Q&A for LBS Webinar on "Responsible Business in a Time of Crisis"

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Thanks very much to everyone who attended our webinar, and for all the questions that we received at the end. We only had time to answer some of them live, so are answering the other questions here. Some of the responses refer to chapters in Alex's book, "Grow the Pie: How Great Companies Deliver Both Purpose and Profit", which expands on the answers in greater detail. This will be abbreviated GTP.

What Is A Responsible Business?

How do you feel about companies partnering together on innovative/responsible approaches? How do companies keep the greater good in mind, but also their own individual survivability in terms of separating themselves from their competitors?

Partnering on innovative approaches, such as rivals Apple and Google working together to develop contact tracing systems, is absolutely critical. Indeed, responsibility is about avoiding not only *errors of commission* (taking bad actions, such as overpaying a CEO) but *errors of omission* (failing to take good actions, such as innovation) – see Chapter 1 of GTP. The need to beat one's competitors is based on the pie-splitting mentality that the pie is fixed and so Apple can only be profitable if it reduces the profits of Google. However, if companies don't work together, then the pandemic will have an even more devastating effect and shrink the pie for everyone.

Is this altruism or are we really talking about tuning into the incentives that flow from a sense of being a good citizen, or of making a difference to my community, or of limiting damage to the planet?

It's true that even a business that's focused purely on long-term shareholder value will understand the "incentives" from serving society –reducing carbon emissions or investing in communities will improve their corporate reputation and ultimately profits. However, such a business will only invest in society for *instrumental* reasons – if they can predict an eventual benefit to profits. A responsible business invests in society for *intrinsic* reasons – to serve society, even if there is no clear benefit to profits. Surprisingly, this approach may actually be more profitable than an instrumental approach, because many effects on profits are very difficult to forecast in a world of uncertainty and so would be ignored by an instrumental approach. An intrinsic approach frees a company from having to justify every decision with a profit calculation. See Chapter 2 of GTP for the concepts and Chapter 4 for the evidence.

These companies [those donating products or continuing to pay furloughed workers] have huge cash reserves and hence can do what they are doing!

This highlights the power of viewing responsibility as not just splitting the pie differently, but growing the pie. It's true that only cash-rich companies have slices that they can donate, e.g. by paying furloughed workers. But all companies can grow the pie by asking the question "what is in my hand" – what resources does my company have that, through thinking innovatively, I can redeploy to create value for society. Examples include Chelsea Football Club allowing doctors and nurses to stay in its hotel, and LVMH using its perfume factories to make sanitiser.

In practice, this means a rent seeking business cannot be a responsible business. Is that right?

This is correct. A responsible business "creates profits through creating value for society". Profits play an important role in society, because they provide a return to investors such as parents saving for their children's education, pension funds investing for their retirees, or insurance companies funding future value. However, profits are not pursued directly (as in a rent-seeking business); instead, they are a by-product of creating social value. See Chapter 1 of GTP.

How does responsible business differ from social entrepreneurship?

A responsible business "creates profits through creating value for society." Social entrepreneurship "creates value for society" – profits are of significantly lower importance, and indeed many social enterprises are non-profits. A responsible business also seeks to create profit, for the reasons described above.

Should business be looking at the responsibility in a larger sense, about products and services that no longer match a world where wealth will be taking a significant hit for 40 years (luxury goods, pricing that was outrageous).

Yes – as per the penultimate response, responsibility is not about seeking rents and taking slices of the pie from customers. Instead, it is about creating that products and services that genuinely improve citizens' welfare.

In lieu of this what will be your definition of a corporation and do you agree with the new definition that was recently released by the big corporations?

