

Business to People: A new era

**J-S Jacques, chief executive
Committee for Economic Development (CEDA), Melbourne
20 March 2018**

**** Check against delivery****

Let me start by paying my respects to the Wurundjeri people of the Kulin Nation, the traditional owners of the land where we are meeting today. It is a privilege to be invited to deliver this lecture in honour of Sir Douglas Copland, the first chairman of CEDA.

I hear this 'lecture' is usually about economics or a CEO's thoughts on leadership. Don't get me wrong, these are all very important topics, but as some of you may know, I don't always follow tradition and so tonight I am going to touch on something different.

Now let me start by sharing a secret with you.

The performance expectations of a CEO are pretty well understood, not always followed I must say, but for sure, they are clear. It is about productivity, capital allocation, shareholder returns, ROCE, IRR, TSR, so on and so forth.

But more and more it is also about Corporate Social Responsibility (CSR) or sustainable development. I love a good spreadsheet and like to follow the cash. I also love talking to the book keepers, who doesn't right?

But it is not how I spend most of my time. Three quarters of my life as CEO sees me out with our colleagues, our customers, our government partners, our communities and our shareholders.

I also spend more and more time on things like explaining how we consider climate change strategically an extremely important issue and one we take very seriously at Rio Tinto.

Or answering questions on how much tax we are paying - let's be clear we pay our fair share.

Or which industry associations we work with.

We work with a few and we intend to keep doing so, why should we constrain debate?

These increasing asks signal a fundamental shift in the expectations placed on institutions.

As I see it we have now entered a new era, the era of B2P, or Business to People. It is no longer good enough to be an excellent Business to Consumer (B2C) or Business to Business (B2B) company. These concepts are becoming out-of-date.

Businesses must connect with all kinds of people. Community members, government leaders and policy makers, employees, civil society and so on.

This is absolutely vital as we enter the purposeful age, an era where leadership and robust debate on a range of issues is expected now more than ever.

So, that's what I am going to talk about tonight, the B2P era, and what it means in a complex world.

I've been coming to Australia for more than a decade, and I would say the 'public mood' at the moment is similar to other parts of the world I visit. I hear the same kind of things in Europe, the US, Canada, Africa and so on.

What I hear are the same confidence issues around 'elites', around businesses and governments.

There are concerns about climate change, the distribution of wealth and the potential impacts of disruptive technologies to name but a few. There is no doubt inequalities exist, and with this a strong sense of unfairness. This is true at both an individual and country level.

Take America's 'Made in America' drive, as a case in point. And when 50 per cent of young Australian's believe that democracy is NOT the best model for government, it is easy to think we are in trouble.

There seems to be a deeper question many people are now asking. What is the purpose and role of modern business, of modern government, of civil society and of individuals?

Now, I do believe Australia has much to be positive about with great prosperity, great talent, and fantastic opportunities before it in Asia. So if this is true, what is driving this public anxiety?

I think two points are worth thinking about.

The first is the rapid pace of change. It touches all aspects of life - social, economic, scientific and technological.

Let me give you an example, in the US it took 76 years for the telephone to reach half the population. It took ten years for the smart phone

Social scientists tell us that as change increases, many people feel uneasy. They look to the past or hold on to hope for a better future.

The second driver of anxiety, is social media.

Now don't get me wrong. I am a big fan of social, it connects people like never before, but it also creates new challenges, for business and governments in particular, which are used to established systems and controls.

Business, and others, need to recognise, as historian Niall Ferguson puts it that "networks are more powerful than hierarchies."

And we need to get much better at using these networks. We need to loosen up, talk straight and direct, be less focussed on always saying the correct thing and recognise that the world is changing rapidly which means we need to adapt our style to stay relevant, connected and current.

Let me cover three key areas of opportunity in the context of Business to People (B2P). First technology disruption. Second social disruption, and thirdly economic disruption.

Let me start with technology. I do not see technology disruption as a negative, although I fully understand the fear. And this anxiety is not just an Australian thing. In the US one third of Americans are happy about automation, and two thirds are worried.

Both Ernst & Young and Deloitte recently released reports stating that digital disruption is one of the top five risks in the mining industry. But where there are some see risks I also see opportunities.

Business and governments need to pioneer new technologies and innovation - if they don't they will die.

Technology and digital pioneering is really about people and it is up to each of us to manage the change required as sensitively as we can. In my view, this requires a new kind of networked partnership: B2P style. Let me give you an example, that is close to home.

