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**A Perspective Report from Populus**

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**The Trust Deficit:  
After the Crash**

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**February 2014**

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# 1. Introduction

## 1.1 Introducing the Trust Deficit

In 2011, DLA Piper published a report based on a series of interviews with business leaders from some of Britain's biggest companies.

*The Trust Deficit: Views from the Boardroom* identified the significant Trust Deficit with which every business has to grapple. It found that every business starts with such a deficit and that the burden of proof lies with each company to prove that it is worthy of the public's faith. Those businesses – and leaders – that are successful in nurturing trust are the most likely to succeed, while those who fail to do so will struggle to deliver real shareholder value.

Two years on, this new report returns to the theme and asks how companies can foster a culture of trust in a world where people are ever more cynical; a world in which (according to some) the financial crisis has called old certainties into question.

## 1.2 Business in the 'post-crash' economy

The prevailing public and political narrative suggests that the financial crisis has changed the operating environment for business considerably and that companies cannot simply return to a 'business as usual' approach. Politicians of all sides now talk of 'fairness' and 'the social good'. The Prime Minister has called for a new "responsible capitalism" that is "fair as well as free", while a prominent banking CEO joined the former chairman of the (now defunct) FSA in calling for the banking industry in particular to ensure it is "socially useful"<sup>1</sup>.

Meanwhile, major companies are threatened by consumer campaigns due to perceived tax avoidance as some suggest they have broken an unwritten moral code. On the opposite side of the fence however, many commentators point out that these companies have broken no laws and contribute an enormous amount to the British economy by creating jobs, supporting suppliers and engaging in communities.

Furthermore, they argue 'big business' generally is the engine that will power the return to growth to the benefit of the country as a whole. It is time to stop vilifying businesses, they say, and to start acknowledging the valuable contribution they make to the country.

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<sup>1</sup> Antony Jenkins, CEO Barclays, 4 October 2012

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### 1.3 Dealing with the deficits

So what is the right approach? What is the proper role of business following the financial crash? Has the financial crisis changed the rules of the game or not? And what do the answers to these questions mean for the way in which businesses and leaders should seek to close the Trust Deficit?

This new report – based on more than 50 interviews with senior opinion formers from across the worlds of business, politics and the media – is a contribution to this debate. It finds the ‘Trust Deficit’ to be as wide as ever – indeed it argues that the original ‘Trust Deficit’ has morphed into a series of competing deficits as the financial crisis has moved on – but it also suggests a way for business to begin to deal with the problem.

To do so however, business – and business leaders – must be prepared to do more to tell the positive story of the role business plays in the economic and social life of the nation. This may be an uncomfortable finding for some, but it is the only way to deal with the deficits that are increasingly injurious to the ability of British business to compete in the so-called ‘global race’.

## 2. Executive Summary

### 2.1 Multiple Trust Deficits

Multiple Trust Deficits threaten the nation’s economic health today. Deficits exist between business leaders and politicians, between different parts of the corporate world, and between the public and business as a whole.

These stem largely from the differing responses to the financial crisis. Business leaders identify a wide spectrum of responses – from complacency among some members of the financial sector on the one hand, to an apparent over-reaction from sections of the political world on the other. There has been no clear, co-ordinated or agreed response, with the result that many business leaders feel increasingly alienated from the debate about Britain’s economic future.

### 2.2 Anti-business rhetoric is a major concern for business

Business leaders are frustrated and concerned with the anti-business rhetoric that is believed to be commonplace in the UK. In the view of the business leaders we interviewed, politicians and the media risk inflicting long-term damage to Britain’s economy through the pursuit of populist and ill-conceived policies, short-term praise, and increased newspaper sales.

“‘People gain their impression from the media and the stories they read. And I have to say that very often the reporting is reckless.’ [Business Leader]

### 2.3 The impact of the crisis on corporate behaviour is likely to be minimal

The majority of business leaders interviewed believe that the financial crisis will have little lasting impact on the way in which they go about their business. For them, the events of 2008-13 have not significantly changed the business environment or the way in which the economy will be structured in the future. Talk of a ‘crisis of capitalism’ is premature or ill-considered and any changes to the way in which they operate their companies were very probably in train before the crisis took hold.

“‘I don’t recognise the need for an entirely new model because I don’t think the old model was broken.’ [Business Leader]

## 2.4 Business regards journalists and politicians as unhelpful and ill-informed

Some of the politicians and commentators we interviewed argue differently and suggest either that the financial crisis did represent a watershed moment or that it should have done so. Some are exasperated that the economy emerging from the crisis looks much the same as the one that entered it in 2008 and feel there is a requirement for either legislation or a major change in the attitude of business. These arguments frustrate many of the business leaders we spoke to, who claim that these contributions are ill-informed and unhelpful.

Tension is increased by differing timescales. Business leaders with a focus on the long-term and politicians with their eyes on the next electoral cycle seem to be talking past one another.

“‘I would say there’s quite a chasm between government and business.’ [Business Leader]

A further reason for the increasingly strained relationship between the worlds of business and politics is the perception that British politics today is dominated by career politicians with little knowledge of the business world.

“‘We’ve produced – compared to 20 years ago or 40 years ago – a greater professional class of politicians. We have three political leaders in three main political parties who are mainly professional politicians.’ [Business Leader]

This assertion is not necessarily borne out by the facts but the perception that an ‘experience deficit’ exists continues to infect the business community’s view of how politicians have responded to the financial crash and to claims of corporate tax avoidance.

## 2.5 Political messages are seen to be unclear and contradictory

Frustration is exacerbated by seemingly unclear and contradictory messages directed towards business from politicians. Business leaders demand more clarity in what politicians expect, and complain that communication with government is complicated by contradictory statements – in particular, from the Department for Business, Innovation and Skills.

“‘Vince Cable sees nothing contradictory in saying “I want banks to preserve more capital so their capital ratios improve, I want you to lend on a more stable basis so companies you lend to aren’t the sort that are going to go bust; and, by the way, I want you to lend to more businesses.” That is contradictory.’ [Business Leader]

## 2.6 UK business as a good citizen

The overwhelming view of the business leaders we interviewed is that British business has a positive story to tell. Many of the reforms currently being urged upon them by politicians and others have long since been adopted by forward-thinking companies. Indeed, British businesses lead the world in many aspects of corporate responsibility and governance.

## 2.7 Business is, however, failing to lead the debate

Business leaders lament the fact, however, that the positive story that UK business can tell is rarely told. Business organisations such as the CBI and IoD are not always as effective as they might be, while business leaders themselves are too busy or reticent to do the job personally.

The good news, it seems, is ready to be told – and doing so would go some way to dealing with the Trust Deficits that have emerged in recent years. The question is whether anyone is prepared to stand up for business at a time when to do so is not always the most popular path to take.

## 2.8 Economic recovery will bring relief

Nevertheless, there is optimism – or at least hope – that an improving economic situation will bring relief from the sustained attack on business. As growth returns, the country’s mood brightens, wages start to rise and bank shares are successfully sold, business leaders hope their reputations and relationships with politicians and the public will see similar improvements.

## 3. The Trust Deficit Revisited

### 3.1 Multiple deficits emerge

Over the course of the last five years, the UK witnessed one of the most difficult economic periods for eighty years.

The recession of 2008-9 was the deepest since quarterly GDP figures were first collected in 1955, and the country is yet to fully recover<sup>2</sup>. Indeed, the Office for National Statistics (ONS) estimates that, in the first quarter of 2013, GDP was 3.3% below the peak in the first quarter of 2008<sup>3</sup>.

While the economic and political debate revolves around the size of – and differing proposals to deal with – the financial deficit, the response to the financial crash has had significant implications for the size, scale and nature of the ‘Trust Deficit’ first identified by DLA Piper in its report of 2011.

Trust – between business leaders and politicians, business and the public, and even to some extent between different sectors of the business world – is in increasingly short supply.

### 3.2 An ‘anti-business’ mood

The reaction of governments, of politicians and of the public to the financial crisis is one reason for this. It is a source of considerable anxiety to many of the business leaders we interviewed for this report.

Many admit that, even though large businesses have essentially survived the crash and are able to look ahead to a recovery, considerable anger about their practices remains and they are under renewed scrutiny as a result.

The argument that business needs to ‘pay its fair share’ seems unlikely to die away in the near future, if ever. Attacks, critiques and vindictive anger directed towards business in the UK have, it is felt, contributed to an anti-business mood that is a cause for serious concern for business leaders.

“‘I don’t think the government should be active in witch hunts against businesses that are acting within the law.’ [Business Leader]

“‘Mervyn King, in his last speech at the Mansion House, was talking about the pointlessness of vindictive anger as a force for how we arrange and run our economy, and I agree with him on that. But you can see, in reactions against the likes of Google and Starbucks, an element of vindictive anger.’ [Commentator]

“‘Ideally, one would want the government to avoid the temptation of just seeking quick and cheap media points.’ [Business Leader]

The consensus – in politics as well as business – is that the private sector needs to stimulate and lead the economic recovery.

Therefore, many participants asked why politicians and journalists followed or led the populist and anti-business mood, which is damaging to this effort.

Headlines and speeches that point the finger at ‘nebulous bad guys’, populist arguments, business ‘witch hunts’, and ‘quick and cheap media points’ all contribute to an unhealthy business environment. This suggests not only that those making such ‘cheap media points’ struggle to trust large businesses but it also contributes to a resultant loss of trust in those commentators on behalf of business leaders themselves.

“‘People gain their impression from the media and the stories they read. And I have to say that very often the reporting is reckless.’ [Business Leader]

“‘There is a populist response which I think comprises a coalition of politicians together with media and groups who see this as the opportunity to promote their agendas.’ [Business Leader]

“‘My fear is that politicians are now stoking the fire in what I think psychologists would call displacement therapy. Rather than actually trying to tackle the problem themselves, they’re pointing at these rather nebulous bad guys.’ [Commentator]

“‘I think business probably feels that government is less supportive of their wealth creation than they used to be.’ [Politician]

“‘Politicians have become more populist in this regard right across the spectrum.’ [Business Leader]

“‘You’re not going to get a healthy, balanced economy by lecturing businesses.’ [Politician]

“‘Politicians have become more populist in this regard right across the spectrum.’ [Business Leader]

“‘The media are fundamentally anti-business in this country. I spend a lot of my time in the US. That’s where half our business is so I’m often comparing and contrasting with the US.’ [Business Leader]

“‘Where we have a problem is where, in the political arena, people, in order to be popular, want to be seen to be publicly bashing people in banks and financial institutions. I think it takes more than just bankers to turn around public opinion, and also to actually help lift the economy. The

<sup>2</sup> House of Commons Library Research, 2010  
<sup>3</sup> Office for National Statistics, July 2013

role politicians play is a major role helping the public realise that we do have responsible bankers and it is key to the future of the UK that this industry does get some support.' [Business Leader]

“ ‘You can’t underestimate the power of the press in all this in stirring it up. And I think it’s a British trait that, particularly in tough times, people feel uncomfortable when some areas of the business world are doing really well. I can see that there are those who feel that success is seen as a dirty word, linked to greed, exploitation, etc. And we’re pretty good at making a meal of it here.’ [Business Leader]

“ ‘There is a bit of a knee-jerk reaction that making profit is somehow bad and I don’t think that’s a healthy position to be in. Society generally needs to understand that, for an economic recovery, we need to have companies making good, healthy profits, which strengthens the position of companies, of the companies’ staff and means that output of the economy is increasing.’ [Business Leader]

Rather than the current anti-business mood, more positive and business-friendly rhetoric will be crucial to helping the economy to strengthen and recover. Business leaders hope that the rhetoric in the forthcoming election campaign in 2015 will be more balanced than it has been over the last few years – perhaps more in line with the Prime Minister’s argument at the 2013 Conservative Party Conference that “profit, wealth creation, tax cuts, enterprise are not dirty, elitist words”<sup>4</sup>.

“ ‘The only way out of the hole that we’re in as a country is for the private sector to grow; therefore, government has to talk up what business could do for society.’ [Business Leader]

“ ‘I would like to see the government celebrating success more than they do.’ [Business Leader]

“ ‘I think it’s very important that government and political parties balance the argument. They’ve had a jolly caper, bashing chief executives, banks and bankers and portraying the whole of free enterprise as, in some way, having snouts in the trough. Unfortunately, they’re not nearly as good at pointing out how much of British business is now extremely responsible, doing very good things, world leading and how we have a new entrepreneurial community in Britain, which is completely different from ten or twenty years ago and very exciting. Every now and then, Cameron wants to go and be photographed down in media city, which is fine and I quite understand that, but that’s not quite enough. I think there needs to be much more restraint around taking the political pot shots at business people.’ [Business Leader]

“ ‘From my perspective I would like to see greater support, encouragement and plaudits where it’s right for big business – a bit more of a balanced view as opposed to the general mocking that seems to go on. You hear about anecdotal evidence of a more supportive entrepreneurial spirit

in places like the States and perhaps in the Far East, but my sense is that we’re pretty paranoid over here about businesses generally, and big businesses are being knocked.’ [Business Leader]

### 3.3 Different perspectives on the crisis

The perception of a general ‘anti-business’ mood is exacerbated by a failure to agree on the true nature of – and most appropriate response to – the financial crisis.

While some of those interviewed (notably those from the worlds of politics or the media) feel that the crisis has been significant enough to represent a watershed moment for the way that business in the UK operates and is perceived, many business leaders and others counter this position and argue – or at least hope – that the financial crisis is little more than a passing phase.

“ ‘I wouldn’t say it’s a watershed because I think it’s just a combination of many other things.’ [Business Leader]

“ ‘Many of these issues are bandwagon-style issues that are important to the government because they contain votes, and important to the people because of the wide divergence the financial crisis has illustrated between the behaviour of certain corporations and individuals and, if you want, the plight of the common man. My feeling is that it is a feature that has arisen from the politics of the financial crisis and in due course will dissipate and will be replaced with other priorities.’ [Business Leader]

“ ‘Whether we’ve reached a watershed, I wouldn’t put it quite in those terms.’ [Business Leader]

“ ‘I think it’s too early to tell. It’s clearly provoked a lot of breast-beating in political and press circles. This is a situation where the vast majority of households in the country have seen a decline in their net disposable income over the last three or four years. You’d expect there to be a rising tide of popular concern and discontent about people who are apparently not paying their share – whatever that really is – of the tax burden. Politicians and press have jumped on the bandwagon. I think it’s too early to say whether there’s been any substance for the changes.’ [Business Leader]

“ ‘If it can be more of a general, sustained recovery, people will feel better about themselves. I think the politicians will have other things to think about and talk about. I would expect some of the glare – some of the heat – to come off as better times emerge.’ [Business Leader]

“ ‘There’s what you might describe as a rolling barrage here, because you start off with Apple and Google and then you move onto Starbucks and then it’s the utilities that are in the spotlight. But the barrage moves on and finds some other target.’ [Business Leader]

<sup>4</sup> David Cameron, Conservative Party Conference, 2 October 2013

The belief that public anger and hostility towards large businesses will die down as other priorities and scapegoats are identified is not solely held by those business leaders we interviewed. It is also reflected by some commentators and politicians, who point out that the 'Trust Deficit' is a long-term trend that extends into politics and the media as well as big business.

- “The public's memory is often quite short, and I'm sure most of that – if there was any movement to begin with due to that sort of thing – has gone away.” [Politician]
- “I really think this is storms in teacups and in five years' time we'll look back and think “what was all that fuss about?”” [Commentator]
- “I certainly don't think it's a watershed moment and it's not just business. There is less trust in the media, there is less trust of course in politicians. I think the expenses scandal blew wide open any vestiges of trust. So I think it's actually part of a general trend to distrust those in power and authority. I think there is probably less trust in the police than there used to be as well. Whether this is temporary or permanent, I don't know, but I don't think it's a watershed. It's a trend.” [Commentator]
- “I think it's just a passing phase, which will pass when governments have got some alternative scapegoats to go for.” [Politician]

### 3.4 The cycle of capitalism

Business leaders also suggest that the financial crisis represented part of the natural cycle of capitalism. In this way, it did not represent a 'crisis of capitalism' at all but rather one event in capitalism's natural cycle.

