The London Business School Centre for Corporate Governance

The mission of the Centre for Corporate Governance (CCG) is to use rigorous research to influence the practice of corporate governance. It provides a platform for two-way debate and the sharing of ideas between academics and practitioners. This includes holding a small number of high-quality events where leading academics, executives, investors, consultants, policymakers, and stakeholder representatives discuss topical corporate governance issues. These events are invite-only to ensure a high quality of discussion, interaction and networking.

On 6 February 2019, the CCG held an event on Responsible Business. It aimed to debate the fundamental concepts behind the current drive to make business more responsible, based on both large-scale research and business experience. It addressed questions such as: What does responsibility imply beyond compliance with the law? Does it inevitably require a trade-off with shareholder value, and if so, how should such trade-offs be managed? How can responsibility be embedded within a company and throughout the investment chain, so that it moves from a policy to a practice? Are there risks of a company pursuing responsibility to excess, and using it as a license to be unaccountable for profits?

The event was organised by CCG Chairman Paul Coombes, Academic Director Alex Edmans, and Executive Director Nicole Hergarten-Tucker in conjunction with Professor Ioannis Ioannou from LBS’s Strategy & Entrepreneurship department. We are grateful for the insights of all our participants, and to Brady Dearden, a student in the LBS MBA Class of 2019, for writing this report.
Alex Edmans and Ioannis Ioannou jointly opened the conference. From the beginning, both highlighted the critical importance of responsible business to society’s future. Alex noted the topic to be “the major issue of our day.” Likewise, Ioannis noted that we, as a society and as a business community, have a choice as to whether to frame the issue of responsibility as a crisis or as an opportunity for growth. He then suggested that at present, we seem to be “stuck in the middle” by following neither of those paths forward.

Given strong prevailing views that businesses should be responsible, discussions of responsibility are sometimes one-sided, with a specific notion of what responsibility entails and taking for granted that responsibility should always come before profits. Both professors instead encouraged robust debate and conference participants to challenge conventional wisdom. In this spirit, Alex gave the example of Bart Becht, the CEO of Reckitt Benckiser, who received £92 million from cashing out his shares in 2010. This broke records for executive pay and was thus viewed a prime example of corporate irresponsibility. The concern was that Becht’s high pay must have come at the expense of society, taking their slices of the pie. But his £92 million was actually the by-product of 10 years of sustained value creation that benefited not only Becht, but also investors, customers, employees, and the environment. Thus, a responsible business is one that grows the pie for the benefit of all, rather than splitting the pie differently (redistributing executives’ or investors’ slices to stakeholders).

Similarly, Ioannis shared analysis from responsibility practices across the MSCI ratings universe since 2012. He highlighted that academics observe intra-industry convergence on responsibility practices over time and thus, that companies are trending towards adopting responsibility as a common best practice. In particular, he noted that if a market leader in an industry also becomes a responsibility leader, then the industry converges faster towards responsible practices. However, Ioannis also highlighted how responsibility can be a strategic differentiator, leading to an enhanced ability to establish a competitive advantage for companies that choose to adopt practices that are unique and hard to imitate. Highlighting the need for further debate, Ioannis discussed the disconnect between companies’ commitments and actual implementation, their declarations and lobbying activities, and their communications and true actions.
The first panel focused on the increasing adoption of responsible business practices and the current challenges to future progress. Moderated by Paul Coombes, the panel addressed a wide array of topics that included history, trade-offs, competition, executive pay, culture, and technological development.

Oonagh Harpur first spoke on the clear growth she has seen in responsible business throughout her career. The topic of responsibility has moved from infrequent committees without strong influence, to sub-committees directly reporting to senior management, to now occupying the attention of executives and board members in particular. She also noted the law has taken a similar path in increasing strength and pointed to the 2006 Companies Act which explicitly highlights directors’ responsibilities to stakeholders, and current calls to strengthen these responsibilities further. Julie Hudson agreed with the increasing influence of responsible business. She discussed the origins of UBS assessing ESG and SRI and the challenging journey it has been for the firm in regard to climate change. Fifteen years ago she recommended that UBS start investigating climate change in detail but it was difficult to get colleagues excited; now everyone is willing to rally around it. She remarked that social responsibility for the investment profession includes evaluating when markets work and when markets fail.

