The Role of the Corporation in Society
The first report from the FT Future Forum think-tank, published earlier in this year, examined the way in which the coronavirus pandemic and its effect on global supply chains threw into sharp relief a process that was already under way — the decoupling of the US and Chinese economies.

In this second report — which follows a panel discussion between Martin Wolf, the FT’s chief economics commentator and Professor Colin Mayer — Lucy Colback looks at how the pandemic has forced companies to adapt. Not only have they had to change the way they work in order to survive lockdown, but many have also begun rethinking in fundamental ways what it means to do business at all.

Just as the outbreak drew attention to supply-chain frictions that analysts had been pointing to for some time, so it has shone a spotlight on a debate on corporate purpose and responsibility that roiled the business world throughout 2019.

Last year, before the virus took hold, a group of top US executives, responding to a debilitating crisis of public trust in business, declared that it was time to abandon shareholder primacy and redefine corporate purpose. Environmental, social and governance concerns were firmly on the agenda.

The pandemic has shown that taking such considerations seriously is not only desirable, but for many companies essential to their post-crisis recovery. This report assesses the extent to which the changes that coronavirus is forcing on businesses will turn out to be permanent.

Corporate behaviour has changed out of necessity in recent months. When life in developed economies returns to something like normal, will the corporation have transformed out of all recognition?

Jonathan Derbyshire
Acting deputy world news editor,
Financial Times
The Role of the Corporation in Society

The coronavirus pandemic has forced companies to adapt, affecting everything from the minutiae of daily tasks to the fundamental way they view their businesses. The relationship between the corporation and society has changed. Lockdowns imposed by governments worldwide have led to near-universal home-working for office staff. Businesses for which remote working is impracticable have closed, with a devastating effect on employment. The plight of workers is most stark in the US, where joblessness figures have soared: one in five American workers filed for first-time unemployment benefits between mid-March and May. Governments have had to take action on an unprecedented scale, both to extend funding to struggling companies and to underwrite workers' salaries.

The handing out of taxpayers' money has put business practices and their broader effect under intense scrutiny. The accompanying requirement is that companies behave with greater responsibility. Spurred by the virus, and occasionally by public opprobrium, many companies are now more supportive of their workers and suppliers. Others have seized the opportunity to help broader society, for instance by turning over factories to make medical supplies. A poor response by some groups has made headlines. Amazon fired employees who complained publicly about inadequate protection in its warehouses; JD Wetherspoon, the British pub chain, refused to commit to paying furloughed workers before a government assurance that their wages would be covered; top managers at Disney were criticised for failing to adequately “share the pain” with their many thousands of laid-off workers, although both the executive chairman and chief executive gave up part of their pay. JD Wetherspoon, the British pub chain, refused to commit to paying furloughed workers before a government assurance that their wages would be covered; top managers at Disney were criticised for failing to adequately “share the pain” with their many thousands of laid-off workers, although both the executive chairman and chief executive gave up part of their pay. JD Wetherspoon, the British pub chain, refused to commit to paying furloughed workers before a government assurance that their wages would be covered; top managers at Disney were criticised for failing to adequately “share the pain” with their many thousands of laid-off workers, although both the executive chairman and chief executive gave up part of their pay.

Once the virus recedes, will the corporation – and with it our idea of what it means to do business – have changed fundamentally? Will the old school of purely financially driven capitalism have surrendered to societal pressure? Will we have a new view of the role of companies in society, especially the hierarchy of stakeholders and investors? Will the demand to imagine a more inclusive form of corporate behaviour change for ever as a result of the pandemic, and which are unlikely to be affected.

Before the pandemic

In the opinion of business executives who shared their views with the FT Future Forum think-tank, trust in business was low before the emergence of Covid-19. Matthew Rees, group head of indirect taxes at Schroders, was not alone in blaming this in part on “a hangover” from the financial crisis of 2008. To try to regain public confidence, companies had begun to pay attention to the concept of responsible capitalism.