Many business leaders, commentators and politicians explicitly referred to the cyclical nature of capitalism and their belief that these cycles are an inevitable part of how capitalism – which has benefited the world greatly over the last century – works.

Others simply suggest that, as the economy recovers, so too will the reputations of businesses and of business leaders.

In both cases, the crisis of 2008-13 – while alarming and damaging to the economy, to the standard of living in the UK, and to the reputation of business – is seen as a cyclical and temporary phase. Certainly, most of the business leaders we interviewed hope this to be the case.

They feel that, as the economy improves, so scrutiny and the desire for significant change will fade away again. Many even point towards examples of previous crises that have passed: from Ted Heath deriding 'the unpleasant and unacceptable face of capitalism' in the 1970s to the recession of the early 1990s<sup>5</sup>.

- “I think the focus on large businesses tends to be cyclical in the sense that it's come before and then it's gone.” [Business Leader]
- “If the economy is – on the whole – in a better position over the next two to three years, than it has been over the last two to three years, I think this general issue of business's social standing will gravitate less to page one, so an element of this argument is cyclical.” [Business Leader]
- “As the economy starts to grow again – and a lot of the indicators that we've seen have been pretty positive – the mood's becoming upbeat, and the popularity of the incumbent government is rising. All the signs that you see in an upswing. And I think we'll see less focus on businesses.” [Business Leader]
- “I think probably it is in large measure a passing phase. I think that the level of public anger or attention to this would certainly subside if the recovery goes forward and people's pay increases to start keeping pace with inflation.” [Commentator]
- “I remember the early '90s and there was similar furore and life was very uncomfortable for many of the people in big corporations, but then the tide tended to recede... These things have a tidal impact to them. The tide rises very fast and then little by little, it ebbs.” [Business Leader]
- “There are periods of public hostility when even a normally well-run and correct business will find some hostility arising. But that's the thing I would expect to subside as the recovery goes on and as attention swings around from one sector to another.” [Commentator]
- “I think you do have this cycle. We are where we are at the moment. I don't see a crisis of capitalism, as such. I'm old enough to remember Ted Heath and the “unpleasant and unacceptable face of capitalism”. You do get rogues, but I think it's the exception that proves the rule. Nobody's thought of a better system than the capitalist system that we have at the moment, so you can make minor changes to improve it, but don't throw the baby out with the bathwater.” [Business Leader]
- “If we went back to boom times, I think a lot of these issues abate because a lot of people would feel a lot better about their earnings and their livelihoods, including government.” [Business Leader]

<sup>5</sup> Ted Heath, House of Commons, 15 May 1973



- “ I don't think we've reached a watershed at all. I think that's very dramatic and plays to the media. The way the capitalist system works is that you get ups as well as downs.' [Business Leader]
- “ 'This always happens when there's a financial crash. As long as everyone's making lots of money and the market's going up, everyone's very happy and then when the downturn comes, people start paying a lot more attention.' [Commentator]
- “ 'What happens with capitalism is this: periodically, and sometimes it's every few decades, every 25 years or whatever, it comes to a crisis and then everyone says, "oh, it's doomed and woe and misery and what are we going to do", and then they change a few rules and an improved form of capitalism takes its place and then you're off going again until the next crisis. It's evolution' [Commentator]
- “ 'I think things will start to calm down again as the economy recovers, but these are old wounds and they'll take a long time to heal.' [Business Leader]
- “ 'The fact is that everybody is going through austerity, and it's a reaction to that. If we had economic growth and people were feeling more prosperous again, I'm not sure it would be an issue.' [Politician]

### 3.5 After the watershed?

This view is strongly opposed by some in the political and media worlds in particular.

Many from this side of the debate argue that there has been a sea change in the way that all large businesses in the UK are perceived and in the way that they must operate as a result.

They point out that trust in business has genuinely collapsed since 2008 and that things may never be the same again. As a result, they argue that businesses have to 'rethink their strategic direction'.

- “ 'I think it's clearly a watershed moment. There's much less self-confidence, the hubris of high finance is now well and truly punctured. Acclimatising to lower growth rates for the foreseeable future is producing big cultural changes too and the fact that living standards of most employees are under threat makes business much more cautious.' [Politician]
- “ 'I think categorically it was a watershed moment. The stats are very clear in terms of trust in big business leaders; it's plummeted. Do I think that that is going to be for the long term? Well, you could say that five years is already the long term.' [Business Leader]

- “ 'Anger about the 2008 banking crisis has given rise to a view that big businesses, particularly financial services, but not exclusively so, don't play by the rules, and are playing a "heads I win, tails you lose" game. So, there is definitely a much greater scepticism about the way financial services and other major multi-national companies are organising their affairs. There is a feeling, which was encapsulated in the 2008 banking crisis but also applies to Starbucks, Google, Amazon and the like, that the rules that apply to the little guys are not applied to the big guys. If the big guys go bust, they get bailed out by the taxpayer, if the little guy goes bust, he loses his house. If the big guys find a clever way of not paying corporation tax then they don't pay corporation tax, whereas the little guy gets threatening letters from HMRC and has to pay up in full. So I think that there is a sense that the dice are loaded.' [Commentator]
- “ 'Reputations have been questioned by the public, so businesses are having to rethink and change their strategic direction. There will be greater emphasis within business organisations on their strategic approach in terms of governance, transparency and things of that nature.' [Politician]

Those who take this view – that the financial crisis was a 'watershed' moment – regularly point to the debate around corporate tax evasion to support their case.

On this issue, many claim the financial crisis has brought about the most significant change in attitudes. Critics in politics and the media argue that the financial crisis and continued austerity should force business to pay their 'fair share', and that this mood is here to stay.

- “ 'I think one thing they can do is actually pay their tax. I think that at this time of austerity, the public has a right to be pretty concerned about the actions of those businesses, and how they respond to that.' [Politician]
- “ 'All newspapers – regardless of their political views – have found the stories irresistible because it's so shocking to find that business is not paying its fair share. The debate is moving from corporate social responsibility to fair shares, and fair shares meaning paying your fair share of tax where you do business, playing fair by your employees, minimum wages or better at the bottom, and fair employment practices.' [Politician]
- “ 'The debate is moving from corporate social responsibility to fair shares, and fair shares meaning paying your fair share of tax where you do business, playing fair by your employees, minimum wages or better at the bottom, and fair employment practices.' [Politician]

- “ ‘They need to understand that the world post-2008 is fundamentally different and they can’t go back to business as normal. I don’t think there’s a sufficient understanding. Looking at the tax issue, for example, there are highly defensive statements that you see “all that matters is that you obey the letter of the law and provided you do that, it doesn’t matter how you organise your tax affairs”. I think that’s well behind the curve in terms of where the public is and in due course where the politicians will be.’ [Politician]
- “ ‘I think austerity will be with us for quite a long time. Even once we’ve got rid of the deficit, you then have some very big pressures on the public finances that result from the fact that we live in an ageing society. So, pension costs, social care costs, and the cost of their health service will rise. [...] There will probably be continued pressure on the public finances, which means that, ultimately, we’re going to be paying more taxes in the future, or spending is going to be cut. So, I think this tax question – everybody paying their fair share – will be with us.’ [Commentator]
- “ ‘Well, shock, horror, the ordinary man in the street would assume that when they’re subjected to the same laws for taxation purposes, so should everybody else! It’s fair they will assume that business is paying their legal taxes the same as everybody else, and that has not been the case. Where can they take their business? Where can Google go? Where can Starbucks go? Quite frankly if they aren’t paying proper taxes then I don’t give two hoots where they go.’ [Politician]
- “ ‘I think it’s now reached that stage – which these debates often reach – where it’s part of the general discourse and, when that happens, these things don’t go away. I don’t think this one will go away now. I think the issue of tax havens is similar too.’ [Politician]

### 3.6 A missed opportunity

A third body of opinion exists too: one that argues that, while the crisis is likely to turn into little more than a passing phase, it could and should have been used to drive more fundamental change in the way businesses operate.

Most commonly represented by commentators and politicians but also by some business leaders too, this body of opinion is frustrated that the financial crisis has not instigated a fundamental re-orientation of business – and of financial services businesses in particular – or even widespread contrition.

To these individuals, remuneration remains uncontrolled, shareholders remain too distant from boards and remuneration committees, and there has not been enough renewal of the senior management at companies that were found to be unstable or even irresponsible in the lead up to the crisis. Perhaps because of the prevalence of this view among members of the media and

commentariat, these opinions are still regularly echoed in headlines and editorials that frame the debate around the responsibility of businesses in the UK.

- “ ‘We remain in a situation where people who were very involved in very disreputable things are still in positions of great power and in quite a good number. The amount of changing of the guard is no more than sort of normal mortality and retirement.’ [Business Leader]
- “ ‘Roly Keating, who I hadn’t heard of before, has made a classic case study in how to act appropriately. He was at the BBC, then became Chief Executive of the British Library, and paid back entirely his £350,000 payoff on the grounds that, though it had been agreed, whether it had been agreed appropriately was an issue and he thought in the circumstances he shouldn’t receive it. Where is there a corporate leader who has done anything remotely like that? People aren’t paying for mistakes and we are back to the bonus culture. There hasn’t been any fundamental change in behaviour. There’s been some amelioration under massive pressure from the public spotlight but there hasn’t been any fundamental change. I’m not aware of any chief executive of a company that’s gone down the tube or which had to be bailed out who’s behaved in the way that Roly Keating did, saying “yes, I’ve thought about this, I didn’t deserve this, it’s not appropriate, I’m giving it back”.’ [Politician]
- “ ‘There very obviously were predatory financial products. There very obviously was exploitation of the population. We had the highest levels of some of the banks involved in libel fixing. It’s very hard to imagine what they didn’t do and yet Ford Open Prison doesn’t have a banking wing. It should.’ [Business Leader]
- “ ‘Some people did very well for themselves ahead of the crisis, then caused the crisis and then are still managing to do pretty well whilst everybody else is suffering.’ [Politician]
- “ ‘These organisations were entirely wrong from the way they paid their people, to the way they penalised misbehaviour, to the way that they encouraged risk taking, to the way that they exploited the fact that the state couldn’t afford them to fail. The ways out are a lengthy period of appropriate behaviour and appropriate structures. But there isn’t much evidence of that. None of the banks have really taken a big step. Banking pay remains extremely high compared to most of the economy. And widespread redundancies of senior people certainly haven’t taken place, and very many of the senior people who caused the problems are still in the units dealing with them.’ [Business Leader]
- “ ‘There was a piece in the New York Times saying that senior corporate pay had gone up by 12% last year in one year. This is not changing fundamentally, so I’m open to the argument that you need some significant structural engineering but I’m also very wary of excessive state regulation and getting that balance right is a difficult one.’ [Politician]

### 3.7 Corporate divisions

The anger directed towards big business is not solely restricted to politicians, commentators and the public however.

The corporate world itself is often frustrated with the attitudes and activities of some of its number. The 'Trust Deficit' has crossed the divide and now exists within the business community, not just between it and those on the outside.

Some business leaders expressed their frustration during the interviews about the behaviour of others in the business world – particularly the failures and excesses in the banking sector – that have led to the era of intense public scrutiny and anger.

Therefore, it is not only the public critics who occasionally wish that the financial crisis would bring about a more fundamental change. There are many in the business community that fear there are still a minority of businesses where short-termism is rife and where there is not enough focus on long-term value creation.

A sustained recovery and a healthy economy, they argue, will be more assured if this minority changes its ways.

- “ ‘Some people have been bloody stupid. Agendas are being fed beautifully by the sort of nonsense that some firms are getting up to.’ [Business Leader]
- “ ‘In the financial service sector I don’t think ethics were even on the agenda or the radar. If they were, there is little evidence of it.’ [Business Leader]
- “ ‘Events of the past five years or so have not been normal. They’ve been something more fundamental and problematic, essentially in the banking sector but transferrable as it concerns anything that involves people who make money out of money rather than making things. It’s the distinction between orthodox business, and being clever with money – sometimes too clever by half.’ [Business Leader]
- “ ‘I think that the financial sector will bounce back in full. I think that from a societal point of view that’s probably a bad thing, but it will. I think that the habits of people in the financial sector are actually completely unchanged. It’s merely the boldness or brazenness with which they dare to exhibit them in public that has been dampened down a bit.’ [Business Leader]
- “ ‘There very obviously were predatory financial products. There very obviously was exploitation of the population. We had the highest levels of some of the banks involved in libel fixing. It’s very hard to imagine what they didn’t do and yet Ford Open Prison doesn’t have a banking wing. It should.’ [Business Leader]

- “ ‘What’s quite extraordinary is that, all these years into the financial crisis, stuff’s still popping out of the larger banks and at quite reasonable volume. There clearly wasn’t a clean breast approach nor was there integrity at the top levels of these organisations.’ [Business Leader]
- “ ‘Businesses would actually be furious with the behaviour of the banks, over the past four years. I know some who would happily be on the same barricade as the Socialist Worker’s Party, as far as that goes; absolutely furious with the way the banks conduct themselves and the lack of contrition and so forth.’ [Business Leader]
- “ ‘I just can’t believe how much disregarding the welfare of others became part of the culture of so many of our institutions.’ [Business Leader]
- “ ‘I think banks ought to have said that they got it wrong about an awful lot. By contrast, the private equity industry – when they were very much in the spotlight for things that they had incurred a lot of public hostility about – conceded a lot of ground immediately and said, “we’ve got all these things wrong and we’re very sorry, and we’re going to put it right and this is how”. There’s been nothing similar from the banks. Indeed, quite quickly afterwards, there were a lot of protests that it wasn’t their fault and then, not that long after the crisis, they were publicised quite heavily as saying the time for any regret was over. And I think that was all a mistake.’ [Business Leader]
- “ ‘Businesses need to make the case both individually and as a sector why a prospering business sector – large, medium or small – is good for the economy and participants in the economy. You just have to carry on making that case. Certainly in the financial sector people are sceptical about that. They are not sure the financial sector has been on the side of the customer and people are conscious of the fact the tax payers had to bail out these big entities.’ [Business Leader]
- “ ‘The Anglo-American model is far too short term. The Germans, and to some extent the French, don’t see life in terms of the next quarter results. They invest for the next ten years or 20 years, and that’s the guts of it. The trouble is the huge attention to short term performance. To my mind that does give you sub-optimal resource allocation and sub-optimal incentives.’ [Business Leader]

This frustration with lingering unsatisfactory elements of some businesses is exacerbated by two beliefs: that the progress of a majority of businesses has been overshadowed by the minority; and that the recovery is being stifled by regulation brought on by a collapse in trust in financial institutions.

Business leaders feel that – although they have continually improved their own corporate governance, their own business’s corporate responsibility, and their own companies’ long-term stability over many years – these efforts have been overshadowed by the financial crisis. Businesses have been ‘tarnished’ by a minority. It is felt that the actions of a few have

ensured that the evolution of big business over decades has been displaced in the public's mind by an image of an unrepentant banking sector, where pay still remains high.

While interviewees generally recognise the reasons for bonuses and high executive pay, they feel their understanding is not replicated in the country at large.