Catherine further emphasised the progress that has been made in corporate responsibility towards employees. She discussed the history of The Living Wage Campaign and its adoption by Barclays and HSBC. The adoption by HSBC was sparked by a cleaner, Abdul Durrant, asking Chairman Sir John Bond at an AGM to pay cleaners more fairly. This highlighted the power of a single citizen to affect the policies of a large multinational. Catherine also discussed the need for pension schemes to play an active role in improving the responsibility of business, given the long-term nature of their liabilities. Many players in the investment industry focus narrowly on short-term profit maximisation, with staff incentives encouraging this. However, its purpose should be to improve long-term retirement security, environment and consumer interests. Georg Kell offered a “glimpse of hope” for progress in responsibility as modern technology and the ability to quantify non-traditional variables allows businesses to address today’s challenges. The acceleration of data accumulation coupled with technological advances in analysis makes it increasingly
possible for companies to transform from an industrial model to a future-fit model. It also gives both investors and companies an edge in directing efforts towards upholding universal notions of responsibility.

Paul raised a challenge: do companies need to confront a potential trade-off between profit and responsibility, perhaps even requiring them to redefine their goals? Oonagh responded that the boardroom must clearly look at trade-offs, but the challenge is also deeply ingrained in everyday decisions by employees. She explained how a decision by a Cadbury procurement manager to buy cheaper milk with a tiny risk of salmonella resulted in far-reaching repercussions for the company. Oonagh said that companies “must help people deal with real dilemmas.” Georg said he was delighted to see boards taking on such issues with greater urgency. CFOs can now see quantifiable ESG impacts with new data and models that capture value creation.

Paul further challenged the panel with a question that was highlighted throughout the conference: If such significant benefits result from responsible business, why then is regulation necessary – why is it not a race to the top? Julie responded that there is a real problem when competition is too fierce in the market. The pressure is so great on margins that market forces threaten to push aside companies who are attempting to attain responsible practices. On the other hand, very large firms can become unmanageable and it is easier to focus on individual divisions rather than the company and its stakeholders as a whole. She called for academics to further investigate current competition and its market effects. Catherine similarly argued that a sense of purpose can be lost in a large firm, and expressed concern at the amount of concentration in the asset management industry. She said that promoting competition is particularly important as, if markets were competitive, they would be a more effective way to enforce good behaviour than regulation. There is a potential risk in looking for weak regulatory solutions when in actuality we should have more faith in markets that have the proper amount of competition. She pointed to the dynamic growth in early 20th century America following government intervention that broke up large companies. But Oonagh expressed an alternative view. She argued that business models are fundamentally changing and you cannot break-up modern day companies such as Instagram because that will ruin their business model. Competition will continue to look different in the future than it has in the past.

During the Q&A, a participant asked why the level of executive pay has soared while productivity and most employees’ pay have seen little to no growth. Julie brought up the historical example of Henry Ford and how he increased wages which allowed people to buy cars and improve their standard of living. She also referred to Oliver Hart and Luigi Zingales’ recent paper arguing that shareholder welfare includes stakeholder welfare in addition to market value. Oonagh commented that pay disparity is seen as a potentially destabilizing factor. One key challenge is how companies can act when they are constrained by past remuneration agreements. Georg agreed but also thought the problem is more fundamental. He argued that private interest in short-term growth has influenced business in negative ways and cost social goodwill. He said the answer is in increased corporate statesmanship and understanding that in order for business to succeed it also requires a strong society.

Another participant addressed the importance of culture to responsible business and whether companies should measure culture or other intangibles such as human or social capital. Oonagh, who wrote a guide for the City of London on culture, said measuring culture is a core issue. She also said there is no substitute for leaders getting out into the firm and seeing what is taking place. Julie and Catherine agreed on the importance of culture but voiced different opinions on measurement. Julie said the answer lies not so much in
establishing a taxonomy for culture as it is in catching glimpses of how things are working and about being creative in how you assess culture. Catherine said companies must look at employee comments as closely as they look at customer comments. She also discussed how part of culture is diversity and companies must assess their recruitment of women today and their career paths. Georg talked about the possibility of including social analysis in valuations and the new outlook that could pose. With a rapidly changing future, there will be many measurements to create and reassess.
The second panel addressed past, present, and future views of responsibility as well as the growing role of corporate purpose. Moderated by Henri Servaes, the panel began by questioning why some businesses engage in responsibility only after success, rather than throughout all business conditions.