It might not be obvious right away, but the Pilbara in WA has become the Silicon Valley of mining, powered by Australian know-how and innovation.

In our iron ore operations in the Pilbara we run the world's largest robot – our private railway - which will soon operate driverless trains.

Giant mining trucks now drive themselves. Twenty per cent of the truck fleet is autonomous.

These trucks are monitored and controlled by operators sitting thousands of miles away in our NASA-like operations centre in Perth. Mentioning NASA, by the way, we have an ex-NASA data analytics specialist working for us, and she is working on some pretty cool stuff.

This technology is pioneering, it is world-leading. Some may even call it science fiction. In fact, it is way ahead of driverless cars and driverless buses. And, it is all pioneered in Australia.

So, for more than a decade, given our tech leadership, we have been talking to our employees about how technology changes roles, creates new opportunities and also requires a re-set.

Just because a truck no longer has a driver doesn't mean we don't need engineers, and maintenance workers. It is clear that this transition will see new jobs created, and in some cases, it will require a new set of specialised skills from other industries to support it.

The vision I see is this, the mining sector in all its forms, which currently employs almost ten per cent of the Australian workforce, will become an even more high-wage and tech-savvy modern industry. It may mean that we don't have all the capabilities we need for the future, here in Australia right now.

So, new partnerships between business and universities will be vital as will making it easy for talented people to come to Australia.

In October last year Rio Tinto announced a partnership with the WA Government and a local TAFE to pioneer a programme for mining jobs of the future. We are designing this as an "open source" structure so all companies and partners can join us and participate.

So, while Mining 4.0 may not fit some narratives, I am here to tell you it is alive and kicking. And of course, we are not the only ones in the industry leading on innovation, FMG, South 32 and BHP among others are doing their own work.

The financial services industry is on their own tech-express pathway. Eighty per cent of banking CEOs are concerned about the speed of technological change, more than any other industry sector.

Fintech disruptors have been finding a way in to profitable elements of the value chain such as insurance and mobile banking and will drive the new financial services business model. But it is important to note that this will open up new opportunities for the incumbents as well as the disruptors.

So, the workforce is changing. It always has and always will, and companies and governments and educational institutions will need to support and drive this change to ensure the workforce of the future is ready.

Of course, social media has also dramatically altered the way we connect, share information and see the world. I see it as a fundamental tool of the new B2P leader.

Communities through social media now have a voice – on Facebook, Twitter, WeChat – to communicate like never before.

The reality is that for business and government leaders, fact and fiction can now spread faster than ever before and we need to be prepared to respond just as quickly. The person on the street can now reach the board table directly or even the office of the Prime Minister.

As chief executive of Rio my goal is to connect to our employees, B2P, to break through the hierarchy, encourage collaboration, and empower decision making across the business. Social media is key to this plan.

Today we have over 50 per cent of our permanent employees, around the globe on our internal social media platform, called Yammer. It has doubled in terms of the number of users and engagement over the last year. It is a great way to share ideas, and data. But the organisation has to have an open culture for it to work. We are working on that.

As a business leader, it is important to note that some of what we see and hear on social channels, we may not like. Having people that can interpret, filter and respond to multiple competing perspectives and insights is more important than ever before. In Rio Tinto, we call these people our 'decoders'. EQ as much as IQ will rule the B2P world.

So, it is clear we need a common way of telling our story, and not just about 'shareholder value'. We must not only talk about 'what we do', but 'why we do it'.

Which brings me to purpose and the core theme of my next topic, social disruption or social pioneering.

A decade ago, a company would talk of its vision and mission now it talks of its 'purpose'.

Management books, including the Harvard Business Review, are full of discussions of purpose-led companies. And businesses are busy linking their work to symbolic causes – that might be planting a million trees, or saving a million lives in Africa as GSK seeks to do.

Now, I know there may be some in this room who are cynical about big business playing this kind of role. No-one cheers on multi-national companies!

What is often overlooked, though, is the word 'multi'. Multi does not mean mono, or only one culture. We want 'multi-cultures' as this brings a diversity of perspectives and a connected workforce.

Our success as a company relies on a network of people using their talents, problem solving abilities and sharing different approaches – this is why social media is important to us. I would argue that our success as a society requires the same.