“ ‘What the financial crisis has done is generally create a negative view of business, particularly banks, and of individuals who earn a lot of money. And I think some of that's justified because the banks clearly misbehaved significantly. Investment banks clearly misbehaved significantly.’ [Business Leader]

“ ‘Companies have been tarnished. The perception of businessmen comes up as a real issue at every single dinner or meeting we have. It is damaging, for example, the attitude of youth towards business.’ [Business Leader]

“ ‘One of the big concerns about people who are not in banking is that I think they feel the crisis has affected them as well. They don't feel they're responsible for the crisis. Indeed they probably think they are victims of it, particularly if they're SMEs, and they're quite indignant about the fact that they catch a lot of flak that wasn't even aimed at them.’ [Business Leader]

“ ‘International big business has had its reputation tarnished by what the public at large have deemed to be excessive greed and egregious, selfish or egotistical actions.’ [Business Leader]

Business leaders are also frustrated that businesses are being stifled by regulations instigated by the financial crisis.

In many cases this is seen to be unfair or unnecessary. Participants were acutely aware of the importance of the financial sector, of banks, and of investment banks to their own businesses and to the economy. Any economic recovery, it is argued, must rely on a functioning banking sector. Therefore, a combination of falling trust in banks and finance and a tightening regulatory landscape threatens the economic recovery for which business leaders long.

The business leaders who took part in this study called for an end to the interventionist trend and to the anti-business and anti-bank rhetoric in order to give the recovery a chance. However, this interventionist trend could have been reversed more quickly, they argue, if more businesses in the financial sector had worked harder to rebuild trust.

“ ‘Okay, there were some excesses, but banking has to be part of our solution to the economic crisis, and politicians slagging off the banking sector is just not helping at all.’ [Business Leader]

“ ‘I think anybody in the financial services world is caught by the banker bashing and so the very fact that our business is a financial services business means that you are caught by the huge ripple effect. We are feeling the backlash in terms of regulatory burden on us.’ [Business Leader]

“ ‘It feels like there's been a lot of increase in regulations that is a result of the banking crisis that wasn't particularly relevant to insurance, so financial services regulators have definitely become significantly more risk averse and significantly less discriminating about the differences between different types of the financial services world.’ [Business Leader]

“ ‘I think that the reputation of the financial sector has taken a massive hit. [...] I think that the consequence for business at large is a tremendous and open distrust has emerged of financial advisers generally and in particular investment banks. I think that that is bad for business because when businesses go through any kind of event of change, an acquisition being acquired, or trying to raise money, or trying to deal with shareholders, one needs an investment bank in almost every case. I think that the stance that “the investment bank one is dealing with are a bunch of sharks” is palpable, and it makes the life of the investment banker harder than it should be.’ [Business Leader]

### 3.8 A 'financial' crisis

This emergent 'Trust Deficit' between the financial sector and business as a whole is most noticeable in the rhetoric used to describe the events since 2008.

A number of those interviewed note that the 2008 crisis has been categorised and popularly referred to as a 'financial crisis'. The reaction to it has focused on the financial sector; public anger has been largely directed at banks and bankers; and the financial sector has seen the most major overhaul of its regulatory environment.

The distinction drawn between the financial sector and the rest suggests the crisis has significantly impacted on trust in the financial community. Participants point out that trust in financial institutions has collapsed further than for other sectors and so the new regulatory environment is here to stay.

However, while participants from many different sectors argue that the landscape for financial services companies has changed dramatically and for good, they also argue that change has not been as fundamental in other sectors. Therefore, a significant alteration in how most businesses operate remains unlikely.

“ ‘It's all from the financial crisis: the bailing out of the banks; the behaviour of the bankers; the scandals that have been exposed since. It shook people's perceptions of fair play to their feet.’ [Politician]

“ ‘We all refer to events since 2008 – quite naturally, quite instinctively, quite consensually – as the financial crisis. Not as a business crisis, not as an economic crisis. I’m old enough to remember the recessions of the ‘80s and ‘90s, and they were never described as a financial crisis, or financial downturn.’ [Business Leader]

“ ‘My sense is that there’s been a huge collapse in confidence – as you might expect – in the financial services industry and in banks. I don’t think there is as much of a collapse in confidence in business as a whole. It’s about very large companies avoiding taxes, and it’s about the banks.’ [Commentator]

“ ‘I think it is very sector specific. The key point of the financial crisis is it was probably a secular turning point particularly in the banking sector. I am not sure other than the financial industry that the trust deficit has been materially impacted on other sectors.’ [Business Leader]

“ ‘Most people are capable of drawing a distinction between the financial services industry and the rest of business. [...] It would be hard to say that the manufacturing sector’s reputation has been sullied at all, because it’s seen more as a victim rather than perpetrator.’ [Commentator]

“ ‘I think the focus of ire is the financial services sector much more than other businesses.’ [Business Leader]

“ ‘The banks in the financial services sector have a problem. I don’t see why all of business should be tarred with the same brush.’ [Commentator]

“ ‘I don’t think anyone, especially in Brussels, is going to say, “we now sense that that period of human history is over, so shall we look at scaling back or softening some of the regulatory and other cultural rule changes that we brought in over the past five years?” The notion that anyone is going to say, “actually Basel III is a mistake, let’s go back to Basel 2.5”, that’s not going to happen.’ [Business Leader]

“ ‘The financial sector has so many mis-sellings and misbehaviours on its charge sheet that it needs to be watched like a hawk.’ [Commentator]

“ ‘People in the public can differentiate between sectors. I think manufacturers are quite highly regarded, retailers are quite highly regarded, and I don’t think their views on those companies have been tarnished by views of banks.’ [Business Leader]

“ ‘We might as well talk about financial services. Obviously they have been in a fight. There’s no silver bullet that’s going to put a golden halo around the financial services sector in this country because it does take time.’ [Politician]

### 3.9 A ‘chasm’ opens up

The deficits between business and the public on one hand, and the business and financial communities on the other, are as nothing compared to the “chasm” that some argue exists between business and politicians today.

Business leaders attribute this to a variety of things: the tension between short-term populism and long-term planning, a failure of the business community to engage forcefully in political debates, and a perceived ‘experience deficit’ attributed to the rise of a new professional political class.

The need to ‘fix’ this increasingly unhealthy relationship emerged as a major theme of the interviews but, as we note above, business leaders and politicians often appear to be starting from a different place when it comes to the financial crisis.

The former see it largely as part of the natural cycle of events; the latter expect far more in terms of a response from the business community.

### 3.10 More clarity, less short-termism

The major demand business leaders make of politicians is clarity.

This applies not only to corporate taxation – one of the most prominent areas of criticism of big business over the past year – but also to inconsistent demands for both increased bank lending and capital ratios, and an unsettling uncertainty about the future of financial regulation.

It is felt that much of the criticism business has faced in recent years stem from a lack of clarity about what politicians expect from business. Participants argue that politicians seem unsure about what businesses’ obligations are with regard to corporate tax, or the banks’ obligations to lend.

Contradictory messages – or arguments that contradict UK law – are regarded as unhelpful at best, damaging and cynical at worst.

“ ‘I think businesses should operate within the law, and if the law is not clear, the law should be made clear. It’s as simple as that.’ [Business Leader]

“ ‘I think businesses may want clarity and consistency across international boundaries.’ [Politician]

“ ‘On the one hand we condemn reckless lending, but on the other hand we condemn the banks for not lending more. And we want the banks to lend more, presumably by lowering the credit criteria, either to businesses or individuals when they’re buying houses. And so on the one

hand, the regulators want responsible lending and want banks to hold to the new standards of banking, but on the other hand the Treasury want banks to lend more. These are contradictory policies, and of course whichever way the banks go they're condemned by a certain sector of the population.' [Business Leader]

- “ ‘The rule of law applies, and you can't expect organisations to comply with the rule of law and then do something on top unilaterally just at the behest of government.' [Politician]
- “ ‘What they want is clarity and predictability in terms of the environment which they inhabit – quite rightly – and that's the role of governance.' [Politician]
- “ ‘International tax regimes are ultimately a matter of legal frameworks for governments. There's no point in expecting corporations to make voluntary tax payments any more than we expect individuals to make voluntary taxes.' [Politician]
- “ ‘It's no good asking people to volunteer to pay tax if there's no requirement in law to do so. It's a ridiculous notion. And particularly if you're running a public company, you run the public company according to the rules and what you're seeking to do is, amongst other things, is maximise shareholder value. [...] If you walked up to the man in the street and said, “I think you should volunteer for 50% tax”, he'd tell you to take a short walk.' [Business Leader]
- “ ‘It's important that companies act in a responsible manner. But to be clear, that doesn't extend to voluntarily paying tax which you're not required to pay by legislation. The solution to that is to get the legislation right; to get the statute right. You can't run a business or plan your financial affairs other than on the basis of the rulebook.' [Business Leader]
- “ ‘One of the other boards I sat on described regulators' activity as akin to a pod of dolphins, who circle on an interesting topic to decide whether it's something they want to dive into. We're all sitting here watching and waiting to see which thing they go for a major nibble at. It's quite alarming, because you feel you're not in control of this process and waiting to see how the regulator is going to act in a potentially unexpected way.' [Business Leader]
- “ ‘What they need to do is to change underlying legislation, not grumble about what happens.' [Business Leader]
- “ ‘The Public Accounts Committee was a good example. They were grandstanding a bit, but they showcased a lack of clarity in definition in terms of some of the tax affairs. It seems to me it should be more of a predictable environment and a more precise environment within which they operate should be the answer to this.' [Politician]

“ ‘I think the onus is on politicians and the tax authorities to make tax law in a practical, simple way with no loopholes. Then, people should abide by the law. I think it's very difficult to ask either individuals or companies to make moral judgments above and beyond the law. So, I think laws should be clear, explicit, and tough, and companies and individuals should work within them.' [Business Leader]

“ ‘What is forgotten in all of this debate is that companies are under enormous pressure from shareholders all the time to perform and to outperform. Every single year you look at things, and you think, “how are we going to do that again next year, where is the growth going to come from, where is the extra revenue, how do we beat ourselves up about cost again?” It's a really difficult task, and shareholders expect that of the companies they invest in, and therefore with that kind of pressure I think governments have got to be crystal clear about what is permitted from a corporate taxation, or corporate financial point of view, and what isn't.' [Business Leader]

**Participants were concerned that politicians are either unaware of the impact that this ambiguity and the threat of a changing regulatory environment has on business, or that they do not place sufficient weight on this impact.**

**The apparent focus of the political class on the short-term is derided due to similar concerns. Participants sought much more long-term planning and strategy from government. These frustrations are not limited to the world of business, but also extend into politics and the media.**

- “ ‘I think government needs to recognize that by making clear decisions, it can make a significant contribution.' [Business Leader]
- “ ‘I think what politicians have to appreciate is that they create the environment which, at the end of the day, enables business to be successful or not. And that's fundamentally all they can do – influence the environment. They influence it through taxation. They influence it through regulation. They influence it through a whole series of areas. And what businesses time and time again will say is, “can you try and keep the playing field as steady as possible and keep it even, as well?” What people are saying to government is, “please, can you avoid extremes? Please, can you keep things on a reasonably stable footing so that we know what we're investing in?”' [Business Leader]
- “ ‘Government needs to have longer-term thinking. Get in place the conditions and infrastructure in the wider sense for wealth creation and set up things like transport and education and a competitive tax regime. Put those in place and then don't chop and change. That is the problem for the political system with our current party political system is that initiatives come and go and there is not enough long-term thinking. That is the main structural challenge. Long-term thinking needs to be put in place, because businesses chopping and changing is very destabilizing and it is a disincentive for investment, which is one of the keys for wealth creation and growing businesses.' [Business Leader]

Participants frequently blame this lack of clarity on a tendency of many politicians to 'reflect, rather than to lead, public opinion', to 'play politics with business' or to make populist speeches and arguments about subjects about which, many argued, they had too little knowledge.

- “ ‘I think the problem is that there is an air of hysteria about tax, bonuses, and remuneration. It's a hysterical debate.’ [Business Leader]
- “ ‘The government has become more populist and has turned on companies quite emotionally and said “you're doing something wrong”. Well, if they're doing something wrong, change the bloody law!’ [Business Leader]
- “ ‘The politicians make a big play on it and politicians can bleat all they like about tax and such like, but they're the ones who make the rules and all the rest of the world do is follow the rules. So, they can come out with all sorts of moral indignation stories and try and get people to say it is your moral duty to pay tax, but there is no such thing.’ [Business Leader]
- “ ‘I think what's driving this is the politician's desire to reflect, rather than to lead, public opinion.’ [Business Leader]
- “ ‘It was politicians playing politics with business. I thought it was absolutely disgraceful the way that all happened inside those select committees and showboating MPs having a crack at you not paying enough tax, without anybody saying, “well, actually, these guys employ 40,000 people inside the UK, who pay taxes and are consumers in part of the country”. Rules are the rules. And if these companies decide to take profit in Luxembourg, those are the rules. Don't showboat in front of the cameras and have a crack now.’ [Business Leader]
- “ ‘Those who are really to blame are the politicians who have written the rule book.’ [Commentator]

Therefore, rather than encouraging obfuscation and ambiguity, business leaders and other participants insist that politicians should clarify what changes they wish to make. Whether this involves tightening tax loopholes or simplifying tax law, businesses welcome clarity rather than the current confusion.

- “ ‘Government has got to say what is permitted and what isn't permitted. They can't use some moral code that no-one knows about to legislate, and that's what they're doing.’ [Business Leader]
- “ ‘If governments want companies to not do certain things they have to legislate on the tax side.’ [Business Leader]
- “ ‘The agenda that I would like to see a lot more of is around tax simplification, which would both reduce the cost of doing business and reduce tax evasion and avoidance.’ [Politician]

- “ ‘Politicians are absolutely wonderful at deflecting attention from their own shortcomings. For instance, the whole issue around corporate tax paid by the Googles and Starbucks of this world was a massive deflection away from what is the core problem. And the core problem is appallingly written and unbalanced tax legislation on both the corporate and the personal level.’ [Business Leader]
- “ ‘Companies abide by the law. If the law is such that Amazon can pay no tax in the UK, even though it has huge revenue, and arguably good profitability in the UK, change the law to fix it.’ [Business Leader]
- “ ‘Perhaps it would be better if the government pushed back a bit from public opinion on things. For example, challenging people to name which specific tax loopholes they would like to see closed. I think once people are put under a little bit of pressure like that, they probably wouldn't be able to answer. Rather than allowing this view that there are lots of tax loopholes and they should be shut down, I think that government would be much more robust.’ [Politician]

The apparent lack of understanding of – or a perceived lack of desire from politicians to understand – the business point of view on a range of issues means that some business leaders complain of the lack of trust – or even as one put it a ‘chasm’ – between the worlds of politics and business. This was reinforced by the frustration that some participants express with politicians' demands for businesses to reform and fuel economic growth within the relatively short political cycle.

- “ ‘Businesses have got to be prepared to engage in the debate because, otherwise, you run the risk of leaving the dominance of the debate to politicians, who, to a large extent, know very little about business, and the media.’ [Business Leader]
- “ ‘I think the understanding of banking, particularly amongst the political classes, many of whom I know personally very well, is extremely weak.’ [Business Leader]
- “ ‘Generally speaking politicians don't understand companies and politicians will say anything to get votes, so that's what they do.’ [Business Leader]
- “ ‘I think there's been a lot of distrust between companies and the Conservative Government as a result of them being pretty manipulative, I suppose, about remuneration, bonuses and taxation. They come out and make statements about what's right and what's wrong, and it doesn't ring true because that's not what they traditionally stood for. So, I would say there's quite a chasm between government and business.’ [Business Leader]
- “ ‘It's all about the background of politicians. I think there is a massive need, in this country, to see more people in the body of politicians who have actually worked. I think a massive problem

we have in this country is politicians are, in effect, converted academics. A lot of them leave university, and will go into a research job with a political party or a trade union, or maybe PR or something. Then the next stop is they get a parliamentary seat, never having really experienced what the real world has to offer or challenges people on. If you go to America, it's quite different. A lot of the politicians in America don't become politicians until later in life, after having had one or possibly even two careers before they go into politics, and I think it shows in the maturity of those people in government.' [Business Leader] 'I think from the politicians, it's a lot of posturing and lack of understanding that causes a lot of the stuff that we see.' [Business Leader]

“ ‘Politicians are constrained by the environment that they're in, the timeline that they have and the realities of the mechanism that they're dealing with. I think they are necessarily somewhat focused on what they want out of business, to achieve their agenda, as opposed to a genuine, open dialogue about what's going to bring about systemic, fundamental change that brings a more sustainable business environment in the UK.' [Business Leader]

### 3.11 'Producers' and 'predators'?

Many participants admit they take very little notice of most political rhetoric – partly due to their assumption that politicians are inexperienced in business and frequently make ambiguous and contradictory comments.