Olenka Kacperczyk first presented a framework to understand whether a company should have a responsibility to stakeholders in addition to shareholders. She outlined three arguments for why a company should focus exclusively on shareholders: (i) contracts between shareholders and stakeholders are complete, and so stakeholder interests are already protected implying no responsibility for managers beyond compliance with the law; (ii) focusing on multiple stakeholders prevents accountability since there is no clear performance metric, whereas shareholder value maximisation implies a single, unambiguous metric; (iii) the stock market already values intangible assets such as stakeholder capital, so if managers harm stakeholders, the stock price will fall. But she then highlighted weaknesses in each argument, implying that a company should have an explicit additional responsibility to stakeholders: (i) contracts are incomplete in protecting stakeholders, as they cannot anticipate all future contingencies; (ii) a single objective implies that shareholder value dominates all other considerations, whereas maximising stakeholder welfare involves no prima facie priority of one stakeholder over another; (iii) the stock market may fail to value the long-term benefits of stakeholder relationships, particularly in the short-term. Beyond the framework, Olenka discussed her own research which showed that when governments introduce constituency statutes (laws which allow corporate directors to consider stakeholders’ interests), there is an increase in business innovation, experimentation, and creativity.

Daniel Summerfield questioned whether true progress has been made in the field of responsibility. To address this, he highlighted the importance of investors understanding their purpose. He explained how an investment manager’s purpose is to deliver the returns needed to meet a pension fund’s liabilities; a trustee’s purpose is to safeguard and act as a good steward of the assets with which it has been entrusted on behalf of its beneficiaries. Matt Peacock agreed with Daniel’s sentiment that the conversation surrounding responsibility has changed little in the preceding twenty years. The lack of progress stems from the use of language such as CSR, which he viewed as outdated. CSR often refers to a
company engaging in ancillary “greenwashing” activities to compensate for a core business that harms society; responsibility is about a company's core business creating value for society. Another barrier to progress is the misperception that responsibility is antithetical to good business. He used the example of Vodafone reducing its energy usage as an action that not only benefited society but also saved business significant future costs.

Henri probed the panelists further on what they meant by purpose – and how they can ensure it moves beyond a mission statement. Daniel agreed that it is very difficult to look beyond the gloss and discern whether companies are really living out their purpose. He used the example of Wells Fargo which had a strong values statement and outward adherence to integrity – but it lacked true trust and its influence and reputation suffered. Olenka furthered this concept and discussed alignment within a company. She discussed Patagonia and how responsibility and purpose permeate each layer of the business. She also echoed Daniel's comment by pointing to research which illustrates how “greenwashing” does not lead to profits. Matt agreed and argued pointedly that, because of social media, there has never been a worse time to be inauthentic – inauthenticity can quickly be detected and exposed with detrimental consequences for firm value.

In the Q&A, one participant asked the panel to identify key interventions or catalysts for incorporating social purpose in business. Matt responded that there is a sense of a rising tide in this area, but a large portion of the answer comes down the individual character of CEO. Singling out Paul Polman of Unilever, he said it is important to have awareness at the board level combined with the right leader who has a sense of personal mission. Olenka responded that employees are at the core of purposeful organisations. This means companies must think about how they select and incentivize employees. Daniel emphasised that the government should not be seen as a catalyst: “there is no problem so bad that regulation can’t make it worse.” He said that change has to come from within. This requires investors to stop referring to stakeholders as “non-financial” and recognise that stakeholder issues are financially material, particularly in the long-run.

A second participant inquired how a company can address the trade-offs and demands of responsibility. Matt remarked that leaders must make hard decisions, some of which will reduce revenue. One can only do that with commitment to purpose. An example is not entering markets because of a country's human rights record, potentially sacrificing short-term profits. While doing so mitigates risks associated with operating in such a country, these risks would have only manifested in the long-term. Daniel agreed and added that such decisions are tough because no one may ever thank you for them. Such is the case if a pension fund cuts benefits or increases contribution requirements that to make it more sustainable in the long-run for future pensioners. This decision will likely never be accompanied by a thank you.

