Sustainable Corporate Governance for long-term business success

Event recapitulative: improving corporate governance for long-term business success

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The European Voice of Directors

On 19 January 2021, ecoDa and Mazars hosted an event attracting over 300 participants on the future of Corporate Governance. Boards, investors, and regulators need to work together to enable corporate governance to be effective and to contribute to the long-term sustainable growth of businesses. The virtual event brought together experts from these key stakeholder groups, and also auditors, to explore what longer term changes are needed to achieve this goal.

A pivotal time for business

Geopolitical tensions, the Covid-19 pandemic and increasing calls for action on ESG considerations have triggered change at European and global levels. Directors cannot be expected to solve all the resulting issues on their own, warned Michel de Fabiani, Chair of ecoDa's policy committee as he opened the event. Mr. de Fabiani called for critical, collective thinking that would unite investors, boards and regulators in action to create sustainable, and competitive success.

Integrating the stakeholder interests

While the European Commission is considering the need for a European legislation on sustainable corporate governance and due diligence, some speakers made a strong call for evidence based and principle-based regulation. Anyway, a balance has to be struck between shareholder interests and allowing businesses to operate with enough freedom to create long term value. Otherwise, heavy external interference could result in stalled management decisions and undue legal scrutiny of a business's leadership.
Three breakout sessions explored in more detail the regulator, board and investor perspectives of the debate.

Regulators: calls for common frameworks

The regulator session featured representatives from: the European Commission, the Institute of Directors and the OECD. It considered possible changes to the regulatory system expected in the 2020s at the national, European and international levels.

In response to recent high-profile corporate failures – notably in Germany and the UK - the possible introduction of voluntary due diligence reports focussed on business sustainability was raised. Other solutions included the EU agreeing on a set of common regulatory rules when it comes to corporate governance and the creation of a common framework between stakeholders and shareholders.

Main challenges from a regulatory perspective, cited in the session, are director and board members' awareness of their impact on business operations, the ability to build long-term policies and the creation of better regulations and corporate duties around due diligence.

Boards: learning the lessons from the crisis

The board session featured experts from the Audit Committee Chair's Independent Forum, ecoDa, the IFA and Nedcommunity (The Italian Institute of Directors). Panellists began the session by outlining the need to learn from the current crisis: including how business leaders must treat ESG as more than a compliance exercise; how they need to remember how vital stakeholder relationships (including with employees and customers) are to their survival during the pandemic; how they have to appreciate the board implications of government intervention during the height of the crisis; and recognise that investors will now, more than ever, be looking for commercial sustainability to be built into a business.

This was expanded on by underlining how board composition and internal organisation could change for the better. For instance, exploring what more diverse boards could bring in terms of capabilities - with emphasis on the need for more digital, environmental and human resource expertise. Views were expressed that board committees needed to expand beyond the traditional ones of audit, remuneration and nominations but boards should be allowed to determine the committee structure best suited to their needs rather than it being imposed on them.

Boards should also be more explicit about the responsibilities they are facing, one panellist said, and should not forget the importance of financial performance as they demonstrate their contribution to society.

Investors: seeking sustainability and clear communications

Organisations represented in this panel included: European Investors, the European Securities and Markets Authority, the ECGI and leading investors.

They discussed attempts to create frameworks facilitating long-term investment. Although these began years ago, they have only recently been picked up and accelerated by the EU. Objectives include trying to encourage the publication of engagement policies by asset managers and reduce excessive short-termism.

Investors confirmed that companies can only preserve long term value if the business is guided by a purpose which serves a wider group of stakeholders and went on to state that Covid-19 emphasised the critical interdependence between businesses and society. After the crisis, companies will be remembered for the way they have treated their stakeholders' – and boards could be important players in relaying this information to investors. Similarly, investor focus will be on preparedness and resilience of businesses to known and unknown risks.

The shift from the traditional way of looking at business towards more qualitative areas requires multi focus in investor engagement which should be clearly communicated to boards. Meanwhile, the lack of global standards for non-financial reporting threatens the reliability of reporting: 'Companies can fill their reports with their self-selected data and hope this is clear when investors read them. There are no standards similar to accounting standards. 'This is a challenge', one panellist said.

Looking to the year ahead, the session concluded on how the role of investors is seen as a catalyst in transforming economies and that a harmonised approach and meaningful engagement between regulators, investors and boards would be necessary in fulfilling this role. The recent focus on the environment will shift imminently to the social aspect, looking at the social license of companies to operate and how they treat their stakeholders. Notwithstanding the attention on these two aspects, Governance remains key to a company's success in addressing these. ESG considerations however should not highjack investor engagement which should take on a wider perspective. To this end, it is paramount to clarify what active ownership really means and who should undertake this. The support of governments in developing the relevant frameworks was seen as critical for investors to fulfil their roles.

Time for a new approach to audit

David Herbinet, UK Head of PIE & Global Head of Audit at Mazars brought the event to a close by making the case for audit reform as an important contributor to more sustainable corporate governance, stating that ‘Auditing plays a vital role in establishing trust in the economy’.

A balanced and holistic approach needed for long-term sustainable success

The event has pushed forward the conversation on the pain points faced by the four key actors in corporate governance and highlighted some of the changes needed to bring about a more holistic approach which will promote long term sustainable business growth. Mazars and ecoDa remain committed to this area and have a program of events throughout 2021 to build on the foundations set by their joint work over recent years on Corporate Governance in Europe, ‘Time for sustainability to be at the heart of business’. For a recording of the event’s panel sessions go here.

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