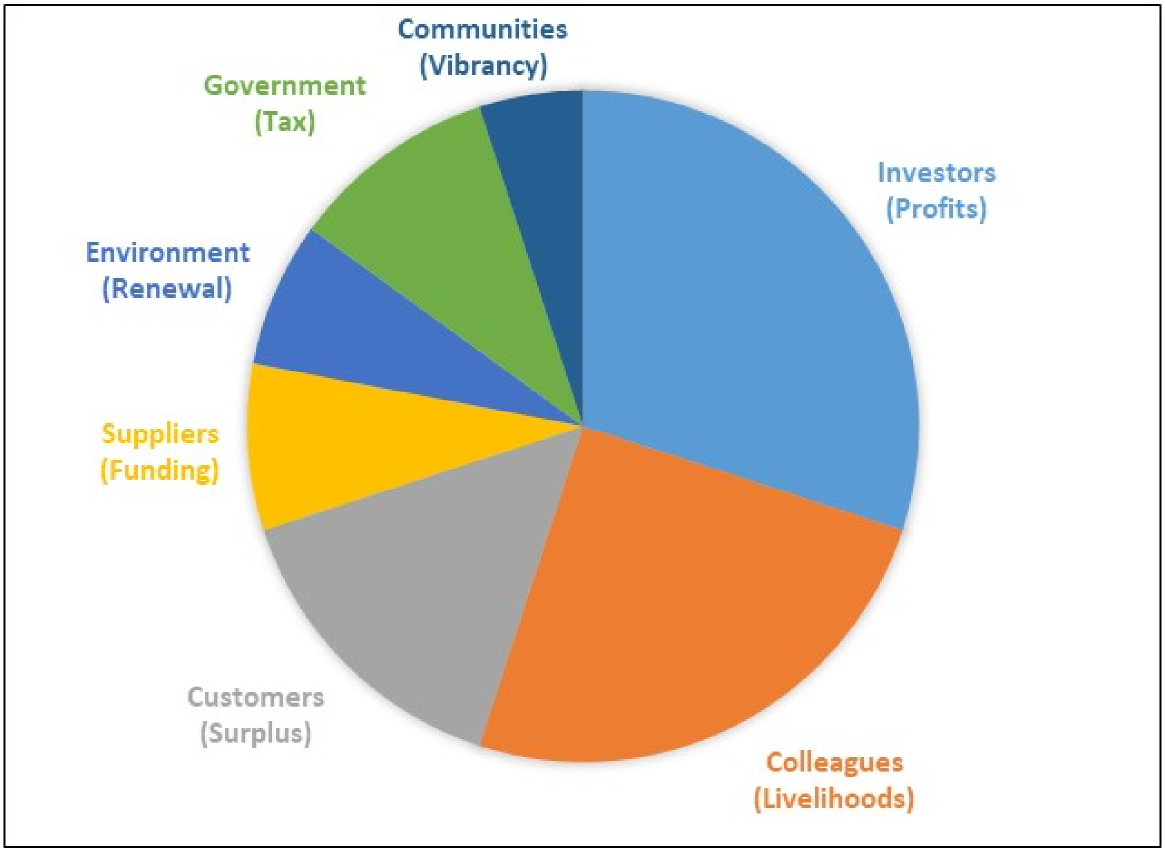
This question appears to refer to the definition of the *purpose of a* corporation rather than of the corporation itself. Alex has written previously on the Business Roundtable's Statement on the Purpose of a Corporation here.

Will the pandemic serve as an accelerator for enterprises to shift the Paradigm from profit focused to social responsibility oriented?

Yes, because the pandemic has highlighted the huge impact that companies have on society (e.g. by continuing to pay furloughed workers, or redeploying perfume factories to make sanitiser). Moreover, even before the pandemic, there was increasing pressure from policymakers, the public, investors, and executives themselves for businesses to become socially responsible (e.g. to address major social issues such as climate change, resource depletion, and inequality). Thus, when the pandemic has eased, businesses cannot simply forget about responsibility.

As companies grow their pie, what is the limit to the size of the pie in the sense that they might occasionally become "too big to fail"?

There's actually no limit to the size of the pie. Importantly, the pie does not represent financial wealth – growing the pie is not about creating wealth and then hoping that it trickles down. Instead, the pie represents social value. Profits are only one slice of the pie. The pie also includes renewal of the environment, improving colleagues' livelihoods (skills, physical health, mental well-being, work-life balance) of citizens, and pioneering products that transform customers' lives for the better. There is no limit to that. Critically, this view contrasts with "de-growth" commentators who argue that society needs to live within certain planetary boundaries. Such views have a misleadingly narrow definition of growth.



Don't you think it is time to redefine what we mean by « value creation »?

Indeed, a responsible business aims to create social value, not just financial value.

The Wall Street Crash led to the creation of the SEC and FASB. What will this crisis do for responsible business understanding?