A third participant challenged the panel’s earlier claim that social media disciplines firms to be more authentic. Matt acknowledged that companies can project what they would like publicly but stressed that they cannot regulate comments that reveal the truth. Also, employees can publish what they want and are a powerful filter of a company’s values. Daniel disagreed with Matt and argued companies often put gloss on the exterior, such as token placements on corporate boards instead of looking holistically at the pipeline of diversity in the company. It comes down to culture and it’s almost impossible to understand culture looking from the outside in. Olenka answered the question from the perspective of authenticity. She said that firms may be able to allocate resources for CSR initiatives to protect their reputation during adverse events, but this only succeeds for a short period of time before customer trust is eroded.
Lord Wei addressed the current challenges of capitalism and how society can work collaboratively to transform the economy. In contrast to the current criticism of capitalism, he argued that we need more capitalism, not less. However, he stressed that capitalism involves enterprise and entrepreneurship, which are often stifled by big business – big business is not necessarily capitalism. Arguing that today’s world of corporate capitalism is a departure from its original design, he argued that today’s economic structure does not provide for a healthy and truly free market due to market power and geographic concentration. He illustrated the problem of concentrated capitalism through the example of Cadbury’s acquisition by Kraft, which led to the closure of the Somerdale factory with severe repercussions on the local community and the moving of the Foundation’s operations to Europe despite its close links to the Midlands.

Another area that has experienced a breakdown in capitalism is that of regulation. Today’s scale of regulation is increasingly global and it is hard to regulate companies and economies in the future in the same way countries have done so in the past.

With these challenges in mind, and also remembering that there is much value in the corporate model, Lord Wei proposed it is time to embrace a new form of capitalism that works for everyone and not only large companies, large governments, and large charities.

The first change he proposed is a greater societal movement towards responsible capitalism. Akin to the production and natural cycles of farming, he argued that responsible capitalists will think more like a farmer and grow an ecosystem and not just one business. He referenced the historical practice of “gleaning” where farmers allowed citizens in the community to collect grains of wheat as they fell by the wayside during harvesting. In today’s economy, this corresponds to organisations renting out unused space or large kitchens (for free or at below market rates) during times when they are not occupied. In the shared economy, we currently share housing and cars and don’t think enough about the value that could be gleaned from them (e.g. empty Uber cars, or land that is unused). There are arguably many other resources, such as unused time and talent, which can be share to benefit the whole community. Another societal change involves increasing citizens’ access to capital, to prevent them having to rely on mechanisms such as payday loans. An advanced system of cash flow can help shorten the gap between where money is coming from and when it hits a bank account.

The second change he proposed for capitalism is a reform of taxation and policy. Government could provide tax relief or lower corporation tax rates to companies that broaden their ownership to include the lowest paid. Policy can provide nudges to encourage
companies to place greater weight on employee engagement, similar to the John Lewis model and enable better financing for companies who pay their suppliers on time.

The third change Lord Wei proposed to capitalism centred around the enablers of capitalism. Capitalism has changed over time along with changes in democracy, industry, and the rule of law. In democracy, citizens are enjoying increasing voice through mechanisms such as digital petitions. In industry, virtual money is displacing real money. In law, a key concept is innocence before being proven guilty. This theme extends to business where we must ensure our algorithms do not deny or discriminate unfairly, such as in loan applications, and are open to challenge so people are not excluded by design or accident. In all these areas, society is on a journey and we all have a role to play in ensuring responsible capitalism and proper reform. Today’s society can reflect that of the Victorians and Adam Smiths of history if it works together to create policies that benefit all people. The areas of finance, insurance, healthcare, housing and many others can be changed from a current unresponsive state to one that supports modern needs and where communities can thrive.

In the Q&A, one participant asked about the importance of role models and how much influence, or not, role models have on societal change. Lord Wei answered that in the Victorian era society only needed about thirty to fifty close collaborators who led the way to great change. He argued that, once a good change agent is placed inside governments, businesses, and organisations, powerful ideas can scale (similar to the spreading of a virus) and solve real problems.

