

Exploring business's **social contract**: An interview with Daniel Yankelovich

A founding father of public-opinion research explains why shareholder value isn't enough.

**Lenny T. Mendonca and
Matt Miller**

As more and more executives come to recognize that a company's reputation is an important strategic asset, many are understandably confused as they ponder the numerous social and political issues that now stand alongside simple profit as a measure of long-term corporate health. Avoiding scandals is a no-brainer. But how "green" should a company be in an increasingly environmentally conscious society? Where should a corporation draw the line between what is acceptable from a purely legal standpoint and what would be dictated by the ethics of different generations of consumers? Where are the tipping points between public tolerance of executive and corporate behavior and a public backlash or crude regulatory remedies?

As a founding father of public-opinion research and its preeminent practitioner, Daniel Yankelovich has been probing attitudes toward business and other issues for more than four decades. Yankelovich, 82, introduced the *New York Times*/Yankelovich poll in 1975, has written 11 books, and served as a consultant to business and political leaders. He has also established four companies, including his latest, Viewpoint Learning, which helps organizations to develop special-purpose dialogues to expand their options, anticipate obstacles, and broaden support for difficult decisions. Yankelovich is no stranger to the boardrooms of large enterprises,

Article at a glance

Business executives overwhelmingly agree that they must serve the public good as well as deliver profits to shareholders. In this interview, Daniel Yankelovich, a founding father of public-opinion research and its preeminent practitioner, discusses the current state of the contract between business and society.

Topics explored in the interview include the challenges executives face in pursuing strategies that both generate profits for shareholders and address the social-contract demands of public stakeholders, as well as the lack of public trust in business institutions.

The interview also explores changes in the business ideology of shareholder value—changes that could help restore public trust—and the role of executives and corporate boards in building a stronger ethical foundation for business.

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having served as a director of Arkla, CBS, Educational Testing Service, Meredith, U S West, and other companies, as well as foundations, universities, and nonprofits.

Throughout his career Yankelovich has unwaveringly stressed the need for organizations to embrace ethical integrity in their operations and their ties to the outside world. He recently sat down at his home in La Jolla, California, with Lenny Mendonca, a director in McKinsey’s San Francisco office, and Matt Miller, an adviser to McKinsey, to discuss the current and future contract between business and society.

The Quarterly: *What does your research show about business’s standing with society today?*

Daniel Yankelovich: The social contract with business is in a state of flux. Milton Friedman has had an enormous influence on the outlook of US business, especially his interpretation of Adam Smith’s concept of the invisible hand, which argues against a corporation’s broader engagement with society. Friedman’s view is that social good comes about automatically when companies make a profit. So it’s a narrow adherence to the bottom line.

But McKinsey’s own research is in complete agreement with the idea that you need a broader engagement.¹ And that’s where we are now moving. Friedman’s influence and the ideology of shareholder value reinforce each other and cater to only one constituency—shareholders. Now there is growing agreement that the engagement has to be broader and that profitability doesn’t always automatically enhance the public good. In other words, a more pragmatic approach.

The Quarterly: *What should executives take from that?*

¹ The research summarized in “The McKinsey Global Survey of Business Executives: Business and Society” (*The McKinsey Quarterly*, Web exclusive, January 2006) indicates that 84 percent of executives believe business has a broader contract with society.

Daniel Yankelovich: We're at the stage of implementing new forms of engagement. In the McKinsey survey, executives were self-critical about their current means of implementation—they felt that lobbying and PR and spin weren't the right ways; the right ways included transparency and more ethical policies. There's a recognition that the engagement process ought to be broader and less legalistic. Over the next few years I expect implementation to improve. It's what every CEO is struggling with on issues like backdating options and outsized executive compensation. These are out of phase with this new societal conception of business.