This crisis is in many ways a test case for responsible business, about which much has been said and written. There are opportunities as well as dangers. On the opportunity side, we hope that companies taking a responsible approach and applying the principles of multiplication, comparative advantage, and materiality (see Chapter 3 of GTP) will be shown to have navigated the crisis successfully by creating value for all stakeholders.

But there are also risks. We are already seeing a very simplified view being taken of what it means to be responsible. If 'responsible business' simply comes to mean retaining employment at all costs, never doing share buybacks, and cutting executive pay then it will be a step backwards. We are already seeing black-and-white approaches being taken in both directions, for example investors insisting that bonuses cannot be paid if dividends are cut or Governments insisting that dividends cannot be paid if Government support is taken.

These black and white responses are understandable and reflect strongly held and deeply emotional principles of fairness felt by many citizens. However, by constantly setting one stakeholder against another, they adopt the language of pie splitting rather than pie growing. It is the concept of growing the pie for all stakeholders that is at the heart of responsible business and must be the focus.

How do you manage increased target audience cynicism and "good biz" story fatigue when communicating responsible business activities?

Chapter 3 of GTP highlights how responsible businesses should not aim to be all things to all people, but focus on activities that are specifically related to their comparative advantage and impact material stakeholders. For example, even though climate change was the "issue of the day" before the pandemic, a bank creates even more value to society by focusing on financial inclusion and transparent marketing of its products than it does reducing its carbon footprint. This is because it has a greater *comparative advantage* in addressing financial inclusion than climate change (compared to, say an oil company), and customer trust is particularly *material* to its business (compared to, say, an agricultural company that would be devastated by a flood). Companies can alleviate cynicism and fatigue by focusing on the issues that satisfy the principles of comparative and materiality, instead of whatever issue happens to be the most popular with the media at that point in time.

How are CEOs today, are they showing their narcissism in this crisis (covid19)?

This is why it has been particularly powerful that some CEOs have taken substantial pay cuts, in some cases to zero, to recognise that they should be sharing the burden with their employees and stakeholders, rather than narcissistically believing that they're untouchable because they're the CEO. However, it's also critical that these cuts are genuine, rather than the CEO then asking to be compensated with additional shares to offset the salary cuts.

The Role of Government

The role of business and government differs around the world. How to be responsible business when we are in countries where we already have slim margins because our social costs and taxes are already so high! (Perhaps not in the UK). This is why we rely on the government to take the responsibility!

Governments indeed have a substantial role to play in promoting responsible business; we are not advocates of unfettered free-market capitalism. However, the government's role is to catalyse business to be more responsible, rather than replace it and "take the responsibility" themselves. Private enterprises are more innovative than government-owned companies. Chapter 10 of GTP highlights how governments can catalyse responsibility through addressing market failure. Examples of market failures are: lack of information (which governments can address by mandating information disclosure, e.g. on carbon emissions), externalities (which can be addressed with, e.g. carbon taxes), and monopoly power (which can be addressed with competition policy and the government funding purposeful small businesses). However, these initiatives help markets operate better rather than replacing markets.

How can we use regulation to nudge companies towards a more purposeful business? More on regulation and responsible business please?

The UK is a good example of how this can work. The new UK Corporate Governance Code and Stewardship Code have been fundamentally rewritten to emphasise how companies and investors can operate as responsible businesses. The strength of these codes is that the principles are 'apply and explain' and the more detailed rules are 'comply or explain'. This means firms have to show how they are applying the principles but can explain their approach to the detailed rules. This flexibility helps to focus on the intent of the codes as opposed to creating unintended consequences through rules. Of course in certain areas regulations are necessary such as employment protection, environmental protection and so on. But in terms of more broadly nudging companies towards responsible business, the use of these types of code works very well. We're sceptical about the need for legal changes, for example to company law or directors' duties, in order to encourage more responsible business. A responsible business requires strong oversight and accountability and it is difficult to envisage replacing shareholders' key role in this regard. You cannot legislate responsibility, nor is legislation necessary to lay the conditions from responsibility. For further detail, see this article by Professor Edward Rock, a leading legal scholar, on how companies have freedom to act responsibly even under shareholder primacy.