Among notable proclamations was the August 2019 pledge by Business Roundtable, an organisation that comprises 200 US chief executives, in which it said it would abandon shareholder primacy and redefine corporate purpose to create an economy that “serves all Americans”. Regulations regarding environmental, social and governance (ESG) disclosure added to the pressure. These were already changing corporate practices, although the lack of a global reporting standard was sometimes used as an excuse to treat ESG as “too hard” to address. Regulators also required pension funds to act. Last year the UK directed pension fund trustees to consider ESG factors or give a reason why they had not.

Some investors were already on board. Investment in ESG strategies has grown rapidly, with the Global Impact Investing Network estimating the value of dedicated impact funds at more than $50bn in 2019. Beyond dedicated funds, money managers have arguably been more inclined to consider ESG in their investment pooling for responding to the pandemic.

In January, Larry Fink, chairman and chief executive of BlackRock, announced that corporate responsibility would become a focus of the fund management house. The company said that its investment decision had paid off in performance during the current crisis.

Even before the pandemic, good governance was considered a core business requirement. Environmental issues had also become more prominent as young people engaged in the school strikes championed by Greta Thunberg, the teen climate-change campaigner.

The “social” component in ESG has been probably the most neglected of the three. The questions of workers’ rights and companies’ broader effect on society had been under-examined. The coronavirus crisis has shifted this balance. Even as the sky has become cleaner as a result of the pause in economic activity, the “S” in ESG has gained visibility.

“Ecosystem” responsibility

- Commitments to honour procurement contracts
- The collapse in consumer demand has rippled along supply chains. The response of corporate customers has varied. Clothing company H&M made an early pledge to pay for contracted goods, including those in production, while its rival Primark extended limited support to its suppli er after bad publicity.
- Those in non-discretionary areas have been more able to be supportive. Tesla, the electricity utility, said it was forging ahead with capital investment and had accelerated procurement from suppliers.

After the virus

Ecosystem support, notably that driven by consumer disquiet, is unlikely to last. Even assuming that shoppers’ personal circumstances stabilise, people are more likely to want to stretch their meagre dollar than feel sympathy with an out-of-sight worker. Witness the scrum in the UK when Primark reopened its doors on June 15.

Diversification of sourcing as a way to spread the risk of disruption will gain in importance, with the position of suppliers in low-skilled sectors likely to become more precarious.

Supply-chain relationships in high-tech industries are harder to replace and these demand a longer-term collaborative approach. This, however, did not prevent Rolls-Royce engaging in a public spat with its suppliers over pricing in May.

Financing

- A shift in funding priorities
- The attitude towards different forms of capital has shifted dramatically. While governments have been generous with bailout loans, restrictions in the UK, for instance, have disqualified some over-indebted companies, many of which are backed by private equity.
- In response to government prodding, and often as a condition of receiving money, many companies have scrapped plans to give dividends and buyback to now a dirty word. One respondent on the Future Forum survey was scathing about the US airlines’ $25bn bailout, observing that “these businesses were allowed to take advantage of stock buybacks for years”. Meanwhile, companies who do see fit in the future to raise more equity, may be facilitated by regulators’ loosening of equity issuance restrictions.

After the virus

In the medium-term, companies may be inclined to manage their balance sheets more conservatively. It is even possible that they will consider permanent improvements to their capital structures to the extent desired by Prof Mayer, who argued in favour of higher reserves to provide a buffer against crises. Certainly, shareholders have been primed to expect lower returns, making equity a cheaper funding option. Governments hold the key to change. Regulation aimed at building balance-sheet strength, similar to that imposed on financial companies after 2008, may be required. Governments may also seek a return on the bailouts funded with taxpayers’ money. A trade-off between corporate recovery and shareholder (that is, taxpayer) returns would not be easy to manage.