Many argue that some of the language and arguments used by politicians – particularly introducing divisions between 'producers' and 'predators' – reflects their inexperience or naïveté. Most accepted why politicians had – on the same day in 2012 – called for a debate about what 'responsible capitalism'<sup>6</sup> should be or how to make markets 'fair as well as free'<sup>7</sup>, but felt that such debates were a product of austerity and of the search for votes rather than specific failings of business or capitalism.

“ ‘I think that's a load of old hogwash. There's no such thing as “responsible capitalism”. Capitalism is capitalism. Capital gets put into companies and situations to try and earn more capital or income and capital, and that involves risk. That's our system, and risk equals some things go right, some things go wrong. There's more of a debate to be had about how much of that should be picked up by the public purse, but I should think, every single person trying to run a business out there is trying to do it responsibly. So, it's hogwash, headline-grabbing rubbish.' [Business Leader]

“ ‘I didn't pay any attention to that [David Cameron's call for “a market that is fair as well as free”]. It seemed like a silly sound bite. You get a lot of them from politicians. It's no better than that idiotic statement from Ed Miliband about predators versus producers.' [Commentator]

<sup>6</sup> Ed Miliband, 19 January 2012  
<sup>7</sup> David Cameron, 19 January 2012

The rhetoric used by Labour leader Ed Miliband in his 'producers or predators' speech is held up as an example of a particularly unhelpful contribution from a politician that many businesses argue is inexperienced at best. In his speech to the Labour Party Conference in 2011, the Labour leader asked “are you on the side of the wealth creators or the asset strippers? The producers or the predators?”<sup>8</sup>. The majority of business leaders simply feel this speech and this kind of language to be 'idiotic', 'deeply unhelpful' or 'stupid'.

“ ‘That kind of emotive language frankly shows a lack of experience with business or a lack of exposure to businesspeople. I can think of very few, if any, FTSE 100 or even FTSE 250 CEOs or CFOs that I've ever met from Britain who I would describe as predatory.' [Business Leader]

“ ‘I think it's deeply unhelpful, I really do. It's not a position that I would support at all and I don't think it's the role of government or politicians to do that.' [Politician]

“ ‘I think it's b\*\*\*\*\*s. I know what he was trying to say but you can't make that distinction. You tell me who's a predator and who's a producer. Most people are both. When you consider that the least trusted institution is probably the political one, how can you ask them to take the lead on issues around trust?' [Business Leader]

“ ‘That is silly political rhetoric when you haven't got some substance behind it. I think politicians hold a greater responsibility in some of these areas than they wish to admit. The way they articulate their views and the use of business to make party political points is problematic. I do feel that sometimes they ought to review rather better and with more care their attitude, their language and how it is perceived.' [Business Leader]

“ ‘I have no issue with scrutiny, but I have an issue with comments by incompetents. If you're going to comment on business it might help if you have some experience of working in business or can demonstrate some understanding – beyond superficial – of business. I think the nation has got far too comfortable with being critical of institutions and organisations and is losing sight of the importance and value of recognition, promotion and constructive dialogue.' [Business Leader]

“ ‘I think [Ed] Miliband was being a bit stupid when he used that language because he was not prepared to define the terms that he was using. He did himself no favours because people said, “well, what about Boots?” That's a company that is in the healthcare business, works on behalf of the NHS, distributing a load of prescriptions to the Great British public. There's nothing wrong in its products. Nobody's forced to buy them. It's in the business of improving healthcare and yet it's owned by private equity. Miliband, in other parts of that speech, seemed to be making the broad assertion that private equity was a bunch of predators. With those companies, he was not prepared to draw the line anywhere. I think it was not a helpful speech. I think – to a degree – people know what bad behaviour is and they might call those companies predatory, but the

<sup>8</sup> Ed Miliband, Labour Party Conference, 27 September 2011



problem is the world of business doesn't divide so neatly into black and white where you can say "these are the bad guys and these are the good guys". And if you are claiming that the world does divide like that you've got to say which ones fall on which side of the fence and which on the other. So, it was a stupid speech by Miliband! [Commentator]

The irritation and disappointment that business leaders feel towards the seemingly 'problematic' language used by politicians such as Ed Miliband (though it should be noted that this is a problem reflected across the political spectrum) leads many to claim that politicians' understanding of business is poor. Some even suggest that this knowledge has deteriorated noticeably in recent years due to the advent of a new professional political class.

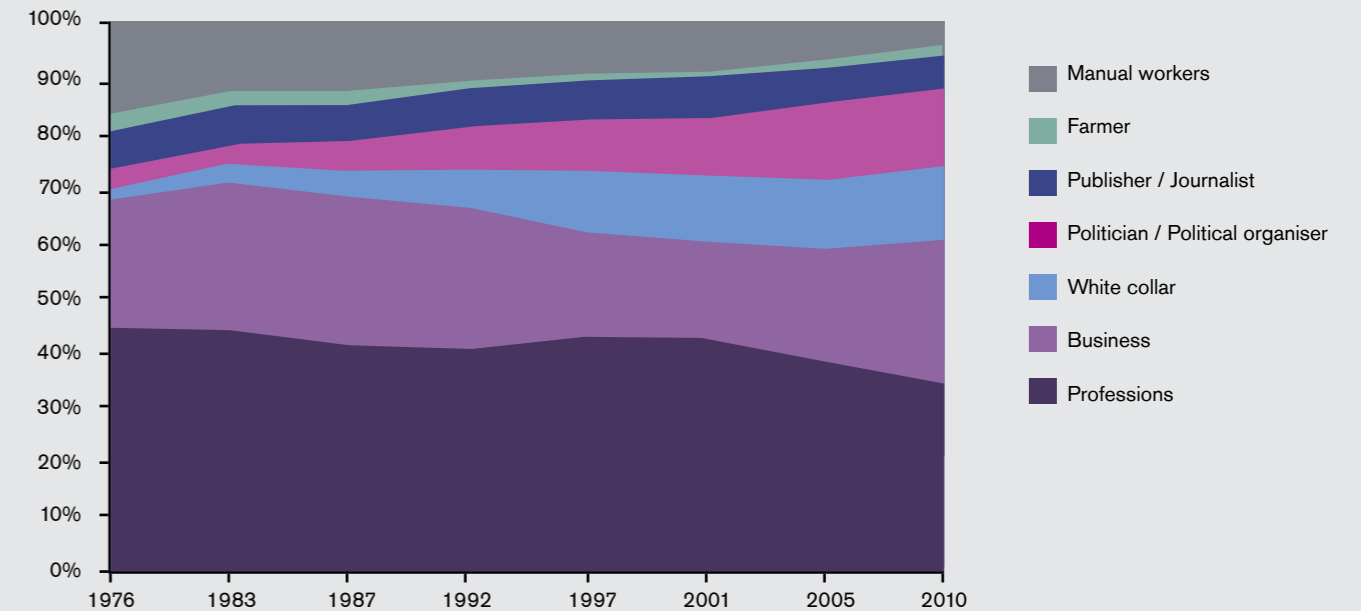
“ ‘Politicians are far less likely to trust business leaders and the operation of the markets than they were before the crisis.’ [Business Leader]

“ ‘I think as a general rule, most businessmen and businesswomen actually interact with politics, Whitehall, Westminster, and the press rather poorly. There are obviously notable exceptions to that. But the harsh fact is that there is, I think, the understanding because the number of people who cross over between the various activities has over the years diminished, and indeed the interrelationship has diminished as Westminster has become more Westminster-focused. In the past the average businessman would know a lot of politicians, and would actually understand the pressure of politicians. I think that degree of understanding and interrelationship has declined over the years, partly as a result of the profile of politicians who've tended to become career politicians with no hinterland; whereas previously they could well have had a career in some industry or other before they went into politics. So I think that's been unhelpful! [Business Leader]

This apparent weakening of politicians' understanding of business is not strongly supported by research by the House of Commons into the social background of Members of Parliament. As figure 1 shows, the proportion of MPs who have had a business background has remained relatively stable – albeit with a dip during the Labour government years of 1997-2010 – since 1979.

Figure 1

MPs' occupations 1979 – 2010<sup>9</sup>



	1979	1983	1987	1992	1997	2001	2005	2010
Professions (including barrister, solicitor, doctor, civil service, local government, teacher)	45%	44%	42%	41%	43%	43%	39%	35%
Business	22%	23%	23%	24%	18%	17%	19%	25%
White collar	2%	3%	4%	7%	11%	12%	13%	14%
Politician / Political organiser	3%	3%	5%	7%	10%	11%	14%	15%
Publisher / Journalist	7%	7%	7%	7%	8%	8%	7%	6%
Farmer	4%	3%	3%	2%	1%	1%	1%	2%
Manual workers	16%	16%	12%	10%	9%	8%	6%	4%

However, the data does show that the proportion of MPs with a political/political organiser background and with a white collar background has increased dramatically since 1979, seemingly at the expense of manual workers and those with a professional background (law, medicine, civil service and so on).

<sup>9</sup> House of Commons Library, Briefing Note SN/SG/1528, 14 December 2010

### 3.12 Business and politics: talking past each other?

Whether or not there has, in fact, been a gradual decline in the understanding of business in the House of Commons is potentially less important than the impression among many business leaders interviewed that this appears to be the case.

A major symptom, or perhaps even cause, of the division between the two worlds – and of the allegedly divergent opinions of business leaders and politicians – is the concern many participants expressed about potential intervention and regulation.

Most business leaders and many commentators and politicians maintain that business is ‘socially useful’, is ‘responsible’ and that to legislate or regulate on the basis of the 1% of businesses that offend would be a mistake. Many business leaders reiterate their complaint that the financial crisis, and the mistakes of a tiny minority, has instigated a wave of regulation that is ‘stifling’ business and the economic recovery. Indeed, it is claimed that regulation has a cost that companies – and therefore customers – have to pay.

These participants, therefore, oppose the apparent interventionist trend from government.

- “ ‘There’s a danger of too much regulation because inevitably it’s got to go across the piste and you really need different levels of regulation for different sizes of businesses.’ [Business Leader]
- “ ‘Where measures are necessary for certain types of businesses, then that’s fine. But for the types of business that don’t warrant it, there needs to be a lighter touch approach.’ [Business Leader]
- “ ‘I think the public sector is very badly placed to understand the ethics of the private sector, and I think that a state which tries to regulate ethics has stepped over the line for what government should be doing.’ [Business Leader]
- “ ‘We’re trying to get to grips with two very different new regulators now. They don’t seem to be talking very successfully to each other about being consistent and the Financial Conduct Authority is so focused on consumerist aspects that it’s losing the balance in terms of proportionality. I think it’s bending over too much on the consumerist side and that is very much a backlash arising out of the financial crisis.’ [Business Leader]
- “ ‘You set the framework for better companies, for more responsible companies to survive, but actually the market will generally take care of that.’ [Business Leader]
- “ ‘Governments, I think, should be looking to legislate and regulate when something is very serious. But stop interfering in the workings of the market at the margins, which is what they tend to do. They spend a lot of time on trivia, and too little time on the main issues.’ [Business Leader]

- “ ‘I think the bad apples in the barrel – the businesses that act in outrageous ways – are exceptional. They’re not, in a sense, typical of an alternative business model.’ [Business Leader]
- “ ‘Most marketplaces for goods, services, trade, etc, are not broken, therefore don’t interfere in them, and stop interfering in the trivia of people’s lives. Concentrate on the big issues. I think the 15 year Labour period we went through was quite appalling. The degree of restrictions was absolutely appalling. Because they were singularly incapable of doing anything on the big issues, they just meddled in trivia, to create the illusion of legislative and regulatory activity.’ [Business Leader]
- “ ‘The UK response to this is massively out of line with the response you see in other countries around the world, and therefore I think is reinforcing a number of the competitive disadvantages we’ve introduced into our industrial system over about 30 years.’ [Business Leader]
- ‘I think government and regulators should be highly supportive and helpful to business. We all have an interest in this. Clearly if people do things wrong, regulators should come down hard, but I think regulators are there to help and provide a framework for business to operate efficiently and within the law, and I think there’s a partnership.’ [Business Leader]
- “ ‘They’ve obviously instructed the regulators to be more vigorous in their approach. We already had enough red tape. This current government has promised to review red tape, and we don’t think they’ve done a particularly good job on that.’ [Business Leader]
- “ ‘It’s stifling British business. Only the British could do this. We can’t revise laws for the 1% that have behaved badly. There’s enough legislation out there to put them behind prison bars if that’s the right thing or disqualify them without them impeding industry, because the recovery is underway and business has to be free to get on with it. So I think that we’ve got more of this because politicians are going into an election. They’re going to want to play to the audience, and I think the British public at large think that being profitable and creating jobs and wealth is not acceptable at the moment.’ [Business Leader]
- “ ‘We can’t legislate for the odd mistake that companies make, we’ve got to legislate for the other 99% that get it correct and create jobs and wealth for our country.’ [Business Leader]
- “ ‘I think governments can have a role about nudging behaviours. The balance is always to make sure that the balance is appropriate because free markets – as Churchill said about democracy – are the worst system, but they are better than all of the others. That is the balance that needs to be achieved.’ [Business Leader]

“ ‘Regulation is not something that is free. You can’t pick it off a tree, apply it and then the tree regrows its leaf. Once it’s there, regulation has a price and that price is then paid by the customer.’ [Business Leader]

“ ‘I object to the way government seems to interfere. There is a role for regulation, and in financial services we’re having more regulation. We’ve gone from one extreme – light touch – to really quite severe regulation with implications in terms of liquidity and capital bases in banks and financial institutions. Now, if that’s the way forward then that’s fine, but obviously banks in particular will have to change their approach. That’s the reason why some of them are moving away from some of the products that they used to offer before. It will effectively constrain market position. There’ll be less competition, and that has a knock-on effect.’ [Politician]

Frustration with an ostensibly regulatory trend is particularly evident among those business leaders who feel that communication with government is complicated by contradictory statements made by politicians and by the complex brief of the Department for Business, Innovation and Skills (BIS). For example, participants complain about politicians, departments and regulators that call for banks to have higher capital ratios at the same time as increasing their lending.