Yes, we want one set of shared values, clear goals and ways of working, but we also want diversity of views, to allow the best talent and ideas to flourish.

Let me give you an example, you can hear an Aussie voice in our mine in Mongolia or a Canadian voice in Africa, and for that matter a Mongolian voice on our Executive Committee.

In Australia, 24 per cent of our managerial workforce are women. Clearly, we need to do better. Our aim is to have 30 per cent of women in senior management by 2022.

My view is that while targets and symbols are absolutely vital they need to be backed-up by performance and delivery. We would like our actions to speak louder than our words.

A multinational can tackle global issues but also needs to address local issues as well. The good news is that most multinationals are well placed to do both. Sharing global learnings nationally is vital.

Business is now expected to have clear positions on climate change, transparency, and reconciliation to name but a few So I see the renewed interest in purpose as key to addressing the social changes around us.

It is an opportunity for all of us to turn our social licence into a stronger social bond or contract. I believe this is a make or break for companies, and especially important for those of us in the 'extractives sectors'.

Indeed, I would like to suggest we ban the term, 'extractive industry' as it implies we take things out and do not give anything back. This is simply not true.

If I said Australia's resources sector was a primary industry, or a manufacturer, that might bring about warmer feelings.

At Rio Tinto, we see ourselves as a materials company, pioneering progress. This is the essence of the purpose we shared within the company in early 2017. This year, like many other companies, Rio Tinto will communicate more. Not through big TV adverts and billboards, but an approach using the technology of our time - the social network.

We hope more Australians may see our purpose - in action. Make up their own minds and see that we really do give back as much to Australia and our regions, as much as we extract. But, fundamentally as I said, we know we will be judged by our ability to live up our commitments every day.

Beyond core purpose, business is being asked to lend its social and reputational capital in areas it has not done so before. Taking firmer views is part of a wider trend.

In 2017 in the US, almost half of all shareholder resolutions put to Fortune 250 companies were about environmental and societal topics. Topics as diverse as: gender pay; alleged 'fake news' by Google and Facebook; and disclosing business memberships.

While a CEO can't and should not speak on behalf of all their employees on all issues, I think it is important that business does take a stand. Let me give you an example.

In Australia we are taking a leadership role on the issue of family and domestic violence. Through our partnership with Male Champions for Change and our White Ribbon accreditation.

This week, Rosie Batty is in the Pilbara talking with our colleagues and communities on these issues. And we are not just making this effort an Australian one. We are looking to export our White Ribbon support to our businesses in Canada and the US, which will see us in the driving seat, with partners, as advocates for real change in this area.

It is a reminder that modern business is far more diverse, inclusive and social than a text book might suggest. Let me give you another example.

We pioneered land use agreements in the Pilbara. We are one of the largest employers of indigenous people. Are we perfect? Absolutely not. Should we do more? Yes.

And while jobs and economic opportunities are vital, reconciliation is also critical. We continue to support a national conversation, and partnership on, the constitutional recognition of Indigenous people.

The digital age also means that businesses need to be more transparent than ever before. The public appetite for information is high. Stakeholders demand the clear disclosure of information. Transparency, is one example.

We are a recognised industry leader in tax reporting and shortly we will publish our membership principles for industry associations.

We believe that partnership and engagement are key in tackling the challenge of climate change and at Rio Tinto we have to play our part.

There is no doubt the mining industry is a major emitter, but there is also no doubt that we are also a major contributor to economic and social development in the nations where we operate, including Australia. We supply the world with the vital metals and minerals it needs to grow and keep working.

For many years the industry has been reluctant to talk openly about this conundrum. Often, we take an apologetic or defensive stance on matters relating to the environment but we know it is important now more than ever to a generation of young people and it is time we join the debate.

At Rio Tinto, in less than a decade we have reduced our greenhouse gas intensity by 26 per cent and cut our absolute emissions by 35 per cent. We have pledged our support for the Paris climate change agreement.

This is why we support the initial approach set out in the National Energy Guarantee to ensure Australia's energy system achieves its Paris climate change commitments. It will put more rationality into the Australian energy market.

Back to Rio Tinto, today just under 70 per cent of all the electricity we use is sourced from renewables hydro, wind solar power. We are keen to explore the green mine of the future and I discussed this topic with the head of the World Bank, Dr Jim Kim, when I saw him recently in Washington DC.

We are also thinking more and more about metals recycling and the circular economy. Early days, but our position is clear – we want to be part of the solution and not the problem.

