<u>Boards should now embrace and embed values and purpose for the benefit of all</u>

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Adapting and adjusting to change has always been critical to corporate success and survival, and adapting and adjusting to the Coronavirus and its consequences is no exception.

Corporate governance isn't set in stone and, as Coronavirus lockdowns gradually begin to unwind in many countries and states, boards have a responsibility to reflect on the implications for their companies. Shareholders and stakeholders would expect nothing less. New opportunities will have opened up and new risks will have come onto the radar. The attitudes of customers, employees and society have undoubtedly changed and many regulators will be training their sights on new KPIs and other regulatory assessment metrics for life after the crisis.

Investors and other financiers will also be re-calibrating their views, especially as the ESG investing momentum continues to build, as it surely will. Indeed, the crisis combined with the prevalence of ESG investing has afforded the investment industry an opportunity to rebuild public trust by being seen to guide boards to high standards of behaviour and to hold them to account.

The Coronavirus crisis has also brought the importance of corporate values into sharp focus. Whilst these have been given greater prominence in the business world in recent years, in part as a consequence of the increased importance given by investors and society to corporate culture, the crisis has given companies and their leaders the opportunity to practice what they preach by putting their values into practice as they respond to the needs of employees and their other stakeholders. This is not always so easy as it sounds.

Corporate purpose and its importance in defining what a company does and does not do have also gained in prominence. A new principle in the current 2018 UK Corporate Governance Code is that '*The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture*.' Furthermore, this is supported by provisions in the Code that '*boards should assess and monitor culture*' and that a board should satisfy itself that *'practices or behaviour throughout the business are aligned with the company's purpose, values and strategy*.' Never has there been a better time, albeit a very tragic one, for businesses to demonstrate how they put their values into practice, and for boards to exercise effective oversight to help ensure that rhetoric is aligned with reality.

As we move forward from the crisis, boards should be raising their game when it comes to values and purpose. They should be putting them at the heart of their approach to their responsibilities to shareholders, employees, suppliers, customers, and other stakeholders. As mentioned above the UK Corporate Governance Code states, directors '*should lead by example and promote the desired culture*.' This is an imperative and is not something that can be kicked down the road.

To help ensure boards fulfil their responsibilities under the UK Corporate Governance Code the Introduction to the 2020 UK Stewardship Code, which provides a regulatory 'apply and explain' framework to assist institutional asset managers and asset owners fulfil their stewardship responsibilities on behalf of their clients and beneficiaries, states that, in applying the Code's principles, the signatories to the Stewardship Code should consider, 'the effective application of the UK Corporate Governance Code' by their investee companies. There should be no hiding place.

The interlocking of the UK's Corporate Governance and Stewardship Codes in this way provides an elegant mechanism by which investors can hold boards to account for their leadership and actions when it comes to purpose, values and strategy. It is a strength of the approach spearheaded by the UK's Financial Reporting Council to promote good practice but codes are merely a means to an end, and boards and investors in other jurisdictions can – and should – bring corporate values and purpose to the centre stage, irrespective of whether corporate governance and stewardship codes operate.

This was implicitly recognised by the American Business Roundtable's Statement in August 2019, whose 181 CEO signatories committed to lead their companies for the benefit of all stakeholders, including stakeholders. As Darren Walker, the President of the Ford Foundation, said when the Statement was released, it is critical that '*…businesses in the 21st century are focused on generating long-term value for all stakeholders and addressing the challenges we face, which will result in shared prosperity and sustainability for both business and society*'. The Statement was controversial at the time it was released but as we journey through the Coronavirus crisis, one might muse that it was merely ahead of its time.

Boards around the world should now embrace values and purpose, and embed them into their corporate governance charters and processes, not least to provide an appropriate anchor for decision-making should the temptation to waver come knocking. Shareholders, stakeholders and society should all be winners – as well as the company itself - over the long-term.

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