“ ‘Vince Cable sees nothing contradictory in saying “I want banks to preserve more capital so their capital ratios improve, I want you to lend on a more stable basis so companies you lend to aren’t the sort that are going to go bust; and, by the way, I want you to lend to more businesses.” That is contradictory.’ [Business Leader]

“ ‘We currently have BIS whose agenda is so complex. You look at the things they’re responsible for, it’s impossible.’ [Business Leader]

“ ‘Vince Cable is not a natural friend of business in the view of most business people I know. He is a natural heavy regulator and an intervener and highly critical of red-blooded capitalism.’ [Commentator]

“ ‘If you look at the rest of Europe, the level of structural unemployment we have is much less, and most of that is down to our labour flexibility, compared to continental Europe. So you shouldn’t immediately assume everything is bad, as [Vince] Cable, particularly, has a habit of doing. He’s the Minister for Business. His first job, to me, should be to promote business, whereas we see his first job is to chastise business, and I don’t see that as helpful.’ [Business Leader]

“ ‘When you talk to politicians individually, you don’t find enormous differences between one party and another. But somehow, those differences then get accentuated when they’ve got an opportunity to speak for themselves as a party and criticise the other party who’s not doing enough.’ [Business Leader]

“ ‘Politicians run exactly the same twin room principle that they’ve always run. The twin room principle means that you go into one room and they say: “welcome, how important it is you employ tens of thousands of people and please will you now also contribute to this particular programme and will you pay for this trade mission abroad”. In the other room they say “you dirty filthy b\*\*\*\*d, you shouldn’t have done this, you don’t pay enough tax, we want you to increase the minimum wage, we think it’s not right what you’ve done”. So the twin room principle has been operated over generations by governments. It happens to be particularly noticeable at this time where you can be blasted and praised by two different departments at the same time for doing exactly the same thing. So you can easily be praised for making a profit and damned for it by different ministers on the same day about the same company. And that is a consequence of coalition.’ [Business Leader]

Meanwhile, some interviewees – generally from the media and politics – feel there are areas where further intervention is required.

In particular, they argue that reform is required to improve the accountability of companies, either by replacing or repairing the ‘broken’ shareholder model or by improving worker representation on boards.

While there is little consensus on what government action is needed – and few of these interviewees were committed to drastic state involvement - these arguments demonstrate the continued pressure for intervention about which business leaders are so apprehensive.

“ ‘It was always argued that tax needed these international agreements, “we can’t do it on our own, we can’t behave unilaterally, it will affect the city”, blah, blah, blah. I think that is bull\*\*\*\*. We should say, “right, we’re not accepting it [tax avoidance]”, and if there’s a consequence for us for being more ethical and not accepting it, then it’s a consequence that we’re prepared to take a lead on. And a lead is all that is needed because don’t tell me that other politicians sitting there in other countries – even in America – aren’t saying this is not right.’ [Politician]

“ ‘The idea of shareholder power is completely nonexistent, it’s a broken model of capitalism. In which case somebody else has to hold the people who run companies to account. The fact that they can pay themselves so much, which is not in shareholder’s interests, and not in social interest, is a sign of the degree to which nobody really runs them. They are peculiar and dysfunctional organisations that are run by their managers, not by their owners. And so, how do you get back some power towards ownership and responsibility? It’s very difficult, but there are a lot of people around with creative thinking about it, whether it’s John Kay or Martin Wolf or all sorts of people who are not by any means of the left, who think seriously about these things. But I don’t see any reason why structurally, any company can change unless it’s forced on them by legislation.’ [Commentator]

“ ‘I’m open to the argument [for worker representation on boards] in a way I wasn’t a few years ago, because I don’t think the status quo is working. I’m not necessarily in favour of it, but I was strongly in favour, for example, of the change that the government made to have binding votes on pay by shareholders. That should have happened a long time ago in retrospect. I’m open to the argument that you should have employees on boards, particularly on remuneration committees. I think there’s too much of a mutual backslapping when it comes to corporate pay.’ [Politician]

## 4. Dealing with the Deficits

### 4.1 On the front foot

The overwhelming view of the business leaders we interviewed is that the business community needs to move out of ‘defensive’ mode and get on the front foot. This is the best way to begin to deal with some of the deficits that have emerged in recent years.

Less clear, however, is precisely who should be leading the charge.

While business leaders – and to some extent commentators and the media – are clear that the corporate world must do more to explain the benefits that business brings to Britain, they are often reluctant to take the lead themselves. Partly this is because they argue they are too busy running their businesses to engage in political and media debates, but some also argue that in such a febrile environment it is far better for business leaders to keep their heads down and attempt to stay out of trouble.

This is where organisations such as the CBI and IoD can play a vital role, but there is some scepticism about their effectiveness and their ability to represent the views of business in a way that is appropriate.

Business leaders agree, however, that the facts support their case, that British businesses have a very strong story to tell and that it is better for the business community to lead the debate than for it to sit back and take what’s coming.

### 4.2 Reputational damage, commercial hazard

Both the desire to move to an offensive posture and the reluctance to do so personally stem from the same root: the importance that business leaders place on corporate reputation.

Critical social attitudes towards business and austere economic conditions mean that the reputations of many businesses have already been damaged, and most business leaders feel it is vital to defend their own. Therefore, while participants look forward to a time where a positive business environment is fostered by government and media alike, many fear taking the wrong decision or attracting the wrong attention that will damage that corporate reputation in the meantime.

Businesses want to avoid being dragged into the media spotlight in the way that many banks have during the financial crisis or in the way that Starbucks has been recently. Being labelled – however unfairly – as a business that does not pay its ‘fair share’, that rewards failure rather than success, that prioritises short-term profit above long-term value creation, and that is not a ‘responsible’ employer is regarded as a serious reputational risk and – by extension – a serious commercial risk too.

- “ ‘If you’re in a consumer business, I think reputation is totally intertwined with commercial concerns.’ [Business Leader]
- “ ‘Reputation becomes important, not when you get a lot of bad publicity but the business is basically fine: reputation is important when the s\*\*t hits the fan.’ [Business Leader]
- “ ‘If you get it really badly wrong, that can be terminal. Think of some famous examples, the Gerald Ratners of this world or the problems that car companies can have when they have too many issues with their products. I think these things are absolutely fundamental. Consumers have a lot of choice now and if they decide that one product or service or other is questionable, they can switch quite easily to something else that’s good. There aren’t many producers that are in such a privileged position that they stand out from their market in a way that Google does. If you’re a bank user it’s pretty easy to switch, for example, if you’re disgusted with the behaviour of RBS or whoever it is.’ [Politician]
- “ ‘Reputation is not to be underestimated as a force in corporate life.’ [Business Leader]
- “ ‘Reputation, which builds up trust, is earned over a long, long time, and you can’t just click a switch and say “right, trust us”. You have to have the right looking and sounding leadership, and display the values and the principles that you would expect of someone that you’d be happy to deal with not just on a one-off short time basis but on an enduring basis. I think what we all strive to do is to develop those relationships that are going to last.’ [Business Leader]
- “ ‘Once that reputation is damaged it is a one-way journey for quite some time and it’s a very long journey to recover.’ [Business Leader]
- “ ‘All businesses, especially those with a customer connection, need to be concerned about their reputation and need to struggle to maintain it. That need is particularly acute at the moment.’ [Business Leader]
- “ ‘Companies need to care about their reputations. And I think it is true, post-crash, but also in a modern society, that people are live not just to the quality and cost of products that they’re buying, but to the reputation of the people that they are buying it from. That needs to be part and parcel of your business proposition. If you are seen as – however unfairly in my view – being lying, cheating, and obfuscating b\*\*\*\*\*s, then people are potentially going elsewhere. So reputation management is now more important for business than it was ten years ago.’ [Commentator]

- “ ‘I think reputation is absolutely connected to the bottom line. If you have an outstanding reputation then people have confidence in your business. And not only that, it can deliver good shareholder value as well, and that’s really important. I think they’ve always been important.’ [Politician]
- “ ‘It absolutely does represent a risk to the reputation that businesses can have. If companies get named and shamed for not paying their taxes, and then everybody starts going on about boycotting them, then it shames the company into doing something. So, what you want to avoid is being on a list of being named and shamed.’ [Politician]
- “ ‘We’re told that shareholder value falls and they lose customers because of public opinion being stirred up against them. So, it can affect companies. In my view, this hasn’t been helped by some grandstanding by one or two politicians in Parliament, which has been designed to get the headlines.’ [Politician]

The importance placed on corporate reputation by business leaders combined with the criticism that has been directed at big businesses – collectively and individually – is a cause of real concern for the management of the UK’s largest companies.

Many foresee a time when the current anger will subside, particularly as economic conditions improve. But they are also aware that corporate reputations – once damaged – may take years or decades to rebuild. Therefore, corporate leaders are nervous of attracting attention from overly critical media or politicians by ‘sticking their head above the parapet’ and seek instead to avoid contentious debates.

In addition, such individuals frequently want to concentrate on their own businesses rather than become embroiled in seeking to defend an entire sector.

- “ ‘Their instinct is always to keep their heads down.’ [Business Leader]
- “ ‘I think that we have a problem now in the Western world in which businesses are far too embarrassed about what they do and tend to shun the media spotlight. Obviously some of them may crack up in front of the committee.’ [Commentator]
- “ ‘It’s always true that businessmen don’t spend their time fighting political debates. They’re not very interested in it and there is a general reluctance of people, especially nowadays, to put their head over the parapet, because of what’s been a pretty febrile political atmosphere. You’ve created an atmosphere where people are deterred from exercising leadership and I think that’s unfortunate. I’ve been around 25-odd years. People have always said that business needs to be more robust in expressing its views and fighting its corner, but that’s not what businessmen spend their time doing.’ [Business Leader]

“ ‘I think the inclination is to keep your head down and just go about it as quietly as you possibly can, but issues – particularly with the higher profile businesses – are not going to go away. So I guess they have to respond in a highly considered and politically non-inflammatory way.’ [Business Leader]

“ ‘The reason why businesses won’t take on the discussion publicly is because they fear that that puts them very much in the spotlight. A spotlight in a world which says, “right, I want somebody to blame”, which says that “if I don’t like what he’s saying or she’s saying, I’ll go round and see what they’ve got in their private life to make it difficult”!’ [Business Leader]

“ ‘Their advisors are probably right to tell them to keep their heads down. There’s nothing in it for you to defend the whole sector, all it does is put your company above the parapet. So probably their advisors are right to tell them to keep quiet, unless they’re under such particular attack personally for their particular company, but even then, the bankers were not exactly eager to come forward.’ [Commentator]

“ ‘Why would you, if you’re a bank, write to MPs when all MPs do is criticise you and vilify you?’ [Politician]

Interviewees, however, are not only concerned about the reputation of the business community within the UK and about the reputation of their own businesses. Many are increasingly worried that, if the apparently anti-business rhetoric of a worrying number of politicians and journalists does not ease, the UK will fall back in the ‘global race’. Interviewees fear that the current climate deters innovation, entrepreneurial spirit and even foreign investment.

“ ‘Within British business and the financial community, you would be hard pushed to find more effort devoted to the broader stakeholder community and to business responsibility anywhere in the world, you really would. We don’t realise how the quality of management and boards has improved in the last 20 years. The danger with our lot is we are very trigger-happy with regulation and we need to remember that competing at the world stage is what will create wealth and what will create good management. I really think that, in some areas, we’re in danger of making it hard to compete.’ [Business Leader]

“ ‘Getting this whole attitude to business right is a barrier to the UK moving on to the much more important thing of how we start to embed value creation into the psyche of the population. Until we do that we’ll continue to moan about our relative performance, but the reality will be that we’ll continue to decline relative to others and that’s becoming quite bothersome. Notwithstanding this short term cycle we’ve got, this is a progressive downward direction of the UK economy over about three decades now.’ [Business Leader]

“ ‘It may have soured the atmosphere a bit because the government runs the line that the UK’s open for business, and we want to encourage the brightest, the best and the largest from overseas to come and headquarter themselves here and be active in our economy. And if people see that the leaders in the government themselves are just making up comments without relying upon the facts, and are suggesting that there is a different legal regime than that which operates, then I think that would be quite discouraging. If I was a business, I’d be thinking that it’s rather disappointing that politicians are playing this short term populist political game.’ [Politician]

“ ‘Sometimes the way these things are reported is frankly unhelpful to the UK in general. And I can give you specific examples of that. For example, during Vodafone’s deal with Verizon *The Times* could only report on how much tax Vodafone isn’t paying, which I think is a very sad reflection on the UK, because Vodafone wouldn’t have done the deal if the tax regime had been different. And so we need to be a bit more constructive and positive and welcome success. I think the way media are structured just now, either in the press or broadcast media, means there’s a natural inclination which is not pro-business, it’s naturally anti-business. It’s not business-friendly. That extends even to those publications like *The Financial Times* which purport to report on business. Contrast the way that *The FT* in Britain reports a news story to *The Wall Street Journal*. We still take a cynical view on it, I’m sorry to say. Is that the fault of businesspeople not putting their case across properly? Partly, of course it is, but also I think the way journalism is encouraged to try and find a contrary view in Britain is easily misunderstood.’ [Business Leader]

“ ‘Some of the competitive advantage that the UK does have – in terms of entrepreneurship, in terms of the City of London, the fact that we sit between the East and West in terms of time zone, the fact that we attract a lot of talent – will all go. That will all be for nothing if this anti-business attitude persists in an irrational manner. It’s one thing calling a company to account and saying, “you’re not acting in a responsible manner, you need to do that if you’re going to survive”. Companies will say, “if that’s what you’re saying to me, yes, I need to adjust my behaviour”. But just a vindictive attack for the sake of it on big business is bad full stop. It’s a crazy, irrational notion and not one that is grounded in reality.’ [Business Leader]

#### 4.3 Corporate responsibility as an existing trend

Most business leaders, and many politicians and commentators alike argue that businesses in the UK already pursued many of the policies and approaches now urged upon them by critics.

The last few decades have seen businesses become more transparent, more aware of their responsibilities to local communities, more concerned with their wider reputations, and more conscious of the need to communicate their awareness of these responsibilities than ever before.

This heightened awareness of ‘social responsibility’ is attributed to a variety of factors, including globalisation, modern technology forcing the ‘democratisation of society’, the availability of information, differing generational demands, and a continued evolution of capitalism. Many of those interviewed feel that, at most, the financial crisis of 2008 and subsequent years has merely accelerated these trends, rather than instigating them.

- “ ‘I think more time is spent discussing risk than ever used to be the case. But I don’t think the change is a result of the financial crisis, except when it comes to financial institutions and banks. I think it’s a change of a much more substantial nature that was already taking place. Was it accelerated by the financial crisis? I’m not even sure of that.’ [Business Leader]
- “ ‘A heightened awareness of social responsibility is just a prerequisite of doing good business in the modern world.’ [Commentator]
- “ ‘I don’t recognise the need for an entirely new model because I don’t think the old model was broken.’ [Business Leader]
- “ ‘I would probably dispute the extent to which businesses need to change, on the grounds I think a huge amount of change has already taken place. The average boardroom today looks absolutely nothing like a boardroom would have looked even ten years ago. And I don’t mean just in terms of the diversity agenda, I mean in terms of the skills and experience that are brought to the boardroom table and the engagement of the average non-executive director with the business. And I don’t mean box-ticking governance, but I mean the serious governance analysis that goes on in boardrooms, and the penalties for members of the board not just the usual suspects like the chairman and chief executive when things go wrong. Boardrooms can always become more effective, and I think that is an ongoing process.’ [Business Leader]
- “ ‘Business in the Community was set up 30-odd years ago following some riots in the early ‘80s to emphasize good corporate citizenship and obligations to society. So it’s always been a core element in terms of the national conversation.’ [Politician]
- “ ‘Social media has obviously played a big part in terms of increasing pressure on individual brands and making it more difficult for them to get away with things or sweep things under the carpet. There are lots of factors and the digital revolution is probably as big a factor as the financial crisis.’ [Business Leader]
- “ ‘I think that this period is coincident with a global transformation in communication transparency and instant messaging, which has probably changed forever the latitude organisations have to operate outside their ethics and values.’ [Business Leader]

- “ ‘I think the financial crisis has been catalytic in accelerating a trend that was there anyway. Firstly, I think it’s highlighted the need for businesses to establish their legitimacy in society amongst the broader stakeholder community, to explain what they’re doing and to explain why they’re useful to more than their shareholders. And secondly, I think it has highlighted again, the conduct of individuals and their relationship to their conversation and what they get out of it. I think the democratisation of society [drove this]; the fact is that information is much more transparent. In the old days, people would treat big companies with deference. They were employers and employees were lucky to get a job, whereas nowadays it’s not like that anymore and people feel that if Starbucks aren’t paying tax, then they should pay tax. The demographic bushfire creates an effect that such things can bring anything to its knees. In British society – and I think America too – there’s a greater sense that big institutions have to be accountable. Now, modern technology enables people to make them accountable.’ [Business Leader]
- “ ‘I think business, boardrooms, chairmen, non-executive directors, have a very heightened awareness nowadays of the whole realm of corporate social responsibility – the role of their company, whatever it may be – in society. I think the level of awareness of that has gone up considerably over quite a long period of time now – over a generation I would have said.’ [Commentator]
- “ ‘Looking at broader financial stakeholders than just shareholders – community employees, all of those things – that has been building for some time.’ [Business Leader]
- “ ‘I think there’s a greater awareness, particularly amongst younger people, of the relationship between a business and all the stakeholders. I do think globalisation more generally is an important driver because you’ve got large multinational companies who do have an impact. Whether you’re an oil company in Nigeria or sourcing clothing from Asia, they do have a very wide impact on many communities, many people and many environments around the world. I think globalisation is a driving force.’ [Business Leader]

#### 4.4 ‘Socially useful’

Sustained attacks on the role of big businesses in the UK lead most business leaders to argue that big business has so far lost the communication campaign.