Covid-19 is causing a huge decline in global trade

World merchandise trade volume (2015=100)

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<tr>
<td>Actual</td>
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<td>20</td>
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Optimistic scenario

Pessimistic scenario

Source: WTO
Workers and working practices

- Remote working
  The pandemic has hastened the digitisation of the office, with distance-working for office staff now the norm. According to Just Capital, an organisation that ranks US companies by stakeholder issues, more than two-thirds of America's largest public employers have put in place remote or modified working practices. A significant number of executives responding to the Future Forum think-tank survey said they had increased communication with workers because of the pandemic; far from disincentivising contact, remote working has done the reverse.

- Worker benefits
  Data from Just Capital show that four of the top five stakeholder issues in the US relate to worker conditions. These include paying a fair wage and providing benefits and ensuring that employees' work-life balance is tolerable. As a result of the virus, more than two-fifths of America's top 250 companies have offered paid emergency sick leave. In France, the food company Danone pledged to guarantee employees' salaries until the end of June; it has also extended health and childcare cover and acted to ensure factory workers are as safe as possible.

- Executive Pay
  At the other end of the worker spectrum is top-level management. One-tenth of respondents to the Future Forum think-tank survey said their companies had cut senior executives' pay. Kimberly Lewis, engagement director at Federated Hermes, was encouraged by how companies had responded to the virus "with one exception — CEO pay". A survey in mid-April by Semler Brossy, the pay consultant, found that the few companies that had cut executive pay had acted out of necessity, and most had adopted a wait-and-see approach.

After the virus. The knowledge that office staff can work from home without unduly compromising performance, and with the potential for reduced costs, will change working practices for good. A survey by PwC found that more than two-fifths of chief financial officers from 288 companies planned to make remote work a permanent option for roles that allow it. The effect could have a downside. As one Future Forum participant asked: "With technology efficiencies and perhaps diminished barriers in a 'work from anywhere' era, how many jobs will not come back post-Covid?"

What is your company planning for when it transitions back to on-site work?

<table>
<thead>
<tr>
<th>CFO response (%)</th>
<th>0</th>
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<th>40</th>
<th>60</th>
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<tbody>
<tr>
<td>Change workplace safety measures and requirements</td>
<td>Reconfigure work sites to promote physical distancing</td>
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<tr>
<td>Change shifts or alternate crews to reduce exposure</td>
<td>Make remote work a permanent option for roles that allow it</td>
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<tr>
<td>Accelerate automation and new ways of working</td>
<td>Evaluate new tools to support workforce location tracking and contact tracing</td>
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<tr>
<td>Reduce real estate footprint</td>
<td>Offer targeted benefits for on-site workers in affected areas</td>
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<tr>
<td>Provide hazard pay for on-site workers in affected areas</td>
<td>Source: PwC US Covid-19 CFO Pulse Survey</td>
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Note: The FT identified /five.lt/one.lt companies that made equity awards under a CEO’s existing awards programme. Each bar represents a single grant of options or shares, so some companies appear more than once.

CEOs who took salary cuts usually made up for it with substantially more stock or options than in 2019

<table>
<thead>
<tr>
<th>Company</th>
<th>Number of shares/options awarded</th>
<th>(-) % change in number of shares/options (+)</th>
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<tbody>
<tr>
<td>Dick's Sporting Goods</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Wyndham Destinations</td>
<td>80</td>
<td>0</td>
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<tr>
<td>Foot Locker</td>
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<td>Chatham Lodging Trust</td>
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<td>0</td>
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<tr>
<td>Abercrombie &amp; Fitch</td>
<td>20</td>
<td>0</td>
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<tr>
<td>Designer Brands</td>
<td>10</td>
<td>0</td>
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<tr>
<td>US Foods Holding</td>
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<td>0</td>
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<td>Gogo</td>
<td>2</td>
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<td>Trinseo</td>
<td>1</td>
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<tr>
<td>Hyatt Hotels</td>
<td>1</td>
<td>0</td>
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<tr>
<td>Hilton Worldwide Holdings</td>
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<td>Lululemon Athletica</td>
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<td>Bluebird Bio</td>
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<td>Ment Medical Systems</td>
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<td>LendingClub</td>
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<td>Bluebird Bio</td>
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<td>Eldorado Resorts</td>
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<td>National Vision Holdings</td>
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<td>Gogo</td>
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<tr>
<td>LendingClub Corp</td>
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<tr>
<td>Empire State Realty Trust</td>
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</tbody>
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"We are committed to preserving our team's ability to respond quickly to the rapidly evolving conditions, while serving the needs of all of our stakeholders, and positioning us to return to growth after the Covid-19 pandemic" — Abercrombie & Fitch CEO Fran Horowitz