A second question addressed the rise of populism and how governments and business should respond. Lord Wei responded that the retirement and political crisis creates a strong sense of urgency with a hard deadline. If changes are not addressed soon, society will see difficult times in the coming decade. There is therefore a stronger onus for trustees of pension funds to take more risk to be able to fulfil their obligations and help heal the system. There is also a need for the more innovative use of resources and it is incumbent upon all business leaders to understand, develop, and apply these future innovative models.
How do We Make it Real?

John Plender  
Senior Editorial Writer and Columnist, Financial Times

Hywel Ball  
Assurance Managing Partner for the UK and Ireland and Head of UK Audit, EY

Alan Knight OBE  
Head of Sustainable Development, ArcelorMittal

David Pyott CBE  
Former Chairman and CEO, Allergan

Andrea Sullivan  
International Head of Environmental, Social and Governance, Bank of America

The third panel addressed how to put responsibility into practice. Moderated by John Plender, the panel covered a wide array of topics that included value creation, the importance of purpose, the current state of responsibility, and the rise of investor and social pressures. To begin the discussion, John invited panellists to share their individual perspective on making responsible business real.

Hywel Ball spoke to four key issues he has explored over the past two years: (i) a decline of trust in business and capital market confidence, (ii) the significant growth of intangibles on balance sheets, (iii) the rapid growth and use of big data, and (iv) the issue of ‘investment disconnect’ and how pension funds deal with balancing ESG mandates and the demand for financial return. In 2016 EY worked on a “Long Term Value” framework designed to help companies better articulate how they create value for all stakeholders. In 2017 this framework moved forward to a proof of concept and EY partnered with the Coalition for Inclusive Capitalism to do so. They brought together a flotilla of ten corporates in three sectors, ten large fund managers and ten large pension funds. Through eighteen months of workshops, these participants explored how companies create value and how investors and pension funds evaluate value. This report, the “Embankment Project for Inclusive Capitalism,” proposed metrics on key intangible assets such as human capital, innovation, environmental stewardship, and governance.

Adding to Hywel’s discussion of value, Alan Knight spoke on his experience as a business advisor and shared his perspective on issues which are either over-stated or under-emphasised in a company. Regarding over-stated issues that may weaken trust, he highlighted: (i) the business case for responsibility, which is often exaggerated and ends up disappointing; (ii) the emphasis on metrics and quantification. In reality, Alan stressed that many key assets are intangible, such as reputation, and hard to quantify. He also spoke about three core themes which are under-emphasised in business: (i) discussing what is truly important in a human way through stories, such as showing executives through pictures the implications of supply chain decisions; (ii) leaders having personal moments with employees to bring business to life, which includes leaders talking about meetings or speeches that impact their views on the world; and (iii) taking the time to talk through key issues because today’s issues are complex and emotional.
David Pyott spoke next of business being more than just about making money. He argued that it is possible for companies to be a force for good in society, particularly in knowledge-based industries. In such industries, doing good is a means to attract and motivate employees, which is a critical ingredient to creating, shaping, and moving forward powerful ideas. He also spoke of his experience as CEO of Allergan over seventeen years and the company’s core mission of creating a high-performance culture. He stressed how a commitment to improving sustainability spilled over into improvements in financial performance. For example, Allergan had concrete goals on recycling, energy, and waste, which not only benefited the environment but also cut costs. He then shared his experience on the audit committee of Philips, a company that extensively examines its environmental footprint. Referencing Hywel’s comments, he echoed the importance of not solely relying on external auditors but also ensuring the company’s own management is invested in creating and analysing the right measurements. Separately, he did not align himself with the first panel of the day as he did not see major trade-offs between responsibility and growth. He gave the example of Avery Dennison whose environmental record is a competitive advantage as it encourages companies to buy its products.