Disclosure rules can also help, for example, the work of the Taskforce for Climate-related Financial Disclosures has done great work in creating the information necessary for stakeholders to hold companies to account. More could be done in this area, with the development of non-financial and strategic reporting, particularly relating to purpose. This could create mechanisms for accountability, which could even extend to ideas such as giving investors a non-binding ‘say on purpose’ to provide an opportunity for detailed engagement on that issue.

*I attended a seminar on ‘impact investing’ with a FTSE 100 listed asset manager who estimated that around 6% of global listed companies do more damage than good… Shouldn’t businesses that *aren’t* creating value for society be dealt with via regulation and the others be left to concentrate on creating sustainable profit, which the market deems to be valuable or otherwise?*

Not all businesses can be encouraged to move towards a responsible business agenda by explaining to them the benefits of so-doing. There will, unfortunately, always be businesses that look to split the pie without growing it. There will therefore be a tail of businesses that need to be addressed by regulation where they are carrying out activities in a way that is unacceptable to society.

If companies pay more taxes, then the government will redistribute to achieve these objectives? Should temporary taxes be set for companies?

The current crisis has extended Government involvement in economies to an extent that is unprecedented outside wartime and is also adding significantly to Government debt. There will inevitably be a debate about how to ‘pay for this’ and for the role that companies need to pay. Responsible businesses should recognise this, and while managing their businesses prudently for the benefit of all stakeholders should not seek artificially to avoid their fair share of taxation. However, corporation tax is less than 10% of Government revenue in the UK and the US and so tax rises will have to be raised across a range of areas in order to address the damage done to fiscal balances by the crisis. Moreover, corporation tax is complex, expensive to collect and administer, and prone to avoidance because of the complexity of international treaties and the phenomenon of tax competition between jurisdictions.

Temporary taxes are likely for citizens and companies. Indeed you can envisage ‘windfall taxes’ being linked to companies taking Government support as being one future policy option. But corporate taxes will only be a relatively small part of the picture in paying for the crisis.

<u>Dividends</u>

On dividend payments, surely you need to think of broader stakeholders – as pension funds (widely recognised as long term investors) rely on dividends to be able to pay pensions. If dividends are stopped then this will adversely impact ability to pay pensions to public, including those key workers heading into retirements?

A responsible business absolutely has a duty to shareholders. However, paying more dividends does not actually improve returns to shareholders. Dividends are withdrawals from a company and reduce capital gains, which is why the stock price of a company falls on the ex-dividend date. Total returns are unchanged. For further details, please see Alex's article in [Management Today](#).

Should institutional investors sacrifice dividends for this year ?

Yes, if the company has a justifiable alternative use for the cash (the dividends should not be reinvested in increasing CEO salaries, for example). Moreover, sacrificing dividends does not sacrifice total returns, as explained above.

<u>Downsizing</u>

Any suggestions for mitigating the risk in Businesses like 'Airlines' and 'Tourism' which have been responsible.

The harsh reality is that these industries may have been permanently affected by pandemic. Even after the pandemic has died down, air travel may not return to pre-pandemic levels as people have learned from the lockdown that some business travel is unnecessary. Unfortunately, this does require these companies to shed staff – retaining staff will not be commercially viable, and could eventually lead to the company going bankrupt and all employees losing their job.

A responsible business's goal is not actually to guarantee jobs unconditionally – a company who continues to employ workers, despite not being able to make full use of their talents, provides neither meaningful work nor human dignity. (For example, in Japan, redundancies are a social taboo. Thus, rather than laying off workers who used to produce magnetic tapes for videos and cassettes, companies send them to "banishment rooms" where they do worthless tasks such as reviewing security footage.) But a responsible business absolutely has a duty to soften the impact. For example, Airbnb is giving employees a minimum of 14 weeks of severance pay, continuing to pay their healthcare for 1 year, allowing to keep their company laptops (as these are critical in the job search process), and redeploying a significant portion of its Recruiting team to become a Placement team, helping laid-off workers find another job. See Chapter 1 of GTP for other examples.

A smaller pie: United Airlines COO today (5 May 2020) is telling employees they should consider voluntary separation (i.e. resigning before being let go - because UA cannot fire anyone in the next 6 months). The pie gets smaller. What message does this send?

As above, the inconvenient truth is that airlines have been permanently affected by the crisis. Companies that recognise this and take small steps now to preserve their commercial viability will avoid having to take large steps later.