"Given the financial impact on our business, we have had to make difficult decisions that both support the safety and wellbeing of our colleagues and guests, and protect long-term prospects for 'Hyatt'" — company statement

Note: The FT identified /five.lt/one.lt companies that made equity awards under a CEO’s existing awards programme. Each bar represents a single grant of options or shares, so some companies appear more than once. Sources: company securities filings, FT research

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"Companies whose business has remained stable or increased because of the virus will be finding it easier to treat their workers well, but Prof Mayer suggested that how companies look after emargies now will be essential to their post-crisis recovery. Clifford Chance, the law firm, agreed. It noted that the pandemic had shown that “without a healthy, resilient team we cannot support our clients and the business has no future”."

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• Emissions have declined, if only due to inaction. Environmental issues have largely given way to social concerns during the pandemic but the economic shutdown did lead to less pollution and better air quality. The International Energy Agency has predicted that the Covid-19 crisis will lead to an 8 per cent drop in CO2 emissions by the end of 2020.

After the virus. The inactivity will not last and progress made in emissions reduction will be short-lived. On the plus side, business trips could reduce because so many more people have become familiar with video conferencing. Consumer behaviour also needs to drive corporate change. As with the faraway textile worker, the environment is not a sufficiently visible issue for most consumers to make the choices to protect it, for instance by paying a price for a T-shirt that covers the cost of the 2,700 litres of water which, according to the World Wide Fund for Nature, goes into its manufacture.

As one Future Forum participant said: “We’ve seen that the whole world can change rapidly, so if we want to arrest climate change it is possible if [there is] collective will from governments, business and citizens”. Here, governments have begun to step up. In June, Germany delivered a boost to green policies by directing bailout funds towards industries that could help to reduce emissions.

Paris records largest rebound in pollution levels
NO2 pollution anomaly*, 30-day rolling average (micrograms per cubic metre)

How lockdowns improved air quality

Diversity

• Out of the spotlight — until the death of George Floyd. As a disruption caused by the coronavirus spread, diversity issues took a back seat. “Lewis of Federated Hermes said, however, that the events surrounding the killing of George Floyd in Minneapolis in May have raised a lot of issues relevant to companies and their stakeholders.” There is now an urgent need to examine corporate cultures in areas from executive diversity and pay gaps to promotion rates and exit ratios for people of colour. Gender diversity, she noted, had always been an easier issue for companies to tackle — even if it has required legislation for companies to take action, as in California, for instance.

After the virus. The pandemic has undoubtedly increased public sensitivity to social injustice and companies have read this change in mood. More business leaders have made statements condemning Mr Floyd’s death, expressing solidarity and vowing to examine their diversity practices. Ms Lewis pointed out that “there is often a disconnect between the companies’ statements and what we might actually find when speaking to the employees”. However, she was optimistic that things could change. “If anything positive comes of this it will be a wake-up call that this is not something to bury in a vague statement... it is something that is impacting your business and your people, and you have to address it.”

Conclusion

The obstacles to change are considerable and executives are sceptical that improvements in corporate behaviour will be long-lasting. One-third of the FT Future Forum participants said “businesses won’t change” in the wake of the pandemic.