Banks, corporate remuneration, corporate tax avoidance, over-zealous commitment to shareholder value, and many other aspects of free-market capitalism have all been condemned over recent years. Business leaders feel that politicians, journalists and the public have lost trust in businesses, businesses have lost some trust in overly-critical politicians and journalists, the

financial sector is struggling to re-establish trust with all stakeholders, and businesses in general despair of the actions of a minority.

It seems businesses are not communicating the contribution that they, individually and collectively, make to the UK.

This contribution – and the social utility of businesses generally – is regarded as hugely significant. Most agree with the sentiment behind Antony Jenkins’s argument – that if Barclays served customers and clients in a way that is “socially useful” then “we will rebuild that trust” – but most also argue that the majority of companies are already ‘socially useful’<sup>10</sup>. Calls for a more ‘responsible capitalism’ are deemed to be nebulous, partly because capitalism – properly conducted – is already inherently responsible.

Business leaders and commentators alike recognise that being ‘socially useful’ and being financially successful are not mutually exclusive. Indeed, many point out that big businesses have improved their corporate governance over several decades and are committed to being responsible employers and actors. Those companies that do not provide a social utility and that thrive off bubbles are not sustainable.

There is therefore a financial as well as an ethical argument in favour of acting responsibly.

- “ ‘A successful, profitable business is socially useful for the recovery and continued strength of the economy. I think that’s a major point to be won.’ [Business Leader]
- “ ‘Capitalism already is responsible. We don’t need a new type. There’s nothing about capitalism that says you can lie and cheat once you go into business. You’re required to be just as moral a person as you are in your everyday dealings. You don’t leave your morality at the boardroom door. You take it with you.’ [Commentator]
- “ ‘The values by which we run this business – which are very much about honesty, transparency, responsibility to suppliers, to customers, to all of our stakeholders – have just become much more in tune with the public mood since 2008, so it’s suited us much better.’ [Business Leader]
- “ ‘Being socially useful and financially successful are definitely not mutually exclusive. Let’s take some of the drug companies. They’re highly successful financially, and you couldn’t possibly argue that they aren’t socially useful. Jaguar Land Rover is a huge success story economically, and it’s socially useful in the sense of it’s employing many more people, it’s driving most of the training in the West Midlands. No, I don’t agree that there is a conflict there at all; indeed, I believe that the best companies do both!’ [Business Leader]

<sup>10</sup> Antony Jenkins, statement to the BBC, 4 October 2012

- “ ‘All businesses perform a social utility; otherwise, they don’t have a business. So by that definition, if they’re making money out of something that they’re doing from society then obviously they are performing a social use.’ [Commentator]
- “ ‘We publicly stood up and said we will employ 250 young people that are from a secondary modern school. They’re not qualified, but that doesn’t make them bad people. We’ve got to try and find them jobs, that’s part of society’s responsibility and we’ve made that commitment. So, yes, we have to be socially useful or socially responsible as part of the balance.’ [Business Leader]
- “ ‘I don’t think there is any such thing as a long-term sustainable enterprise that does not strike the right balance between wealth creation, reduced environmental impact and positive social impact.’ [Business Leader]
- “ ‘They have to be responsible regardless of its effect on the bottom line because if they don’t do it, I think it would, in the end, be the road to ruin. The regulators would be on them, public opinion would be on them and there would be no hope for salvation.’ [Commentator]
- “ ‘I think it could help establish the individual company’s bona fide credentials. There’s a commercial logic as well as an ethical one, and it would just be the right thing to do.’ [Politician]
- “ ‘I think companies do have to act in a very responsible manner. Interact with the environment; give something back to the community; have a relationship with communities in which they operate; look after employees as stakeholders; and source products from Asia in a responsible manner. I think all of those things are really important. If you just have a pure financial goal then arguably you would discount all of those things but you’d probably end up with a business that was unsustainable. There has to be a relationship. Not simply because it’s a good thing to do but it’s because it’s putting back something in a meaningful way and building the reputation of our company in those communities where we’re trying to build a sustainable business.’ [Business Leader]
- “ ‘When you work in a nice big organisation like mine, we can bring enormous pressure on our supply chain. One of the things, for example, we do is we train and hire young offenders. All of our key suppliers are not contractually bound to take part in our young offenders programme but, my God, there’s a lot of pressure for them to do so. That’s the reality and I think that type of thing is on the increase.’ [Business Leader]
- “ ‘For a company to be successful, they need to focus fundamentally on delivering good outcomes for their customers. I’m absolutely passionate that that is the way of driving a good business. You focus completely on the need for the customer and ensure those outcomes are good. From



there, you need to ensure that your company is profitable and beyond that, then I believe you have a societal duty to develop the people within your business, for the good of those people, for the good of the economy and for the future success of your own business.' [Business Leader]

“ ‘The values by which we run this business – which are very much about honesty, transparency, responsibility to suppliers, to customers, to all of our stakeholders – have just become much more in tune with the public mood since 2008, so it’s suited us much better.’ [Business Leader]

#### 4.5 Perception vs reality

Although business leaders and many other politicians and commentators agree that 99% of large businesses in the UK are responsible entities that benefit society as a whole, many admit that this image is not one that is universally shared. Big businesses have severe difficulties in communicating their utility and value.

This communication vacuum is too frequently filled by critical and apparently ‘anti-business’ media stories. This vacuum, it is agreed, needs to be filled more effectively by someone putting the opposite case. A failure to do this means that the public all too easily falls back on negative perceptions perpetuated by the media.

Too often, the perception of business does not match the reality of a responsible and successful business community. Convincing the public and critical opinion formers that business behaves responsibly is vital. The acknowledgement of this is one of the most important lessons to emerge from the financial crisis.

“ ‘I think that businessmen generally are rather poor at managing to present their case in a fashion that is understandable and plausible to the average man in the street as well as politicians.’ [Business Leader]

“ ‘I think they should speak up, but they don’t. You ask a programme like Newsnight who they can get on and, apart from Martin Sorrell and one or two other usual suspects, you can’t get captains of industry on to those programmes for love or money.’ [Commentator]

“ ‘I don’t think enough people understand banking, what banking means or investment banking and the role it plays in keeping the cogs in the economy going. And so I think there’s an opportunity for them to actually do more to outreach, engage and communicate with the public.’ [Politician]

“ ‘If you were to look at the banks, I think that they did a terrible job of defending big bonuses. They’ve got to be out on the front foot defending big bonuses.’ [Commentator]

“ ‘There are a certain amount of hours in the day and, I think, you can only do so much.’ [Business Leader]

“ ‘I think businesses should acknowledge that there are standards to which we in business should operate. There are values issues of integrity and honesty that should never be in question. And the second thing we should do is promote with confidence and substance the fact that there is an awful lot of very positive actions being taken in companies globally that is totally contrary to where we find ourselves at the moment.’ [Business Leader]

“ ‘Business has to recognise the changing nature of the expectations in the political environment around them and they’ve got to be prepared to tell a good story about themselves.’ [Politician]

“ ‘I think increasingly there is going to be a greater need for the social utility part of businesses, the giving back to the community they operate in, etc. And it’s not as though they have not been doing it because I know for a fact many outstanding, large multinational companies have been doing it. And they’ve got to convince the public that they’re doing it for the right reasons as opposed to greenwashing.’ [Politician]

“ ‘I think business needs to argue the sustainability and social conscience that we all have. British Telecom – there’s a company that employs many young apprentices, there’s a company that’s got a real social conscience. You can go to Marks and Spencer, and so on; they all have social consciences. It’s become part of society.’ [Business Leader]

“ ‘There are plenty of good things going on but they’re rarely put to the fore of media stories or media channels. I’m not blaming media completely because they’re interested in putting stories that people are interested in.’ [Business Leader]

“ ‘Businesses are an important part of society. All parts of society, to a degree, have to explain themselves, their raison d’être, and the contribution they make to the community and the wellbeing of people in the country where they happen to exist. Business is a massive part of everyone’s lives, and therefore it’s not a question of keeping your head down, burying your head in the sand. It’s a question of explaining the contribution that businesses make, because the man in the street doesn’t always understand the benefits of the business model.’ [Business Leader]

“ ‘If they don’t engage, they’re going to continue to get beat up about it, so I would say that business needs to do a better job of selling to the public what their actual role is and what the contribution to society and the economy is.’ [Commentator]

“ ‘What interests me is that there are a lot of good things that corporations do that they don’t communicate about, and that they don’t make a song and dance about. Maybe there is a communication shortfall in terms of the corporate sector clarifying precisely what they do over and above their economic transactions.’ [Politician]

Participants identify two potentially high-profile events that will enable business – and particularly banks – to communicate their utility in a more positive sense: the sale of the government stake in Royal Bank of Scotland and in Lloyds Banking Group.

The re-privatisation of these banking groups, it is argued, will help to square the circle or ‘reset the computer’. A successful and profitable share sale will be vital, and it is hoped that public anger will thereafter swing away from the financial sector.

- “ ‘It will probably help no end if the taxpayer makes a return on their investment. I think that would be helpful. They obviously will do with Lloyds. RBS may take longer.’ [Commentator]
- “ ‘I think we’ll see less focus on businesses, particularly as the banks are starting to get profitable again. There’s talk of the government selling their stakes in Lloyds and NatWest, so I think it will ease somewhat.’ [Business Leader]
- “ ‘I think a lot hinges on the return of the nationalised banks to the private sector. Were they to be denationalised at a profit to the taxpayer, I think that that could signal a change back to what I might call business as normal, because the fury is based round, “oh God, we’ve bailed these out, the money’s gone down the drain”. Now that’s a big ask about whether it could be done to the benefit of the taxpayer, and I think there are these interesting ideas about the schemes whether it should actually be floated or whether everybody taxpayer should actually get a cheque through their letterbox when it’s denationalised. But if it is able to be conducted successfully, that potentially resets the whole computer, because an awful lot of the understandable anger would then have been addressed. The bailout of the banks will correctly have looked like a short term fix and loan rather than a long term throwing good money after bad investment. They need to make a huge song and dance about that when it happens.’ [Commentator]

## – Case study

### Lloyds and Barclays: How to rebuild trust in the financial sector

As well as deeming it important that banks that have received financial assistance from the government be successfully re-privatised, interviewees also argue that banks can individually contribute to an improvement in the reputation of the sector. In particular, Lloyds and Barclays are regarded as two banks whose actions – particularly their apparent reappraisal of their strategy – over the past 12 months have helped to start this process. It is felt that recognising that an organisation needs to change and communicating that commitment to change is particularly beneficial.

- “ ‘I think some banks have actually recognised that they’ve got to look at their own strategic purpose and direction. There are some good examples, like Barclays going back to their common heritage, looking at what they’re doing, moving out of the marketplace for some of these risky products that they’ve had before. So they’re getting on and I think they’re doing what they need to do, but it does take time.’ [Politician]
- “ ‘Barclays would be a good example, I think, of a company that has obviously got massive problems and then – through a new executive team and a re-launching of the brand – have made a very good impact actually. They obviously have to sustain it.’ [Politician]
- “ ‘Lloyds have responded quite well to government and to others, and responsibly. How it’s been reported is another matter.’ [Business Leader]
- “ ‘The very fact that Lloyds has paid all of the money it’s borrowed from the Bank of England and will now repay all of the money from the Treasury, and the Treasury will hopefully make a profit when it goes to the market, sends a big message to the public of confidence in the future. I hope RBS goes that way too, but they’ll come later.’ [Business Leader]
- “ ‘I think some of the responses by the leading bankers in 2008 were ill-judged actually. They were in denial about the scale of the pushback in the country. But I think that’s been changing, and the responses are more nuanced now in understanding the changing environment and the more demanding nature of the accountability to the nation and the community.’ [Politician]
- “ ‘I think Antony Jenkins is doing a great job.’ [Business Leader]
- “ ‘What we’ve seen in the mainstream banking industry is quite a sweeping change of management in almost all the banks, and I think that does give some confidence that there won’t be a return to the bad old days in the near future.’ [Commentator]
- “ ‘The new generation of bank management is putting the rebuilding of trust very high on its list.’ [Business Leader]

#### 4.6 Corporate tax clarity

Corporate taxation is one area in which the failure to communicate effectively is most apparent.

Many of those we interviewed believe that there has been a significant change in attitude towards corporate tax and that large businesses need to 'pay their fair share'. However, many are also extremely concerned that the contribution of big business in the UK has been reduced to the levels of tax – and corporate tax, in particular – that the community pays. This trend was illustrated by the comments of one commentator who argued that, when determining whether Costa Coffee or Starbucks made a greater contribution to society, "I think the best way of assessing that is probably to look at their tax bill".

Therefore, businesses need to shift the debate away from this simplification and more clearly demonstrate their broader financial value as well as societal benefits that they bring to the country.

- “ ‘We get stuck on corporation tax, when it’s such a small part of the overall tax take of the country. It’s much more important that we actually employ people who pay PAYE and National Insurance, actually buy things in the UK and pay VAT. Those taxes are massive compared with the corporation tax take, and I find it very odd we get stuck on company tax rather than personal tax.’ [Business Leader]
- “ ‘They need to start emphasising the positive contributions that they’re making. Some of the recent stories are examples of companies which do an enormous amount of business in the UK, and contribute significantly to the economy. But their contribution to the economy is solely being judged on the amount of corporate tax that they pay, which is a very small part of the whole picture.’ [Politician]
- “ ‘It’s not so much a matter of defending the status quo as trying to recast the debate in a positive way and pointing out what it is that business is actually doing and the jobs that it’s creating. It’s all very well to say, for example, that paying individuals a bonus is a bad thing and that the money shouldn’t have been released by the company to the individual. Well, if you think about the revenues, personal tax take is a whole lot higher than corporate tax take. So, the amount of money that actually returns to the government’s tax take is higher if the money is being paid to an individual than it is if it’s being retained in the business, and therefore, it becomes part of the profit of the business. But I think what is even more important is that the industry pointing out what it does in terms of employment, what it does in terms of its contribution the national economy, the exports etc. If you take all those things away, that’s a far more negative impact on the society and economy as a whole than whether they’ve paid 22% or 18% corporate tax in the last year.’ [Business Leader]

- “ ‘Look at the overall contribution to society and it’s a heck of a lot more than just those bare numbers in terms of tax-take. I would also play the other side back to the politicians, which is, it’s all very well you talking about tax-take, but you guys do the spending and you spend far too much of it. So, let’s see both sides of your face.’ [Business Leader]

Some stressed that in communicating what business is doing to act responsibly, companies should not veer too far towards apologetic 'appeasement' or 'cringing'. These interviewees suggest that businesses, as well as being responsible entities, should not forget that making a return on capital will bring about its own benefits. Indeed capitalism has brought about myriad benefits that are frequently lost in debates around bonuses and corporate taxation. Businesses, participants argue, should focus on more vigorously communicating the benefits that they, individually and collectively, bring to local communities rather than 'appeasing' critics.

