

**ANTOINE FRÉROT
RODOLPHE DURAND**



**A BROADER
VISION
OF BUSINESS**

Toward a new narrative



Flammarion

Short-sighted, polluting, and greedy... A barrage of criticism has been leveled at business over the last twenty years, challenging its legitimacy. Once a source of national pride and a bastion of progress, business as an activity has been covered in opprobrium for having contributed to the problems bedeviling our planet, extending from ever-growing inequalities to intractable ecological crises.

The authors of this book nonetheless believe that business benefits society. Some people in business have lost sight of that fact, but this only underscores the urgency of restoring to business its original role: its usefulness to society as a whole. Business that is useful has an increasingly important and necessary role to play in addressing the colossal environmental, social, and political issues we face today.

Realizing something so ambitious requires a collective redefinition of capitalism. Relying on lessons learned from recent crises and the combined perspectives of a captain of industry and a leading academic, *A Broader Vision of Business* aims to lay the foundations for a new narrative of business.



Since 2010, Antoine Frérot has served as Chairman and Chief Executive Officer of Veolia, and since 2007, also as president of the French think tank, the Institut de l'Entreprise.

Rodolphe Durand is a professor at HEC Paris where he holds the Joly Family Endowed Chair in Purposeful Leadership. He also founded and directs the Society and Organizations Institute.

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Toward a New Narrative

Translation: John Herrick
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Introduction

*Antoine Frérot,
Chairman and CEO of Veolia*

The Business of Today: A Contested Asset

I believe—and I am convinced—that businesses benefit society. Businesses are powerful, collective institutions that have generated increasing wealth. I know of no other social organization capable of doing so with equal effectiveness. For the people involved and those who contribute directly to the proper functioning of a business—those referred to as stakeholders—the business itself embodies that wealth. To understand their importance in society, it is enough to note the dramatic consequences felt locally when a factory or company closes. The closing of the Bridgestone tire plant in Bethune in northern France is an excellent example. Clearly, a business that generates wealth is worth preserving.

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Unfortunately, this opinion is not widely shared today. Since the beginning of this century, the very notion of a “business” has been the target of growing criticism concerning its role in and contribution to the common good; concerning its ability to provide for the future and to take social issues larger than its private interests into consideration; concerning its motives and redistribution of profits; and even concerning the very notion of the for-profit enterprise. Accusations are made daily that businesses are purely self-interested, greedy, short-sighted and polluting. Business as an institution will soon find itself marginalized and imperiled if we fail to address the wave of criticism sapping its legitimacy, and our societies’ economies will suffer accordingly.

The purpose of this book is to correct the distorted image of business, to defend it so that every business can continue to be bountiful, and to improve the way of doing business because the institution as currently constituted is not without fault. We currently live in a world in which the only thing that counts seems to be impressions. Consequently, the larger public tends to see only the flaws that tarnish the image of business. Yet businesses have contributed to the prosperity of the world over the past decades, and in particular, to France. Working for a company once symbolized the social pact between the firm and its employees, and was once seen as a source of emancipation rather than

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alienation. Too often today, business has come to be seen as a nuisance, particularly in France. If we fail to counter this caricature, this misguided impression and do not address the harsh criticisms from so many of our citizens, the institution's legitimacy will be increasingly called into question.

Businesses certainly have their flaws. Yet despite these flaws, they provide goods and services that are of real value: business redistributes wealth through the mechanism of employment; optimizes supply of goods and services through the mechanism of the market; and contributes to public goods and services through the mechanism of taxation. In short, it is an institution of broad public interest and not merely an institution of the narrow private interests of its shareholders.

This book will focus not only on the business as it exists today but also on the business that needs to exist in the future. Times change, obliging players in the economy to adapt. We must ask ourselves, without complacency or ill will, what the business of tomorrow will be. What is desirable and what is feasible? How might the business of tomorrow surmount the numerous challenges darkening the horizon of this still-young century?

A Pivotal Moment

The present generation is living in a period of history as disruptive as it is exciting: climate change, dwindling resources, globalization, social transformations, technological change, geopolitical upheaval. The planet is experiencing a spectacular shift in the centers of economic growth, political power and national prosperity. Businesses have been drawn into the tumult that they themselves created, feeling the full force of the acceleration in economic and technological change.

Such a confluence of innovations is unprecedented in history: information technology, genetic engineering, nanotechnologies, artificial intelligence, renewable energies. Such transitions spur creativity, innovation and entrepreneurship. Despite the enormous risks involved, the new era is rich in business opportunities.

Our economic and political environments, however, are more volatile than ever. The reasons are numerous: Brexit, the political scene in the United States, the rise of China, the surge in populism, protectionist tendencies, growing tensions between nations, the global pandemic. Almost all forms of economic activity are vulnerable to these upheavals. What is new and destabilizing for businesses is the growing unpredictability of the circumstances under which they operate.