My one fear is that in the current climate of increased interrogation of business activities, companies will be forced to focus on the micro, rather than issues that impact the many.

It is important that business focuses on areas where we can have the most impact, the environment; wealth creation and inclusive growth.

Let me close my thoughts by exploring the latter two, wealth and growth, or economic disruption.

There is no doubt global trade is under threat and this concerns me. As a trading nation Australia should be concerned by this as well.

Decades of research and most of the lessons through history show that the most effective way to create prosperity is through open and fair trade.

TPP-11 is a very important step in the right direction and it is encouraging to hear that others may join this as well. In the same way, a completed Regional Comprehensive Economic Partnership will complement this process.

We believe that bringing trade initiatives together, at the regional and global level, supports both fair trade and domestic policies to drive local reforms and competitiveness.

Now I fully understand and accept that we live in a world where some may question the fair trade model and its ability to make sure that wealth, once created, is fairly distributed.

This is where inclusive growth comes into it. It is the role of government in partnership with society, to ensure that wealth once generated, by business, is fairly distributed.

I also fully accept that business needs to play its part to stimulate economic and social development. I use the word stimulate purposefully, as business cannot be the sole agent of economic and social development. Business will continue to create wealth, but it needs the right tax and policy settings to do so.

Now, I know big companies asking for corporate tax cuts is not popular, but a reduction in corporate tax rates will stimulate growth - no doubt about it - which means more jobs, more support for local businesses, and better livelihoods for all.

OECD and Treasury research show company tax cuts benefits all income levels. Australia has the second highest tax take as share of GDP out of 35 countries in the OECD. And this was before the US, the UK and other countries cut their corporate tax rates. So, Australia's position is getting worse.

And as a nation that imports capital, high company taxes are not good for - jobs, investment, or growth. The tax system needs to support the next generation of disruptors, businesses, and exporters to drive prosperity for all. So the company tax cuts need to happen sooner rather than later.

It is clear in a B2P world partnership must be tri-partite - business, government, society - and across national borders.

So let me summarise. I mentioned at the beginning the challenge of creating a sense of common purpose at a time of rapid change, and community anxiety.

I hope you leave this event convinced that in the new Business to People era, it is now more important than ever that all institutions, including business, connect B2P in radically different ways more than ever before.

Speak directly in a language most people will understand. Show leadership. Don't be afraid to tackle the tough issues and detractors. Choose to do so through new ways of communicating: Social media, networks, and people.

Critics of business are sometimes focused on notions of what they think business is about. Let's show their thinking is out-dated by being open about what we do and WHY we do it. Having a clearly defined purpose, as well as living up to it, will define success now and in the future.

Our supporters, and the communities we live and work with are focused on our actions. It must be about performance not just symbols.

We are part of the economic and social fabric of Australia's past, present and future.

We all have a key role in managing the change, to ensure 'disruption' is a force for good and progress and I am optimistic it will be. I would argue that it is time to support business to create wealth and for business to step-up its game as well.

As a 145 year old materials company, one of RIO's most valuable assets is its pioneering spirit. We intend to keep this spirit, to think like a start-up and continue to make a material difference to our communities and our society.

Thank you.

Contacts

media.enquiries@riotinto.com

riotinto.com



Follow @RioTinto on Twitter

Media Relations, United Kingdom

Illtud Harri

T +44 20 7781 1152

M +44 7920 503 600

David Outhwaite

T +44 20 7781 1623

M +44 7787 597 493

Investor Relations, United Kingdom

John Smelt

T +44 20 7781 1654

M +44 7879 642 675

David Ovington

T +44 20 7781 2051

M +44 7920 010 978

Nick Parkinson

T +44 20 7781 1552

M +44 7810 657 556

Media Relations, Australia

Jonathan Rose

T +61 3 9283 3088

M +61 447 028 913

Investor Relations, Australia

Natalie Worley

T +61 3 9283 3063

M +61 409 210 462

Rachel Storrs

T +61 3 9283 3628

M +61 417 401 018

Rio Tinto plc

6 St James's Square
London SW1Y 4AD
United Kingdom

T +44 20 7781 2000

Registered in England

No. 719885

Rio Tinto Limited

Level 7, 360 Collins Street
Melbourne 3000
Australia

T +61 3 9283 3333

Registered in Australia

ABN 96 004 458 404