<u>Small Businesses</u>

For a small retailer shop owner like me dealing in baby care products, kids apparels and activity toys and games . What strategies would you suggest that I should adopt in my *business so as cope up with COVID-19. I've to pay my 30 employees salary , store rent and other charges , how to manage all these expenses?*

The most important piece of advice is to make full use of all the government resources to help businesses, such as paying 80% of employees' wages, and the Bounce Back Loan (from £2k to £50k) and Coronavirus Business Interruption Loan Scheme (from £50k to £5m) which charge no interest for 12 months. In addition, there are "desirable" investments that nevertheless will need to be suspended due to commercial realities. Even large businesses that take responsibility very seriously have needed to make cuts, e.g. Unilever has suspended its water conservation and sustainable farming initiatives. Thus, small businesses should not feel guilty about putting on hold similar initiatives to safeguard their long-term viability.

How do you manage a business in education, a school, when there is no in flow of money but there has to be work done to help children grow?

While the pandemic has been devasting to all businesses, including businesses in education, it also offers some opportunities. For example, the move towards webinars allows them to reach more children/students. I (Alex) am no longer able to give paid talks at companies and conferences. However, I can now give free webinars on responsible business to all over the world. I have also been able to give talks to undergraduates on how to choose a career that provides meaning and purpose rather than just financial security, spoken to schoolchildren from less affluent backgrounds on how to get into university, and even taught livestreamed fitness workouts.

Treatment of Colleagues

If you are furloughing staff, what criteria would you use to decide whether to use company funds to top up salaries to 100%? What range of strategies are we seeing in the market.

We are seeing a variety of strategies, although it appears that most employees being placed on furlough are receiving reduced salaries. Considerations that may lead organisations to top up to 100% may be:

- Large numbers of employees on very low pay, meaning that 80% could cause severe financial hardship;
- Relatively small numbers of employees being furloughed making the top up affordable;
- Strong conviction that the company's operations will recover rapidly, making the investment in employee goodwill very valuable.

Set against this, companies may want to retain an incentive for employees to return to work when possible. There is also a question about whether it is better to use resources to top up for furloughed employees to 100% or to use those resources in another way for the long term good of the business and employment for example R&D or even cash preservation to ensure survival. Indeed, research co-authored by our colleague Ioannis Ioannou shows that the companies that recovered best out from the financial crisis cut back on employment in order to preserve investments in innovation and critical ESG intangibles, so responsible business cannot be equated simply with maintaining employment.

What do you do when a workforce expects to be paid full salary and do not want to be part of innovation because they feel exposed in executing the company's innovation scheme?

This again comes back to purpose and culture. If both are strong, then the company's reaction to the crisis can be shown to be strongly linked to delivery of the purpose, which should help secure employee support if that purpose has been well-embedded and is valued by employees. It is during these times that past investments in the relationship with employees pay off. If those investments have been lacking then it can indeed be very difficult to get the required discretionary effort during challenging times.

Another reason why employees may not wish to contribute to innovation efforts is if they fear that they will lead to jobs being cut, e.g. if innovation involves introducing automation. A past record of minimising job losses as technology evolves is key. Chapter 10 of GTP discusses how the number of bank tellers in the US has doubled since 1970 despite the proliferation of the ATM, since banks redeployed their tellers from handling deposits and withdrawals to more complex tasks, such as advising customers on financial products.

Why can't companies be forced to pay salary to employees during lockdown. we know that they make huge profits so they can easily manage.

It is clear that the scale of this crisis is so overwhelming that many companies simply couldn't continue to pay employees during lockdown without Government support. Moreover, in a responsible business the needs of all stakeholders must be considered when the pie is shrinking. Paying employees and maintaining employment in full preserves their share of the pie at the expense of shareholders, customers and other stakeholders. Moreover, a balanced approach that supports the long-term sustainability of the business is also in the long-term interests of employees and wider society, and may justify a temporary wage reduction or even some redundancies.

Whilst these companies are seemingly able to provide relief to their employees in the short term, surely it is taken back from the same employees in the long run? What will be that 'cost cutting' exercise be in the future?