The Quarterly: *That's not familiar ground for executives, is it?*

Daniel Yankelovich: There's lots of controversy in business circles. Some executives think that the broader approach is woolly headed, and some think it's good business. Last year the *Economist* published an article in which it argued that every corporate strategy had to pass two tests—does it enhance the company's long-term profitability, and does it serve the



Daniel Yankelovich

Vital statistics

Born in 1924, Boston, Massachusetts
Married with 1 child and 1 grandchild

Education

Received BA (Phi Beta Kappa, magna cum laude) in 1946 from Harvard College
Was Rantoul Fellow in clinical psychology, Graduate School of Arts and Sciences, Harvard University (1948–50)
Engaged in graduate studies at the Sorbonne, Paris (1950–52)

Career highlights

- 2006–present
- Chairman, founder of DYG
- Chairman, founder of Viewpoint Learning
- Chairman, cofounder (with Cyrus Vance, former US Secretary of State) of Public Agenda
- Special adviser to Blackstone, Toyota Motor

Fast facts

Author of 11 books, including *Coming to Public Judgment*, *New Rules*, *The Magic of Dialogue*, and, most recently, *Profit with Honor: The New Stage of Market Capitalism*

Serves as director emeritus of Arkla, CBS, Diversified Energies, Loral Space & Communications, Meredith, and U S West (Qwest Communications); serves as trustee emeritus of Kettering Foundation, Fund for the City of New York, and Educational Testing Service, where he also served as chairman

Founded research firm of Yankelovich, Skelly and White (1958); initiated the *New York Times*/Yankelovich poll (1975)

Academic affiliations have included Harvard University; New York University; the New School for Social Research; University of California, Irvine; and University of California, San Diego (where he recently endowed the Daniel Yankelovich Chair on Social Thought)

public good? But once you introduce *two* criteria, you undermine Friedman's doctrine that if it's profitable, it automatically serves the public good.

So a door has been opened to a broader conception: can business strategy meet both criteria at the same time? That's what business is struggling with today—without necessarily grasping the severity of the conflicts between serving shareholders in the short term and serving the public.

The Quarterly: *Where is this tension playing out?*

Daniel Yankelovich: Some pharmaceutical companies are one example. They are subject to high expectations having to do with the health of people. But through their pricing and some high-profile cases of excessive executive compensation and poor performance, some drug companies represent a contradiction between the broader conception and their own actions. HMOs,² another example, are also responsible for people's health. Currently, they sit at the very bottom of lists of institutions people trust.

The Quarterly: *How is this mood different from the backlash against the accounting scandals of several years ago?*

Daniel Yankelovich: A lot of businesspeople are under the impression that because there isn't as much talk about the scandals, mistrust of business has receded. Research shows the opposite: the lack of trust in business has grown. At the peak of the scandals—say, in 2002—36 percent of the public agreed that you could trust business leaders to do what is right most of the time or almost always. Since the scandals now seem to be behind us, you would think that the level of trust would rise. Instead, it fell to 31 percent in 2004 and to 28 percent in 2006. So there's a continuing erosion of trust.

The Quarterly: *Can you put that decline in some historical perspective?*

Daniel Yankelovich: A tremendous amount of tracking data point to three waves of mistrust in business and other institutions over the past 75 years. The first wave came during the Great Depression, from 1930 to World War II, and its cause was massive, unyielding unemployment. The targets of the mistrust were business and our system of market capitalism. A second wave of mistrust lasted from the late '60s to about 1980. It was tied to Vietnam, Watergate, severe stagflation, and changing moral norms in the country. It created a climate of cynicism about all our institutions.

²Health maintenance organizations.

The current wave of mistrust starts with Enron in 2001. Its causes are the business scandals, the failure of gatekeeper systems, and an overall decline in social morality. The main targets are business and government.

The Quarterly: *Where does the distrust go from there?*

Daniel Yankelovich: I don't see any quick turnaround. It's interesting that the other two waves lasted about 12 years, and we are now in the fifth to sixth year of this one. We don't know how it's going to play out. But you shouldn't be misled by the lack of media attention to the scandals, because the mistrust continues to grow.

The Quarterly: *What does the public want from its institutions?*

Daniel Yankelovich: Today's better-educated Americans want their voices to be heard. The values of the generations that grew up before 1950 are embodied in the concept of *enlightened* self-interest—not naked self-interest, but enlightened self-interest. Enlightened self-interest is when you make a profit by meeting a need, by fulfilling a social function. The unintended consequence of the shift in moral values during the 1970s has been the ascendance of *unenlightened* self-interest—winning for yourself; I win, you lose. The Enron psychology was winning for yourself, being out for yourself. The rationalization was, “We didn't do anything wrong, because we didn't break the law.” Well, Enron did break the law, but many of the people who are undermining the trust of the public hold the view that morality simply means not breaking the law. To my generation, that's moral blindness.

