that put service to the public at their heart.

The ideas of acting with purpose and promoting shared value change the tone of a business’s relationship with society. Rather than a negative requirement to comply with minimum standards in a zero sum game, we can now ask a positive question: how much value can we create together? Not only will organisations find their social purpose when they apply their expertise to the particular interests of society that they are best placed to address, they will also accrue benefits in the process.

> For businesses to focus on profit in itself is not enough

Fulfilling a social purpose establishes legitimacy but it also generates social capital that is a vital input to the creation of business value. Whether it is the financial literacy of customers, or a genuinely service-orientated employee pool, the benefits that a financial services business is best placed to deliver to society are likely to be ones from which it will also profit.

Hester was right. To promote the interests of those they serve – customers, shareholders and society more generally – financial services organisations must be purposeful. In order to do this, however, some effort is required to determine clearly what that legitimate purpose is.

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