Andrea Sullivan built upon David’s point about the importance of business beyond immediate, short-term financial results. Remarking that the discussion on responsible business is very different today than it was ten years ago post 2008, she said her experiences give her great hope for the future as opposed to the frustration occasionally voiced in earlier panels. Strong leadership and an empowered responsible growth programme assisted her firm, Bank of America, to evolve its strategy and move towards proactive, long-term action beyond just compliance. One of the first goals of the programme was philanthropy, deploying $2b over ten years to organisations that improve job opportunities, economic mobility, and affordable housing – issues the bank’s customers were struggling with. This helped to set the company’s direction and required significant employee engagement. Another goal was the firm’s first CSR report, which integrated within the bank’s annual report, and its initial commitment of $50b to green business and a low-carbon economy, which was raised to $125bn in 2015. These goals have helped turn business ideas from vision to policy to strategy to practice. One specific example is that of green bonds which her firm was the first bank to have issued a green bond in 2013. Since then it has gone to market three more times, and has been oversubscribed each time. The firm is also the first US finance institution to issue a social bond to help with affordable housing.

In response to these comments, John challenged the panel to further articulate their opinions on the current state of responsible business. Participants on the second panel had expressed dismay at a lack of change, but opposing some in business feel a renewed sense of urgency, particularly with the influence of the Paris Climate accord. With financial firms such as BlackRock adopting a responsible stakeholder point of view, there has been a recent acceleration in this field. Andrea agreed that change is afoot as investors have increasingly begun to query issues outside the balance sheet. Alan discussed a progress in the area of compliance. Historically it has involved merely obeying the law, but increasingly communities have a much larger voice and companies need to prove no harm rather than simply not breaking the law. Hywel agreed with Andrea and felt that change was not only a matter of companies producing disclosure but also investors pulling disclosure.

Opening up the panel to Q&A, one participant asked if companies are building responsibility metrics into long-term incentive plans for employees. David, having served on four different compensation committees, answered that management objectives increasingly
include metrics regarding sustainability or human capital. In a well-run company, such metrics feed through the company to division managers and beyond.

A second question covered the rise of passive and algorithmic investing and how business should address this issue in light of responsibility. Hywel answered that it is a significant challenge because the capital markets need active managers to engage in the public market to drive change and societal growth, yet last year was the first year in America that more money was raised in the private rather than the public market. He referred back to the “Embankment Project for Inclusive Capitalism” and commented that understanding value creation and the changing markets was why Vanguard had high interest in participating in the project. Taking this question one step further, John asked Andrea about funds which may not yet be deployed but are waiting to be invested in ESG to exploit value in the market. Andrea answered that the market is using research to review the value of ESG investing. Assets under management continue to grow, looking for returns and evaluating when and how to deploy investments.

A third question addressed supply chains and whether private companies will move to choosing suppliers based on the social value they provide. Hywel answered that it is difficult for an individual company to establish an industry standard but progress may be found in the market generally disclosing metrics essential to this area. Alan agreed with Hywel and said right now the business focus is on making sure nothing adverse is happening, such as child labour, but the debate is moving in a more positive direction.
E.ON’s chief on quitting carbon by 2050

By Tom Gosling

Responsible business is good business – in the long term

E.ON Chief Executive Michael Lewis has compared the company’s transition from coal to a carbon-free grid to “riding two horses”.

Interviewed at an invitation-only Responsible Business event at London Business School Centre for Corporate Governance (CCG), Lewis described how his business has gradually switched from coal power to renewables, the motivations for making that change, and the trade-offs that needed to be negotiated along the way.

When Lewis joined E.ON in 1993, as an engineer with a Masters in pollution and environmental control, his role focused on removing particulates from emissions. Since then, it has evolved into reducing carbon completely. He has always viewed responsibility as a core business issue rather than as a CSR add-on. This commercial perspective enabled him to move through a number of Corporate Strategy and Managing Director roles, before being appointed CEO of E.ON UK in 2017. He is therefore an exemplar for what it means to make sustainability a board level issue.

Lewis described the interaction between the different motivations for the change in strategy: commercial and responsible business. Neither one followed the other – they developed in tandem. Horizon scanning led E.ON’s leaders to conclude that their coal-oriented portfolio was on the wrong side of trends in societal acceptability. At the same time, the move to distributed renewable energy would lead to the possibility for greater value-creation in the customer-facing parts of their business. It really was a case of the good thing to do being the commercial thing to do.