The Quarterly: *Is that contradiction at the base of the public's current attitude toward business?*

Daniel Yankelovich: The current mistrust of business reflects higher public expectations of business morality. The pressure on executives is to rediscover and redefine enlightened self-interest for our own era. It means something different today than it did in the 18th century.

The Quarterly: *What's the litmus test for whether this new social engagement is taking hold?*

Daniel Yankelovich: It will take both concrete behavior and a shift in business philosophy. Boards and CEOs are going to be the main carriers of a new business philosophy. You can't have a huge hypocrisy gap. Ordinarily, the US public attitude is generous and open minded toward profits and

compensation. If somebody makes a lot of money the response is, “Great, someday it might happen to me.” What drives people crazy is when you make a lot of money at people’s expense. This is a powerful political form of resentment. It’s resentment at being exploited. Americans want companies to make a profit but to make it by doing some good for others, not just themselves.

The Quarterly: *What in business ideology would have to change to arrive at that point?*

Daniel Yankelovich: Business doctrines have to change. Ideologies like shareholder value are being abused to rationalize and justify outrageous behavior. One of the tests for whether companies are aligning themselves with a broader social engagement is the extent to which the doctrine of shareholder value loses credibility. I don’t think it’s going to be openly repudiated, but I suspect that, gradually, executives will stop making as much reference to it to justify their actions. It privileges one group, one constituency, over all the others, and it carries so much baggage now because it’s been so perverted and linked to short-term profits.

The Quarterly: *Wouldn’t it still be one relevant metric of what a company is doing?*

Daniel Yankelovich: There’s nothing wrong with shareholder value if the shareholder is served through long-term profitability. I’m sure that what some companies will do is say, “Look, we got off on the wrong track—we let a bunch of 32-year-old fund managers on Wall Street pervert the true meaning of shareholder value.” It’s a variation on a theme we hear from Warren Buffett and others. Most companies will either try to go back to the original, long-term conception of shareholder value or just quietly let it recede into the background.

The Quarterly: *What needs to happen in order to build trust?*

Daniel Yankelovich: The causes of mistrust are reasonably clear and addressable. The public believes that the ethical standards of business are too low. The mistrust will begin to dissipate when those standards improve. I’ve served on a number of boards and became familiar with their ethical standards. Visualize a pyramid. At the base of the pyramid are companies for which the main questions of ethical standards are “Is it legal? Can we get away with it?” The next level up the pyramid is the “smell test.” In most companies there will be one or more directors who will say,

“Look, I don’t care whether it’s legal or not. Does it pass the smell test?” Those two levels currently cover most of the pyramid.

Now, both these levels are too negative to dispel public mistrust. They simply say, “Don’t do anything illegal or dishonorable.” Only a handful of companies, at the apex of the pyramid, hold a broader conception of truly enlightened self-interest that actively seeks to serve the public good instead of winning for yourself. Hopefully, within a decade the pyramid will show that the bottom two layers have shrunk and the top layer has broadened. That will be a real sea change and will introduce a new era of market capitalism.

The Quarterly: *Is that task complicated by the more global setting of business?*

Daniel Yankelovich: In some ways, yes; in other ways, it makes the transition easier. In today’s global economy many problems cut across national lines, like poverty, disease, and global warming. These are issues that international corporations are in a somewhat better position to address than are national governments. To the extent that business is seen as taking on global responsibilities, it will gain lots of credit. The hybrid versus the Hummer is the almost perfect symbol of that shift in outlook. You see Toyota, GE, P&G, and a number of other leading companies recognizing this new global responsibility and taking it on. It’s a way of building what my colleagues call “trust equity,” and I think it will prove to be a major competitive asset in the future.