- “ ‘Businesses need to be much brassier and bolder. Come forward and say, “we employ 20,000 people in the United Kingdom, we have a duty to our three million shareholders, and we are going to argue very vociferously for rules that we think help our business with no shame attached to that.’ [Commentator]
- “ ‘I fear that some businesses in Britain are confusing reputation management with appeasement. Just appeasing people and apologising for what you do never ever gets you anywhere. If you feed your right arm to a crocodile it doesn’t become a vegetarian immediately afterwards.’ [Commentator]
- “ ‘I think they need to demonstrate their usefulness to communities whilst not forgetting that they are in business to make a return on capital, to provide their shareholders with a return. This is not charity. But you’ll find most businesses take corporate social responsibility seriously and in particular pay attention to the communities in which they operate.’ [Business Leader]
- “ ‘We’ve got a situation, in which businesses talk about putting something back into the community, which reinforces this view that businesses are parasites taking out of the community which need to, by way of an apology, plant some trees somewhere. Whereas I think businesses actually need to say, “what we do for the community is we are actually operating a successful business, this is our contribution”. Google has made everybody’s life a heck of a lot easier. I no longer have to go down to a reference library to look up what the capital of Bolivia is, I can find out at the click of a button. Amazon has enormously transformed my book buying habits, I can buy virtually any book on the planet from the comfort of my lounge rather than going into a crummy little corner bookstore that only has 500 books in it. And I think they have not been robust enough – right across the board – in fighting against this idea that businesses need to put something back in as if by being a business you’re taking out of the economy or society rather than contributing it. I find it bizarre when corporate social responsibility programmes don’t seem to be anything to do with the business at all, saying “we’re going to apologise for running

a bank by planting some trees". What the hell has that got to do with banking? What they need to do is to focus more narrowly on their business and explain the benefits of their business to ordinary people, and the benefits of their business to the wider economy. All of these companies are making our lives easier, more plentiful, and are making the economy a lot richer by employing loads of people, but they always seem a bit reluctant to say that.' [Commentator]

“ ‘I do think that business, in general, and business leaders ought to be more forthcoming and ready to make a vigorous case for the benefits of what they do. They shouldn't be cringing and apologising. I go on television and radio quite a bit, saying the things that I'm saying to you now, making an unabashed case. Capitalism, I say, is the most benign thing that human beings have ever done. It's lifted more people out of misery than anything else that human beings have done and we ought to be making a vigorous defence of it instead of cringing away and assuming that people like Margaret Hodge are going to run businesses better than some CEOs can.' [Commentator]

“ ‘Bob Diamond was actually paid less than Carlos Tevez. Which of these two people do we think are actually more important to the British economy? Barclays seemed absolutely incapable of making that argument.' [Commentator]

## Case study

### Starbucks, Amazon and Google: Corporation Tax scrutiny

In the view of participants, the differing reactions of Amazon, Starbucks and Google to their Public Accounts Committee hearings in the UK Parliament illustrate how and how not to communicate their value to the UK. Several business leaders, politicians and commentators have been frustrated at Starbucks and Amazon's apparent inability to clearly explain and defend their corporate tax policies. Indeed, one participant pointed out that they had been so disappointed by Starbucks's 'voluntary' tax payment that they had temporarily boycotted the company.

Google, however, was believed to have more effectively defended its actions by clearly communicating its obligation to follow UK tax law as well as communicating its value to the UK.

High-profile speeches and announcements from senior executives like Eric Schmidt had helped ensure that interviewees recalled the company's argument.

“ ‘They should give a straightforward account of what they do and why they do it. I think a reason why Amazon, in particular, got so much resentment is because they tried to obfuscate. They didn't explain what they're doing, and why they're doing it. It had to be dragged out of them by Margaret Hodge of the Public Accounts Committee, and I think people were particularly resentful of that.' [Commentator]

“ ‘Starbucks were very stupid to agree to pay an extra £25 million in tax voluntarily. That was absurd. Volunteering to pay more tax than they're supposed to. Good heavens! I can't imagine what the shareholders are going to think of that. I myself boycotted Starbucks coffee for a month after that.' [Commentator]

“ ‘Starbucks felt that they had a PR problem and so they, I think to my mind unwisely, offered to make tax payments. I think that was weak management, really.' [Business Leader]

“ ‘Starbucks and Amazon made a bit of a hash of the attention they're getting on the tax side.' [Politician]

“ ‘I do think what Google did showed the right sort of approach of being fairly unembarrassed, whereas I think the banks are feeble and just ran for cover.' [Commentator]

“ ‘I rather like the way that the chairmen of Google and Apple both stood up and gave a fairly robust defence. Apple in the United States and the Google guy over here, instead of cringing before the awesome Hodge beast, actually stood up to her and stated what the position was. And I think business leaders should be telling the public that they exist to provide goods and services that people will freely pay for to enrich their lives accordingly.' [Commentator]

Of course, participants are not entirely downhearted about the efforts of big businesses to communicate their utility. Many businesses have done so, including Barclays, Lloyds Banking Group and Google (as discussed above). BAE Systems, Wonga, and Marks & Spencer are all also mentioned as companies that effectively convey their value and responsibility – either through robust defence in front of hostile committees, through honesty and contrition where appropriate, or through consistent statements about the ethics and values of the company.

- “ ‘I think individual large businesses are engaging and communicating. If you look at the sort of work the British Aerospace has done, which talks about its contribution to the UK economy, I think that’s a phenomenal example. Centrica did it, in terms of its social impact. So I think some of Britain’s best businesses are actually busy doing that.’ [Business Leader]
- “ ‘I think the best marketing job has probably been Tesco. It’s not directly linked to the financial crisis, but more broadly with the horse meat stuff. They’ve actually come out reasonably well out of it because of being honest and being up front with people and saying, “yes, we made a huge error”, and being honest about it rather than trying to hide it and trying to pretend it didn’t happen. That’s a good role model for others.’ [Commentator]
- “ ‘The likes of Marks & Spencer and the Co-op talk about their values, their approach, their ethics, and they are consistent. They are known for that. So there’s, dare I say it, more trust from consumers in some of those brands.’ [Politician]
- “ ‘I think a case of a company that actually handled itself rather well in front of the Public Accounts Committee was something that you would have thought would have been deeply unpopular everywhere, which is Wonga. If you watched the Wonga hearing, they get did a fantastic job in robustly putting the case for their existence. And it seems to me that too many people in front of the Public Accounts Committee have faltered because in the face of an onslaught, they haven’t really worked out what their proper response is. If there’s a tricky decision that you’ve taken as a result of a detailed board discussion, it massively helps if you can demonstrate that at the time you took the decision, you used every possible means to get as much information as possible and to take a rational decision, even if it’s now unpopular, or even if now it might with the benefit of five years’ of hindsight actually turn out to have been the wrong thing to have done. The vast majority of businessmen don’t actually think like that.’ [Business Leader]

This demand for better communication is even more urgent due to the belief that debates tend to be dominated by an anti-business lobby, which is rarely effectively countered by businesses themselves. It follows that large businesses and business leaders need to address this imbalance – particularly as regulators are felt increasingly to be leaning towards greater interventions.

- “ ‘There does need to be more of a common sense voice, rather than the shrill headlines in papers and on television, because there is a much rounder argument that is ever presented.’ [Business Leader]
  - “ ‘Somebody’s got to pull us together as one voice and we’ve got to start talking to the government in a very quiet, mature way about this regulator position in which we’ve got ourselves.’ [Business Leader]
  - “ ‘If the public were asked, who is the business leader who leads the business community? They’d all be a bit quiet for a while, and eventually turn to Richard Branson. And, of course, Richard Branson is not in the running at the moment. He’s in the West Indies, sunning himself, lucky sod, so there’s been a lack of leadership, as far as the public is concerned, and a lack of leadership as far as the government is concerned. There’s a lack of people sitting down with George Osborne, and leading a meeting with George Osborne feeling more uncomfortable than he was before the meeting started.’ [Business Leader]
  - “ ‘The media and the politicians feed off one another, and if you’re not careful, then the nature of the debate and discussion becomes – to a large extent – one not particularly well informed by the realities and the facts. And, therefore, the only people who can bring some more level-headed approach to that has to be businesses themselves. So businesses have got to be prepared to stand up and be counted, and accept the risks associated with that.’ [Business Leader]
  - “ ‘I think that journalists have newspapers to sell, and bad news and attacking on fat cats or excessive earnings is good copy. The fact that 1% of the population pays 25% of the income tax here and is therefore subsidising the rest of the population is the kind of thing that’s not spoken about.’ [Business Leader]
  - “ ‘Business is feeling under the cosh and on the defensive. Politicians, the regulators and the media, on the other hand, are continuing to point to business as a scapegoat and as a villain, so you’ve got a bit of a one-sided dialogue that is not wildly productive.’ [Business Leader]
- Interviewees across the worlds of politics, business and journalism agree, therefore, that it is vital for business to communicate and engage better – even if, theoretically, businesses are only required to communicate with shareholders. They believe that effective engagement is required in order to ensure that politicians are fully informed and so that policy is formulated with appropriate input from business. It is pointed out that this requires a better understanding of politics and politicians, which some feel businesses do not currently have.
- “ ‘I think they ought to engage. I think the idea that they just should counsel with the shareholders is maybe a legal technicality, but the reality is that they have wider responsibilities.’ [Politician]

“ ‘My inclination would be to say that to ensure that the voice of business is heard in the development of policy and the positioning of government, then I think business needs to be more active rather than less active.’ [Business Leader]

“ ‘I think businesses need to engage because I think a lot of this stuff is politically driven. I think politicians in particular need to make sure that they make rational decisions based on evidence. [...] I think the engagement is important so that people are making rational, evidence-based judgements and not making decisions where they haven’t thought through what the unintended consequences might be.’ [Business Leader]

“ ‘I think a lot of business people think it’s good enough to have gone and had a meeting with the minister; and it really isn’t. It’s really not enough to have that sort of cursory relationship, because ultimately that will get you nowhere. It’s ego-burnishing. If you really are serious, this is a long-term process. [...] So I think that those people need a better understanding of how politicians operate and where they get their advice from, and understand the dynamics of what it is achievable. I think quite often business people don’t understand that politics is a numbers game: can you get it through the House; can you get it through your own party?’ [Business Leader]

#### 4.7 The vital role of business organisations

A general consensus emerged from the interviews then:

- The financial crisis has stimulated populist attacks on businesses and an anti-business environment.
- The vast majority of big businesses in the UK have evolved over many years and decades into some of the most responsible businesses in the world.
- This responsibility is not at odds with the capitalist model. Indeed, most feel that being ‘socially useful’ and being financial successful are not mutually exclusive. Rather, one could not be the latter without being the former.
- Businesses need to be better at communicating their responsibility and their commitment to responsibility. Too often, critics reduce the debate to the level of corporate tax paid or attack corporate responsibility as ‘green-washing’. It is felt that too few in politics or in the public trust the business community’s commitments to responsibility.
- Business leaders, however, are frequently too busy or too nervous to put their heads ‘above the parapet’. Many distrust the media and politicians and therefore have not wanted to give the anti-business lobby opportunities to distort and attack businesses’ arguments

Reflecting on this, most business leaders and commentators feel that there is a crucial role for business organisations such as the CBI or the Institute of Directors (IoD). Such organisations are seen as capable of standing up and giving voice to the business argument, but there is considerable disappointment that these organisations have not effectively done so in the past few years.

“ ‘What is rather disappointing is that businesses, collectively through their organisations, haven’t pointed out to a greater extent the fact that they’re operating legally within the international frameworks.’ [Politician]

“ ‘Maybe business organisations haven’t worked hard enough to have people who are prepared to speak out on their behalf against the rant of public opinion based on ignorance and prejudice.’ [Politician]

“ ‘The problem is the IoD is far too dominated by people who run very small businesses in the sticks, who like coming up to London and having a club. So there isn’t a public face of business, either from within the business community, or from the bodies that claim to represent the business community.’ [Business Leader]

With regard to the CBI in particular, many participants complain that it seems to be 'invisible', that it compromises too much, and that it is not staffed by individuals who effectively counter attacks on big business. Instead, they feel it provides routine defences of businesses that do not lead debate.

- “It's very difficult for any one business to put its head above the parapet. I do that from time to time, and boy you see the discomfort with your colleagues. Having institutions that can represent these views and put them into a logical order is why you have intermediate bodies that should be doing this, and the CBI has been entirely invisible in this debate.' [Business Leader]
- “The CBI needs to collect proper evidence because so much of what is said is rhetoric. So much of what is said actually has no basis in the evidence, and I think they need to do a proper piece of work to assemble the evidence and then to assemble the arguments based on the evidence. And they should be prepared to shoot other people down when the evidence that's being used is partisan and not properly balanced. Unfortunately, for years I've found it not terribly relevant. [...] They're compromising all the time. There is no clear voice which is taking the responsibility for designing and then communicating the case.' [Business Leader]
- “The CBI just simply routinely defends business.' [Commentator]
- “I think one of the problems that we've had over the past three years, to be absolutely, brutally candid, is that collective business lobbying, business presentation, both to the wider public and to government has been weak. I think the CBI looks like a very introspective organisation at the moment and it does not have the external clout it had when Richard Lambert was Director-General. A lot of members have resigned from the CBI. They feel that, to put it bluntly, no one is frightened of John Cridland. You want a CBI Director-General, and an organisation that governments think, "oh God, we piss them off and they go public, it's going to be a real pain", and there's no sense of that. There's a sense that the top of the CBI is overwhelmingly dominated by people who've worked there for a very long time, that there's the absence of a sparky outsider in the leadership team, saying, "I know you've always done it this way, but actually why don't we try and do it that way?" It's got to the point where The FT now refers to the CBI as a leading business organisation, and not the leading business organisation.' [Business Leader]
- “The CBI is fine, but it really only looks after what I call the enormous corporates. It's not for middle England. They'll attempt to look after FTSE 100 really. The FTSE 250 and 350 – those middle companies need a representation, and I'm not sure who represents them.' [Business Leader]

Blame is not only apportioned to the CBI as an organisation however. Many admit that the effectiveness of a membership organisation is dependent on the membership's unity. It is believed that the members of the CBI are divided on too many important points, such as banking reform. It is also pointed out that the CBI – rightly or wrongly – is there to advocate on the behalf of its members, not to police their behaviour.