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But they have no choice. A business must adapt, but to tread water in a world experiencing radical change would amount to dooming itself to extinction. The future always resides at the frontiers. The business of today is vigorously probing the boundaries of technological, economic, social and ecological innovation. When seizing upon and creating new opportunities, businesses are not always aware of the consequences of the transformations in which they participate. Such transformations constitute the history of the economy and society, as a quick look at the past reveals.

A succession of many different forms of capitalism has taken place over the last centuries. Venice gave birth to merchant capitalism. Industrial capitalism followed in England. Today, “digital capitalism” spans all continents, from Silicon Valley to China. Capitalism is not a monolithic bloc, but has many faces. As a result of these transformations, business itself has continuously changed, each stage of capitalism assuming a form that best fits its time. Following the family-based business of the nineteenth century, following the large technocratic businesses that emerged at the beginning of the twentieth century and endured until the 1970s, the shareholder-based enterprise appeared in the 1980s and spread worldwide. It is up to each society to choose the form of capitalism that suits it best—more socialist in

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Europe, more free market in the United States, more state-controlled in China—as well as the type of business that best represents it.

We are at a turning point. Shareholder-based capitalism has reached its limits, and we are witnessing the progressive emergence of a new type of business. These new companies are notable for their growing commitment to addressing social and environmental issues—in the context of corporate social responsibility (CSR) and, in France, the PACTE Law of 2019 (Plan d’Action pour la Croissance et la Transformation des Entreprises)—and have enjoyed, consequently, an increase in popularity. I would easily qualify them as businesses of multifaceted, or pluralistic, performance in the sense that they have enhanced economic, environmental, social and societal performance as their objectives, and not just enhanced financial performance. These new types of business propagate a new form of capitalism that has been liberated from the unrealistic expectations of profit margins, a capitalism more useful, more socially responsible, more patient and more equitable.

One Book, Two Voices

I run a company called Veolia. Naturally, I set about writing this book as a player, and will thus

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refer periodically to my company. Veolia started in Lyon over a century and a half ago. Its purpose was to provide clean water to the towns of France and to protect people from the ravages of water-borne epidemics, this at a time when Pasteur said, “we drink ninety percent of the diseases we contract.” The company has evolved considerably since then, expanding into waste disposal and energy. Veolia has also enlarged its client base to include other industries and other countries. As a company, Veolia Group has set an example regarding its ecological transformation at a time when the environment is now a matter of urgent concern.

But I am not the only author of this book. Two different perspectives are presented here: a practical perspective, from my point of view; and a theoretical perspective from the point of view of Rodolphe Durand, a professor of corporate strategy and policy at HEC Paris business school. The book thus unites two different voices: that of the head of a company and that of a researcher; a practitioner and a theoretician; a player and a teacher. I have known Rodolphe Durand for several years and admire his research into corporate governance, financial markets and the driving forces of competitiveness. Already in November 2016, we and other professors and CEOs signed an open letter in *Le Monde* entitled “An Appeal For an ‘Economy of Responsible Markets’.”¹ Professor

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Durand's award-winning research (American Sociological Association, European Academy of Management and Strategic Management Society) addresses the sources of competitive advantage and those factors determining how well organizations perform. Our approaches differ, yet we essentially agree on the fundamentals: that business benefits society; that there is a need to establish a new equilibrium between stakeholders; and that there is a need to elaborate new criteria and measures of performance. In a world that tends to favor people sticking to their own areas of expertise, an interdisciplinary collaboration such as this can be very useful.

Writing a plea in favor of business with someone from the academic world has another advantage. Today, as in the past, educating new generations amounts to regenerating the world. But what should students be taught, and how should they be taught? This is a crucial point that hopefully this book will, in part, address. Education must change and evolve so that it can properly expose students to the many visions of business, and to the history of the different representations and different models on which it has been based. This is essential in order to prepare future collaborators, managers and directors. These future players must be in sync with the metamorphosis of society and the economy and with the imperatives of protecting the environment.

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The Wider Vision of Business

The wider vision of business that we present in the following is the result of several years of fruitful discussions, beginning in 2008, with senior managers, policy makers, employees, community leaders, researchers and professors. From Rodolphe Durand's perspective, the vision emerged from the creation at HEC Paris of the Society & Organizations Institute, which conducts research on the inclusive economy, the transition to renewable energies and the principles of responsible leadership. In my case, it began as a meditation inspired by a conference entitled "Merchant Activity Without the Market" at the Centre Culturel International de Cerisy-la-Salle. The initial reflection developed over more than a decade beginning at Mines ParisTech and the Collège des Bernardins, and later with a working group on positive economics, a group established in 2013 by the French President and piloted by Jacques Attali. The idea further matured in 2018 with the Club des Juristes, where I had the pleasure to co-chair a working group on the role of business in society.