The Quarterly: *What’s the appropriate role for business leaders in public policy? For example, a US CEO at the helm of a global enterprise doesn’t have the same stake in the quality of public policy in the United States or in any one country as that CEO might have if the company was basically a US one.*

Daniel Yankelovich: Some situations are more ambiguous than others. Say a US company needs engineering talent. In a global economy it can outsource talent and jobs anywhere in a worldwide market. That’s more ambiguous than how US executives confront an issue like health care in their home country. Health care is a clear-cut example of an unambiguous challenge. The costs of health care are crushing US companies, and they’re not speaking out or responding effectively. Why aren’t they? I think it has to do with a fear that they would be subject to criticism if they took public-leadership positions that aren’t closely aligned with short-term profits.

If businesspeople start speaking out about health care, it would be a sign that they are recognizing that one of the new demands on business is for leadership. In anthropology there's this familiar concept of the "big man." In any village there is always some big man, someone who is richer than everyone else and is expected to give feasts and make things happen.

The Quarterly: *How should these big men act?*

Daniel Yankelovich: Well, they can't hide behind shareholder value. They must respond to expectations of leadership. Fifty percent of personal bankruptcies in the United States are caused by hospitals hounding people for unpaid medical bills. Now, why shouldn't the health care industry lead in remedying the system? The employer-based health care system in the United States started in World War II, when wage and price controls didn't permit raises. Health care was the only benefit businesses could give their employees. It was never a rational decision that this was the right way to manage health care. It happened totally by accident, and it's now gotten out of control.

The Quarterly: *How are these leaders going to emerge?*

Daniel Yankelovich: Corporate culture shapes ethical standards. Today's corporate culture needs repair work. The tools that business is using—the lobbying, the PR, the advertising, the clever lawyering—are the wrong tools. Sometimes you get a business culture dominated by a charismatic individual. There are many charisma-challenged CEOs who have the courage to rise to the occasion, but to do so they have to be more strongly supported by the culture of their companies.

The Quarterly: *Is that a board issue?*

Daniel Yankelovich: I think it is. Ethical issues dominate board meetings. They may appear under the guise of normal business decisions, but most of them come back to this notion of corporate culture. No one but the board has real authority. CEOs don't have the authority, because they can't go against the board. The CEO contributes, but it is the board that makes the decisions that then radiate through the company.

The Quarterly: *What's the role of opinion research in this evolving contract between business and society?*

Daniel Yankelovich: Sound opinion research is a useful tool for leadership. It gives leaders a sense of where the public stands. Think of the concept of the tipping point—the point, in this case, at which policy makers can no longer ignore the public. Now, you can live with a lot of public dissatisfaction

before you reach a real tipping point. But when you do reach it the whole game changes.

In the business world punitive laws and regulations are the penalty for letting corporate behavior get beyond the tipping point. So if you want to stay ahead of the curve it's very useful to have the concept of the tipping point in mind and to look to opinion research to tell you where you stand in relationship to that point. From the point of view of damage control, when you cross the tipping point it's too late. You're not going to be treated with understanding, subtlety, and finesse. The reaction against you is going to be crude, even unfair. Abuse breeds abuse.

The Quarterly: *Say that you have someone who is going to be named CEO of a major public company in the next six months. That person comes to you and says, "I really want to learn how to behave in this ethical way and to lead my company accordingly." What advice would you give?*

Daniel Yankelovich: I would say first that you and your board ought to be totally aligned on the company's real ethical standards. Your predecessor may have been good at "managing the board" and avoiding most ethical concerns. But if you're going to change corporate culture you need the board and its active support. You have a lot to say about who the board members are. Consider the current board, understand who you can live with, who you can't live with. Develop a relationship of trust with the board.

The Quarterly: *And then?*

Daniel Yankelovich: Settle in your own mind how you're going to deal with pressures from the investment community. Think through whether you can take a stand that doesn't lock you into the tyranny of quarterly earnings. You can't forget about the short term. You have to learn how to balance the long-term growth of the company with enough short-term results so that you don't have Wall Street eating you alive.

Then I would suggest disbanding the compensation committee and its corrupt practice of working with outside consultants. It's just a Kabuki dance. It didn't start out that way, in the same way that shareholder value didn't start out perverted, but it's become perverted. All my retired CEO friends are just astonished at what CEOs are making today. Some dance! **Q**

Lenny Mendonca is a director in McKinsey's San Francisco office, and **Matt Miller** is an adviser to McKinsey. Copyright © 2007 McKinsey & Company. All rights reserved.