- “The constituents of the CBI – which we're not one – don't feel the same sort of unity of purpose with other CBI members as they used to.' [Business Leader]
- “It's a nightmare situation, because this whole thing at the end of the day is about, does the rest of the business community want to join the lynch mob on the banks, yes or no?' [Business Leader]
- “The CBI challenge is that the banks are its members and amongst its biggest fee payers. So if you can tell me what the CBI position is on banking reform, congratulations, you're a better man than I am. On any issue which divides the membership, John Cridland's position is a very difficult one. If he was still there, Richard Lambert would say, "I'm very sorry, Mr. Banks, but you're in the wrong, and if you want to resign from the CBI, and cut my income by 20%, that's your shout, and by the way, it will be on the front page of the FT tomorrow if you do it".' [Business Leader]
- “There are a number of business voices around and they don't always share the same interest. There are distinctions between the large, successful companies wishing to dominate their markets and competitors wishing to gain ground. That's inevitably the case. And it's quite important that we're seen, I think, to be in favour of the market, rather than business. I don't think the CBI is necessarily acting in the interests of the market, as opposed to the businesses who are its dominant members.' [Business Leader]
- “I think, because they are membership organisations, they can't be out of touch with the people who fund them and who vote for them. They are somewhat constrained, which is very similar to political leadership. They're constrained by what they think the voting population will allow them to do.' [Business Leader]
- “You wouldn't expect the CBI to be making the same comments as Will Hutton, who's an independent commentator on these issues and who you would expect to be able to challenge more. The CBI is a membership organisation not a professional body. It's not its job to police the ethics of its members. It doesn't defend the indefensible and wouldn't speak up for people who are acting inappropriately or unprofessionally. It's a membership organisation whose job it is to advocate the views of business, not to police business.' [Business Leader]

Not all, however, are critical of the CBI or of business organisations. Some have been impressed with the CBI or – in one case – TheCityUK, and also point out that members need to support such business organisations. Nevertheless, there remains a sense that businesses need to engage more effectively.

“ ‘I think an organisation which generally does represent and does move the debate very well is the CBI. That’s what it’s there to do. I think John Cridland and, by and large, whoever is President of the CBI tends to be very good at representing industry, the challenges industry faces, and what it’s doing to meet those.’ [Business Leader]

“ ‘There is now TheCityUK, which is a body set up to cover financial services and engage with government. The CBI is more active than it’s ever been. I think there are trade organisations that help do this, but businesses need to stand up for themselves as well.’ [Business Leader]

If business organisations and businesses themselves do not improve the manner in which they communicate their arguments to the public and to politicians, there is a danger that business and government may be destined to continue to talk past each other for some time to come. One participant argued that greater membership of business organisations like the chambers of commerce might represent one way in which business could strengthen its voice.

“ ‘I think that there’s a communication issue, and not understanding – in the case of politicians or business people – where the other one’s coming from.’ [Business Leader]

“ ‘Businesses need to work harder at their relationship with the government, because all governments have a slightly different tone to them. Obviously, partly because of the economic crisis, it’s more strident in the way that it approaches its relationships with business than the last government was. But I don’t think there’s any need for a sea change in the relationship, it’s just that both sides have got to work a bit harder at communicating.’ [Business Leader]

“ ‘All these organisations are membership organisations. I am a fan of statutory private sector business organisations. I’m a Heseltine fan. Michael Heseltine advocates a statutory framework for chambers of commerce. Under 10% of SMEs belong to their local chamber of commerce. The consequence of that is that the chamber will only represent the members it’s got, because that’s where its money comes from. I think that is a problem. I think there should be statutory framework.’ [Politician]

#### 4.8 Leading reform and debate

Business leaders generally complain of the level of ‘red tape’ that they have to deal with, of the danger that state intervention represents to business and the economic recovery, and the recent tendency of government to act too quickly without business interests in mind.

This anxiety around the effect of intervention, combined with the widely held belief that big businesses in the UK are successful because of – not despite – their responsibility and concern for their wider stakeholders, means that participants believe business needs to continue to lead on reform.

By better communicating their social utility and demonstrating that the business community is reacting to changing expectations without state regulation, it is felt that businesses could lead the debate about responsible capitalism rather than following in the wake of critics and regulators.

Waiting for complaints and criticism to build-up is generally not felt to be a safe option for businesses in the post-financial crisis world.

“ ‘I think the onus is on business itself to put itself right, and to be seen to be doing so, or the clamour to politicians to do something will grow so great that they’re not able to resist it.’ [Business Leader]

“ ‘There is a responsibility on business in its own right to rethink the way in which it behaves, to think about remuneration and the fairness of rewards and the differences between pay at the top and the bottom of an organisation, and the responsibility of business to invest in skills. And that involves taking on apprenticeships and investing in skills and taking that much more seriously. And making bigger long term commitments to the communities where companies are based. Government can change rules about corporate governance and responsibility and so on, but ultimately, you do need that to seep into a substantive shift in mindset and approach.’ [Commentator]

“ ‘Successful businesses are the ones that react to the changes that are going on in the environment and will shift their behaviours to survive and make their businesses more sustainable. If you think of it in pure capitalist terms, what you’re really saying is acting in a responsible manner – whether that’s to the environment, your employees, your supply chain or whatever it happens to be – is actually a sort of competitive advantage. You’ll attract perhaps better people if you’re seen in that light and ultimately consumers will view you in that light and they’ll buy your products rather than the competitors’ products.’ [Business Leader]



“It’s definitely in the business and the private sector’s interest to do it themselves as opposed to having further regulation forced on them. It’s in every corporate’s interests to behave responsibly and in an effort to do the right thing, but also to limit the amount of government-imposed constraints and limits with regulations – whatever form that may take. And you can’t just communicate something and say “right well you can trust us now because we say you can trust us”. You’ve got to walk the talk.’ [Business Leader]

“I think the main thrust should come from businesses who need to make their offering clear to their customers, and put it over simplistically. They need to make sure that their product isn’t edged round with small print, that people understand what they’re being offered clearly, that big companies fulfil their obligations openly and that they’re responsive and available to customers.’ [Business Leader]

“It’s become more important that it should be visible what you are doing, but I don’t think there’s any call for the government to intervene. Responsible businesses get it and are doing what’s necessary. The irresponsible businesses will be lynched in the process or not supported by their shareholders. Little by little, everyone will become more focused on the broader social interest. But as I say, I think good companies have been there for a long time.’ [Business Leader]

“I think the greatest opportunity and primary responsibility is with business to operate and behave in a way which is preferred by their customers, their employees, the suppliers and the community. If they consistently fail to do so then I think governing bodies or governments have no option but to intervene.’ [Business Leader]

This commitment to business-led reform is not found only within business. Many of the politicians and commentators interviewed agree that businesses are best placed to lead on reform – where necessary – and to lead economic recovery. Indeed, one commentator even suggested that law firms could play a role in assembling clients and leading debates on what businesses could do to demonstrate and improve their responsibility.

“If a number of powerful companies got together and thought creatively about how they could restore a sense of order to the business world, it would be a very good thing to do. Lawyers are the people to do it, and maybe lawyers should assemble their clients and say, “look, this would be a good thing to do”.’ [Commentator]

“I’m open to the argument that you need some significant structural engineering and I’m also very wary of excessive state regulation. Getting that balance right is a difficult one and if the corporate world itself led better in this area, then that would be a good thing.’ [Politician]

“We need business to re-engineer our way out of this. So there’s a re-emphasis on growth which stopped after 15 years of growth in 2008.’ [Politician]

“There’s a great desire on the part of the politicians to see better self-regulation and there’s no great enthusiasm for getting into detailed issues of regulation, particularly when it comes to pay and tax, because so much of this is international. It’s quite difficult to move on it anyway. The situation you could get into is that business becomes very unpopular but government still can’t find effective ways to act; there will come a point at which they’ll be forced to act if practices simply become unacceptable over a long period of time. So, do I think that it’s better to be on the front foot for business? Very much so.’ [Politician]

Media scrutiny, changing consumer expectations, new technology and shifting societal norms have all combined to require further improvements in businesses’ transparency, customer service and commitment to their communities. Participants agree that this trend has developed over the decades preceding the financial crisis, has perhaps been accelerated by the crisis, and will continue for the foreseeable future.

The consensus, therefore, is that the most successful businesses will recognise that leading reform and driving up standards of corporate governance is in their own best interests.

“The world around us continues to change at a dramatic pace, and the real question is are we responsive to and adapting fast enough to those changes to survive or even to grow?’ [Business Leader]

“To get trust back is a long-term, slow and steady build. Let’s face it; it’s good business because if your customers trust you and they tell their friends they trust you then you get more business. So it’s not as though it’s money wasted or investment wasted.’ [Business Leader]

“We’re always commenting through social media about organisations and businesses. We’re all opinionated people, so we’re always coughing up views even if we don’t understand someone’s business or what they actually do. And I think that’s deeply unhelpful. Media has a role to play in this as well, there’s no doubt about that, including social media and technology. It’s this constant commentary that’s out there, commenting on business even if they know nothing about them or they do. So I think on that basis alone the landscape has changed.’ [Politician]

“The objectives of a company are primarily about satisfying the interests of its shareholders. But in order to do that effectively, it needs to consider its impact on society. That extends from its impact on employment and the way it employs people, and its impact on the environment. [...] You can only maximise the wealth of your company through taking an appropriate position in regard to society, I think.’ [Business Leader]

“ ‘I remember when corporate and social responsibility first came in, and I remember being way too sceptical about this. I’m now a total convert to the value of skill and social responsibility as a concept. It is incredibly important for businesses. I do think over the long-term it does enhance your reputation, but most importantly of all, it matters a lot to a huge number of people in your workforce, particularly if you’re in the sort of business that have a large number of blue collars as well as white collar workers. It is amazing how many people in the workforce actually feel really proud of their company because of what the company does, and I think we underestimate that at our peril. In other words, I see corporate and social responsibility as a major part of our employee engagement, because I think that if employees feel proud of where they work, they become your best ambassadors, your most important ambassadors, and I think that really matters.’ [Business Leader]

“ ‘Imagine if RBS had the best consumer-friendly retail branch network in the UK and imagine that everyone who was a customer of RBS really liked being a customer of RBS, just like a lot of people like being customers of Waitrose or Tesco and so on. Imagine if they felt they were being treated in a fair way, then I think the whole banker bashing could be much reduced. [Commentator]

Looking ahead, participants from business and from politics agree that they hope the two worlds will better recognise that they need each other, and therefore there needs to be a constructive relationship between the two. Many hope too that business will better communicate the need for clarity, stability and long-term planning from government in the post-financial crisis world.

However, few foresee structural changes in the relationship between business and government. In some cases, this is regarded as a positive, as interviewees feel the financial crisis – like other ‘crises’ of capitalism – is passing without more structural reforms. Others fear this continuity as it might mean government and business will continue to struggle to effectively communicate with each other for some time to come.

“ ‘If there’s an upside in all of this it ought to be that each recognises that it can’t survive and operate properly without the other. And that, hopefully, it’s increased the understanding or increased the dialogue. What’s been going on at least has forced government to address the nature or the role of the industry and what is sensible regulation, and what is not so sensible. And it at least forces people to address these issues with perhaps more urgency than they might have done.’ [Business Leader]

“ ‘I’ve seen this over several generations now, or certainly many decades, and the relationship is always fairly tense, I would say. It is much better in times of growth, obviously, and political stability. It’s much worse when we get changes in government.’ [Business Leader]

“ ‘I’m not sure it will be much changed. Business has to get on with its job. It tries to help government and usually its offers aren’t very well received. I’m sure they’ll continue to try because most of the major businessmen want to try and help UK PLC get better. The politicians remain with their agenda, which is the political five year horizon, and that means that their objectives are often rather different.’ [Business Leader]

“ ‘I think for some time now, there’s going to be a suspicion on all sides until things settle down. I think government’s relationship with business goes up and down. I think even in good times politicians don’t often listen to business and vice versa. This may be a bit cynical. But clearly if the economy recovers, then business is better disposed towards government, the tax take goes up, and vice versa.’ [Business Leader]

“ ‘I don’t think we’re seeing any real rupture or change or page-turning exercise. I think the tempo of the conversation’s changed – some of the rhetorical devices, some of the concerns in the country – but the relationships in terms of state and private sector are not really being radically reconfigured.’ [Politician]

## 5. Appendices

### 5.1 Appendix A: Methodology

Populus interviewed 51 business leaders, politicians and commentators by phone between 19 June and 15 October 2013. While interviewees were asked to participate for just 10 minutes, many were extremely generous with their time and interviews lasted between 10 and 30 minutes.

Interviews were discursive in nature and based around a discussion guide designed by Populus.

The interviews comprised of:

- Business leaders, including chairmen, chief executives and finance directors at FTSE 350 companies and other large, non-listed companies
- Industry representatives such as directors-general of business organisations
- Politicians, including Members of Parliament and prominent Peers
- Commentators, including think-tank directors and journalists.

A full list of the interviewees who were happy to be identified as participants can be found on the following page.

Populus and DLA Piper wish to thank all participants for their time and for their generous and thoughtful contributions.

Populus has made modest charitable donations to a number of good causes and charities nominated by participants in return for their time.

### 5.2 Appendix B: Participants

While all participants were offered the opportunity to contribute anonymously, the following generously agreed to be identified. We are grateful to:

- Lord Andrew Adonis, Shadow Infrastructure Minister and Chair Progress, Labour
- Sir John Armit, Chairman, National Express Group plc
- Clive Betts MP, Communities and Local Government Committee (Chair), Panel of Chairs, Labour
- Sir Victor Blank, Chairman, The Social Mobility Foundation
- Edward Bonham Carter, Group Chief Executive, Jupiter Fund Management plc
- Christopher Chope MP, Panel of Chairs, Conservative
- John Cridland CBE, Director-General, CBI
- Jon Cruddas MP, Policy Review Co-ordinator, Labour
- Philip Davies MP, Panel of Chairs, Conservative
- Gareth Davis, Chairman, Wolseley plc
- Paul Drechsler, Chief Executive, Wates
- Ian Durant, Chairman, Greggs plc
- Huw Evans, Operations Director, Association of British Insurers
- Michael Evans, Non-Executive Chairman, Hargreaves Lansdown plc
- Andrew Fisher, Finance Director, Provident Financial plc
- Stuart Fletcher, Chief Executive Officer, Bupa
- Anthony Fry, Chairman, Dairy Crest Group plc
- Tim Hames, Director General, BVCA
- Allister Heath, Editor, City AM
- Steve Holliday, Chief Executive, National Grid plc
- Jim Hood MP, Panel of Chairs, Labour
- Sir Julian Horn-Smith, Deputy Chairman & Senior Independent Director, Bumi plc
- Andrew Horton, Chief Executive Officer, Beazley plc
- Andrew Hynard, Deputy Chairman UK, Jones Lang Lasalle
- Nigel Keen, Chairman, Oxford Instruments plc
- Ian King, Business and City Editor, The Times
- Angela Knight, Chief Executive, Energy UK

- Sir Richard Lapthorne CBE, Chairman, Cable and Wireless Communications plc
- Mark Littlewood, Director General, Institute of Economic Affairs
- Justin Loasby, Chairman, Kenmare Resources plc
- Paul Manduca, Chairman, Prudential plc
- Sir Adrian Montague, Chairman, 3i Group plc
- Jon Moulton, Chairman, Better Capital
- Rick Muir, Associate Director for Public Services, Institute for Public Policy Research
- Archie Norman, Chairman, ITV plc
- Matthew Oakley, Head of Economic Analysis, Which? (interviewed in former role of Head of Economics & Social Policy, Policy Exchange)
- James O’Shaughnessy, Former Director of Policy, 10 Downing Street
- Priti Patel MP, Public Administration Committee, 1922 Committee, Conservative
- Tony Pidgley CBE, Chairman, Berkeley Group Holdings plc
- Dr Madsen Pirie, President, Adam Smith Institute
- Nils Pratley, Financial Editor, The Guardian
- Rupert Robson, Chairman, Tullett Prebon plc
- Lord John Shipley OBE, Economic Affairs Committee, Liberal Democrats Manifesto Working Group
- Andy Street, Managing Director, John Lewis
- Martin Thomas, Non-Executive Chairman, Lancashire Holdings Limited
- Polly Toynbee, Columnist, The Guardian
- Martin Vander Weyer, Business Editor, The Spectator
- Simon Walker, Director General, Institute of Directors.

Three further business leaders – one chairman and two chief executives of FTSE 350 listed companies – were interviewed but did not wish to be named.

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