How to summarize our approach? We began by refuting a common error: that ownership of capital leads to ownership of the business. This initial observation gave rise to a more elaborate reflection that has provided a framework for the broader vision of

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business presented here. Its first axiom is, whatever the sector of activity, a business's future lies in its larger usefulness. A company cannot be prosperous unless it is useful. The search for profit is not inconsistent with service to society. But profit derives from a business's utility; its utility does not derive from its profits. For what then can a business be useful? And for whom can it be useful? These are two fundamental questions. A business must ask itself, if it is to explore its ultimate usefulness and fullest identity: "Tell me for whom you are useful and I will tell you who you are." Once the question is answered, a new kind of company can emerge: a company that is more in tune with its relationships with stakeholders and more mindful of their respective interests; a company that is a source of fulfillment for its employees; a company whose purpose extends beyond purely financial goals; a company more respectful of the environment, and of the places and people where it operates.

Let us not be mistaken. There is nothing idealistic or naïve about this vision. It aims to bolster the support stakeholders normally contribute to business, and it aims to recruit new allies who will support the idea of business. The vision places business on a more solid foundation in order to strengthen it and build it up. It will enable businesses to adjust to disruptive technologies, to growing pressure from

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competitors, and to the increasingly stringent norms and demands of civil society. The world of business will remain harsh and unforgiving. As in the past, it will neither be easy nor indulgent. Capitalism thrives on competition, which obligates businesses to be as efficient as possible, to improve constantly and to innovate, or else risk being surpassed and eliminated. Already intense, competition will only increase over the next decades with the rise in power and influence of developing countries and new economic actors. As there can be no place for the tenderhearted in today's economy, there will be no place for the tenderhearted in the economy of tomorrow.

Our vision of the extended business takes into consideration the brutal realities of the business world. It does not ignore the rules of market-based economies. It does not reject the pursuit of profit, but it does subordinate profit-seeking to the pursuit of usefulness. Hence, it does not ignore the need for external growth, growth needed to achieve an industrial scale that can meet a growing worldwide demand. Nor does it prohibit seeking a larger usefulness through corporate mergers and acquisitions such as those undertaken by the Veolia Group and the Suez Group. That project aims to create a world leader in ecological transformation, to innovate a part of the expertise that the twenty-first century needs,

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and to apply that expertise wherever and whenever possible.

Some might be quick to point out the inconsistency in a company that portrays itself as benevolent yet effected a merger despite opposition by the board of directors at Suez. On the contrary, our strategy sought to maximize utility for all stakeholders. Likewise, an industrial action, defined in the framework of a takeover that emphasizes its usefulness and impact on society and highlights the benefits to each of its stakeholders, would suggest the emergence of a new agenda for businesses in the world to come. This agenda will avoid the pitfalls of an approach that is strictly devoted to shareholder profits, and the pitfalls of an approach that is too disconnected from the reality of international competition.

This book lays out a new narrative for the business of the twenty-first century, a business freed from the constraints of a capitalism exclusively devoted to financial gain, a business more conscious of its role in society and more devoted to the interests of its stakeholders. In short, a business that is more useful, and, I would hope, better appreciated. It is no coincidence that we undertook writing this book during an exceptional moment in history, the 2020 coronavirus pandemic. That event has shaken up businesses around the world. While writing it, Rodolphe

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Durand and I, wearing masks and respecting social distancing, met several times between April 2020 and June 2021. This book bears the stamp of that unthinkable and unforeseen crisis, which, at its height, saw a lockdown of half the planet's population and the simultaneous halt to many of the world's economies. Even in the twenty-first century, the unexpected continues to interfere with economic activity; the future of business has, by necessity, been radically transformed. We are convinced that this upheaval will prove in time to be beneficial, providing we take care to profit from it and render unto business, which is by its very nature a provider of benefits, its full usefulness.

Part 1

DOWN WITH BUSINESS

Business is a provider of benefits? Many people today would find such a characterization surprising—if it doesn't arouse outright indignation. The litany of complaints lengthens daily: the responsibility of large corporate groups for ecological disasters, management decisions that generate redundancies which are imposed in spite of profits, closing of factories and facilities, burn-out of overworked senior managers, and so on. Businesses, we hear with growing frequency, are fundamentally flawed institutions. They should be done away with or placed under strict control to prevent them from doing any further harm. This stance forgets that businesses have not always been viewed that way. For decades and despite inevitable drawbacks, businesses have been widely appreciated and considered national treasures that make people proud. The same stance also ignores that, legally speaking, only *commercial* companies

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exist and with different statuses. Business, as such, does not exist.

How could an object of such admiration end up so stigmatized? What historical forces explain such a spectacular shift in attitude? And how could an entity with no legal existence end up being seen as a key actor in the working world? It would be impossible to present our vision convincingly without first addressing those questions.