When challenged on the trade-off between responsibility and shareholder value, Lewis was robust: “In my experience they are almost always aligned. You have to make a profit to be a sustainable business. But you also have always to be looking to the long-term, scanning the horizon for changes in society’s attitudes, so you’re not on the wrong side of the trends. So a sustainable business also has to be a responsible business.” Lewis used the 2010 decision
to axe the coal-fired Kingsnorth power station as an example: “It was partly motivated by economics and partly because we didn’t see a future in fossil fuels”.

It could be argued that the alignment of interests reflects the nature of E.ON’s business and its connection with one of the key issues of the day: climate change and the associated energy transition. With the risk of stranded carbon assets, and the potential for rapidly changing social views of major polluters, it may well be true that in this sector doing well means, more often than not, doing right. In other businesses the trade-offs may be harder and more immediate.

Where Lewis did acknowledge a trade-off, it was in the pace of transition. E.ON could have moved to shut down coal and enter renewables quicker and sooner. But if done prematurely, this would have had costs to society as well as the company: the company would have had to mothball productive assets early, at a time when replacement renewable energy sources were higher cost. This would have resulted in lower funds for investment in renewables and higher costs for consumers - a genuine destruction of society’s resources. “It can appear that the industry is resisting,” he acknowledged. “There is tension, played out in company and society. We have a huge amount of capital invested in fossil fuels. If it is written off, there is massive value destruction to society. Therefore, we have to make choices about where the trade-off is between delivering value with existing assets and bringing in a new way of generating electricity.” Indeed, effectively destroying current carbon-based resources could even have slowed the pace of change towards the point at which renewables became commercially preferred, which Lewis contends would always be the game-changer in energy transition. You need to do it cheaper and cleaner.

“We could have stopped investing in fossil fuels when we started investing in renewables. There was a clear decision at the time – society needs these (carbon-based) assets; renewables are too expensive.” As a result, even though E.ON was committed to transitioning away from fossil fuels, it also needed to make this transition slowly to avoid sharp increases in prices. So the trade-offs that Lewis needed to balance was not only between investors and the environment, but customers also.

Since then, he reflected, partly through E.ON’s efforts, the cost of renewables has fallen enormously; by a factor of five for solar and three for wind. Would this have happened without investment made possible from returns on coal-based assets? However, the challenge ahead remains immense. If decarbonisation is to be achieved, 900 terawatt hours of production will need to be replaced. Companies and society, through the regulatory and political process, need to figure out the right balance, the appropriate pace of change.

Lewis said that shareholders had been supportive of E.ON’s transition. “Shareholders’ interests and the goals of a responsible business are aligned in the long-run,” he said. He felt that the current debate about shareholder primacy was a red herring. He didn’t believe that any of their decisions would have been changed by a different balance of stakeholder powers: “because if you want a sustainable business you have to create value”.

E.ON has placed great emphasis on reporting of non-financial and responsible business metrics. Lewis views this as an important part of the company meeting its societal obligations. It also helps them in talent markets. E.ON is competing in a tight market for the best technical skills and ability to innovate in a customer-facing environment. A sense of purpose in the objectives of the company creates a sense of excitement and certainly helps give an edge in recruitment markets, according to Lewis.

Listening to Michael Lewis talk about his experience at E.ON, you come away with a more nuanced view of responsible business than is evident in often polarised debates. It’s
simplistic to say that there is never a trade-off between responsibility and shareholder value. There can be. But this does not mean that changing the balance between different stakeholder rights would help. Because over the long-term, more often than not, the interests coincide. The key question then is one of pace of transition. Existing assets and practices represent resources not just of the company, but of society. The quickest possible move to the responsible business endpoint may incur costs for stakeholders other than shareholders, in terms of higher prices, lost jobs. And it may even slow down the progress towards a sustainable future by discarding resources that can fund the transition.

These trade-offs are the stuff of business leadership and judgement. But what is clear is that those judgements need to incorporate responsible business considerations rather than just a narrow view of short-term shareholder value. We can leave the final word to Lewis: “You have to be tuned in to what is going on around you. It is important not to be caught on the wrong side of megatrends. And climate change is the defining issue of our era, certainly for our industry.”