Two-fifths of respondents to a reader survey admitted that there were barriers in their own companies to adopting responsible business practices, including “lack of understanding”, “cost implications” and a “potential negative impact on profitability”. Many expressed a hope that things would change but had little conviction. One reader observed that “ultimately, the psychology of business is led through its leaders’ personalities, and those don’t easily change”. These are in a position to push for change are more optimistic. Executives in fund management continue to engage companies on worker benefits, health and safety and the environment. They believe that the momentum to enhance corporate responsibility can be sustained.

Even as employee welfare appeared to be taking precedence, support for climate change shareholder resolutions jumped to 25 per cent to May 30, an increase of some 7 percentage points on 2019, according to data compiled for FTIFM, the FT’s fund management section. In an ideal world, companies would use the pandemic as a chance to radically rethink behaviour, and, as Prof Mayer hoped, rediscover the sense of purpose that has been trampled upon in the pursuit of profit. This may not happen without a change in the law, Prof Mayer acknowledged. He believed that the best route would be to change corporate law and make directors responsible for delivering a company’s purpose.

Prof Bakan believed the critical question was not whether companies would change their behaviour but how governments could compel them to do so. For the corporate, he says, “the social and environmental quest will always be tailored to create shareholder value... even if you tweak companies’ legal mandates that is still the case. With regulation, on the other hand, the government can say: ‘We determine the balance between profit and social values. We are telling you that you are not allowed to hire children under 16. There is no management or board discretion on this.”

“In all these crises,” Prof Bakan added, “we have asked: how can corporations solve them?” What we really need to be asking is: how can governments solve these crises by restraining what corporations do?”

*SI unit which measures the number of particles
Source: CREA and FT analysis of EEA data

US corporate reports place low emphasis on workforce diversity
Company emphasis score (number)*

More than 80% of board seats are filled by white executives
Fortune 500 total board seats by race/ethnicity, 2018

“The best route would be to change corporate law and make directors responsible for delivering a company’s purpose”
Foundation Partners

The FT Future Forum think-tank is supported by our foundation partners — Bridgepoint, Google, Huawei and Iberdrola — and these groups help to fund our reports.

Partners also share their business perspective on the think-tank advisory board. They suggest which topics the forum should cover — but the editorial director makes the final decision.

Think-tank reports are written by a Financial Times journalist and are editorially independent.

Our partners feature in the following pages. Each profiles their business and some offer a view about the role of the corporation in society. All partners could comment on the role and purpose of the corporation but some chose not to contribute. All partners’ views stand alone. They are separate from each other, the FT and the FT Future Forum think-tank.

Bridgepoint is a major international alternative asset fund management group, focused on providing private equity investment and private debt lending to middle market companies.

Our focus is on acquiring or investing in businesses with strong market positions and earnings growth potential where significant additional value can be created through transformation — either domestic or international expansion and/or operational improvement.

With over €20bn of assets under management, we invest internationally in six principal sectors — business services, consumer, financial services, healthcare, manufacturing & industrials and media & tech — via a platform of offices in Europe, US and China.
Google’s mission is to organise the world’s information and make it universally accessible and useful.

Through products and platforms like Search, Maps, Gmail, Android, Google Play, Chrome and YouTube, Google plays a meaningful role in the daily lives of billions of people. Google is a subsidiary of Alphabet Inc.

Crisis has shown resilience can only be secured by working together
Victor Zhang, vice-president, Huawei

The coronavirus pandemic has shone an unforgiving spotlight on the importance of resilience for economies. This invisible killer has put businesses under pressure, testing both the strength and flexibilities of companies in every sector.

In telecoms, we have had to manage a surge in data use. Around 60 per cent of the UK’s adult population is working from home and more people than ever are using video conferencing to stay in touch and streaming services to stay entertained.

Huawei’s engineers have worked day and night with our customers — the UK’s mobile and broadband companies — to keep the system up and running. This has mostly been a success, although we have all struggled at times to download large files or watch films, and have seen someone freeze mid-sentence on a video call. Slow connections are not just frustrating — they make it harder to do business.

