**Trust, Stewardship and Long-Term Growth** **Sir Anthony Salz**

In the last dozen years there have been some high-profile business scandals resulting in low levels of trust in business. These have involved not just many of the world's banks, but also companies such as VW and Tesco. It is likely that short-term expectations of investors (often themselves under short-term pressures) have played a significant part in the behaviours that led to the problems.

The capitalist system is arguably not functioning well enough for the society it should be serving. While many Western economies are providing high or record levels of employment, wages have fallen in real terms and there are high levels of poverty and homelessness in many of the same countries. In a period of austerity, the wealthy seem to have benefitted - at the expense of the less well off. Years of prevarication around the necessity to confront the climate emergency has left future generations with prospects of a poorer quality of life and possibly social unrest. Business has an important role to play in tackling these societal challenges. Many businesses are beginning to accept this responsibility as they review their purpose in society.

In 2012 I was appointed by the Board of Barclays to carry out a review of its business practices. Our conclusion was that, as Barclays grew from being a family run bank to one of the biggest banks in the world, it became complex to manage and allowed its culture to drift. The culture that emerged tended to favour transactions over relationships, the short-term over sustainability, and financial over other business purposes. The bank's overriding purpose seemed to be expressed in revenues and profits, return on equity and competitive position. Behaviours were driven by short-term market expectations, fed by intense competition for financial performance.

Barclays was of course by no means alone. Indeed, unlike many other banks, it survived without the need for Government funding. Among many recommendations we called for clarification of the bank's purpose and values, with a view to influencing culture and appropriate behaviours. The building of trust required in our view the setting of a clear corporate purpose and behaviours that were consistent with that purpose and the company's stated values. Even though the fines and other costs made clear the business case for investing in improved behaviour, we were highly conscious of the tension between the performance expectations of Barclays shareholders and the costs of implementing the changes.

CEOs and their Boards have the primary responsibility for pursuing sustainable long-term value. In the UK, Directors have had for some time had the duty to promote the success of the company having regard, as well as to the interests of employees and relationships with suppliers and customers, to

- the likely consequences of any decision in the long term

- the impact of the company's operations on the community and the environment.

These duties are substantially mirrored in the tests for certification of BCorps, which balance purpose and profit, and are required under their constitution to consider the impact of their decisions on their workers, customers, suppliers, community and the environment. There are now well over 3,000 certified BCorp.

These give context to Boards reviewing their purpose. But public companies need the support of their investors. A problem is that the selection and retention of asset managers tend to centre on short term investment performance. Companies are powerless by themselves to change investor and market short-termism. This requires a wider change of attitude among the investor community, comprising both the asset owners and the managers they appoint.

Blackrock has been among those who have promoted investor stewardship. Recognising that with its index funds it was unable to show disapproval of a company by disinvesting, it had to engage with companies. Most recently it has said that it focuses this engagement on strategy, purpose and culture. This included a company's strategy for achieving long term growth, as well as environmental risks and opportunities.

In the UK, the Financial Reporting Council has developed a new "Stewardship Code". It defines stewardship as the responsible allocation, management and oversight of capital to create long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. Under the Code, investors (meaning asset owners and asset managers) are to report against a number of stewardship principles, both as to investor activity and the outcome of that activity.

The easiest way to measure success is by profit and loss accounts. Until a way is found to measure the non-financial elements of growth and success, short-termism (and its consequences) are likely to continue. But it is encouraging to see that efforts are being made in the right direction. At a time when the system is being fundamentally questioned, it will be important to public trust in business and the financial community that a meaningful common cause be made among companies and their investors.

**Sir Anthony Salz**

Sir Anthony Salz sits at the intersection of British and European business and law. After over thirty years as a corporate lawyer for Freshfields Bruckhaus Deringer, the last ten as a Senior Partner, he joined Rothschild in 2006 and served as an Executive Vice Chairman until 2017. Sir Anthony was previously Vice Chairman of the BBC and has chaired a number of reviews, including on Barclays PLC's Business Practices, on Youth Crime and Antisocial Behaviour and on Press Regulation.