Covid-19 is set to accelerate the shift to digital services — from payments to the automation of manufacturing — further increasing demand on the networks and system overall. Therefore, it is vital we roll out new technology. Fibre and 5G must be the priority.

Forget science fiction. New networks will help to boost the capacity of our mobile and broadband services so we can manage rapidly growing demand and connect those areas of the country that are currently left behind. Better networks will be vital to delivering a resilient economy.

These new networks are already being rolled out. Huawei helped build the 3G and 4G networks and it is now helping Britain’s telecoms companies bring the latest technology to the UK.

But in telecoms, as in other sectors, there are calls for supply chains to be “on-shored” and trade limited as the only way of ensuring security of supply. When it comes to 5G, much of the public discourse in the UK centres on the US trade war with China, protectionism and in some cases an innate distrust of foreign companies.

This is a short-sighted approach that would leave the telecoms industry — and in turn the economy as a whole — more exposed to operational disruption, with higher costs and less competition. Resilience would be sacrificed with fewer suppliers to choose from, less choice and less competition, which would lead in turn to less innovation and poorer choices for consumers.

In order to reach the 2025 target of full coverage of gigabit-capable broadband, it is important that we focus on delivering high-speed digital networks, because greater connectivity will drive the economy forward. The industry — and Huawei — encouraged by the regulatory direction and legislative proposals so far, stands ready to support this.

Ultimately, the best source of economic resilience is competitive, open markets that allow companies to use multiple suppliers from around the world, while driving forward innovation through common standards. These are the principles the UK government has promoted through its review of the resilience of the telecoms supply chain.

* Huawei’s views are separate from other foundation partners, the FT and the FT Future Forum think-tank.
Covid-19 has highlighted the need for more responsible business principles. José Ángel Marra, director of Human Resources and General Services, Iberdrola

The coronavirus pandemic has given new force to the call for more responsible business principles. At Iberdrola, our long-standing business model and corporate culture is rooted in social responsibility. We believe that serving only our shareholders is not enough. While we have to take note of investors, we must look after our workers, too. Most importantly, we need to consider society and the communities in which we operate.

Our social responsibility and sustainability policies now incorporate the UN Sustainable Development Goals, and our senior leaders are driving a co-operative culture of integrity and transparency. Businesses must gain the trust of consumers. Companies that are viewed as “not playing fair”, perhaps those that put shareholders before other stakeholders, lose public trust. Such confidence has to be earned. Ultimately every business builds its reputation with its actions — past, present and future.

A greater emphasis on stakeholders Since Covid took hold, the onus has been on businesses and governments to adapt. The way organisations work, with and for their stakeholders, is under the greatest scrutiny.

When the first signs of the virus emerged, Iberdrola’s worldwide action plan was put in motion. We moved quickly to guarantee the electricity supply for our 100m customers, including payment options and free services for those who are most vulnerable. We also reinforced the protection of the services we provide to hospitals, healthcare centres and other essential infrastructure. On top of that, we committed substantial donations to help the communities we serve. Much of this money was spent on medical supplies and personal protective equipment.

The post-pandemic corporation
What is clear is that good intentions are not enough. Businesses have to articulate their purpose and the role they play in society and this must be backed up by actions and commitments.

* Iberdrola’s views are separate from other foundation partners, the FT and the FT Future Forum think-tank

The FT Future Forum draws on the FT’s global influence as the world leader for financial and business news. It acts as an exclusive and authoritative venue for businesses to share ideas and intelligence. It enables the exploration of emerging trends and seeks to define and solve the issues faced by business and society.

The forum set up the think-tank to make best use of the expertise of member companies and to pull together cross-sector knowledge.

The think-tank invites experts, including academics, industry specialists and policymakers, to collaborate and contribute in workshops and consultations. This information is fed into reports that go before an audience of global leaders.

You can find how to take part in the FT Future Forum and think-tank by emailing michael.hepburn@ft.com