Clearly if the economic crisis that follows the health crisis is long-lasting – as seems increasingly likely – then permanent support for employees will not be possible and costs will need to be cut. Indeed, if the pandemic leads to permanent changes in the way the economy works – either by accelerating trends such as digitalisation or introducing new trends such as decline of high social contact industries – then we need financial and human capital to be redeployed against the new industries of the future. The idea that preserving employment is always the right thing to do from a responsible business perspective needs to be challenged in this context. If employment is preserved at the cost of important investments in innovation, capital expenditures, or other material ESG investments then we may end up with too slow a redeployment of society's resources. As explained above, the research co-authored by Ioannis Ioannou shows that companies that cut employment to maintain intangible investment recovered best from the financial crisis.

A responsible business will weigh all of these considerations up carefully using the principles of multiplication, comparative advantage, and materiality, which we discussed in the webinar. For more on this, see Chapter 3 of GTP.

Does responsible business mean that the lower strata employee in a company, whose salary is low, also must sacrifice his pay?

We are already seeing this happen, with employees who are put on furlough seeing reduced pay levels (cuts of 20% in the UK, and various numbers in other countries depending on the detail of the Government support schemes). Moreover, we are seeing cases of employees being asked to take pay reductions even while continuing working. The pay reductions for senior executives are responding to strongly felt principles of fairness of treatment across the strata in a company.

Thanks for the session Alex and Tom, super helpful insights and food for thought. I believe that people at the bottom of the pyramid are the worst hit by this crisis, these are daily wage workers, factory workers (people who live from hand to mouth). How can companies and governments help this strata more strategically, apart from the ad-hoc fund transfers (often funded via donations)?

The impact of the crisis is very unequal, with the lower paid generally suffering most, as is the case unfortunately in most crises. Improving the less well-off strategically is much more a matter for Government policy than for companies, and requires long-term investments in: education and skills; healthcare; and housing coupled with a fair tax and benefits system and strong competition policy. However, companies can also play their part in three particular areas:

- Are they taking full advantage of the benefits available from investing in employees in terms of enhanced long-term performance (see for example Chapter 4 of GTP)? There is good evidence about employee engagement and 'efficiency wages' (voluntarily paying above the market minimum level) and by taking an educated and elightened approach companies and employees can benefit from a win-win.
- Are they thinking about their policies of recruitment, pay, and progression and ensuring that they encourage social mobility?
- Are they thinking about training and skills in a way that enhances the general employability of their workers rather than simply making them more productive

in the precise context in which they currently work in the company. Do they provide appropriate transition support when making staff redundant (e.g. as with Airbnb), as may be necessary even for a responsible business?

Is it not common for business to keep a good cash reserve of 4-6 months of expenses in preparation of unprecedented time and crises - so why does it now seem that so many employees are put on furlough scheme so soon in the pandemic?

The current crisis will certainly cause companies to look more at resilience than in the past. However, for employment-heavy industries it simply isn't practical to hold such levels of cash reserves. For a low-margin / high-employment business, keeping 6 months of employment costs in cash could easily equate to a quarter or half of the company's market capitalisation being held in cash reserves. This is clearly not efficient or possible for most companies. Indeed, it is really important that companies do not hold too much cash as it blunts management incentives, can incentivise unproductive growth, and lead to inefficient capital allocation. Companies that hoard cash like "contented cows" prevent such cash being reallocated to growing companies that need such cash to finance investment. Social welfare will be significantly harmed if the crisis leads to companies hoarding cash for fear of being chastised if they do not have enough to cover every potential emergency. Planning to arrive at each meeting 3 hours early will reduce the risk of delays, but will not be effective time management.

Having said that, the fact that the number of companies taking up the furlough scheme exceeded Government estimates by such a large margin does suggest overuse. It seems logical that the furlough scheme was meant for support in-extremis when employees would otherwise have been laid off, rather than being used as a shareholder value maximisation tool. It is perhaps for this reason that we are seeing Government support schemes increasing linked to conditions around suspending dividends and buybacks and reducing executive pay in order to create incentives to ensure that the schemes are used only where and to the extent necessary.

If companies are looking at opportunities to make good margins in the current situation, and not willing to share the profit with top employees, is it ok?

Companies making unusual profits from the current situation need to recognise that this is partly due to good luck and therefore should be thinking about how they share their growing share of the pie with their other stakeholders. Sensible sharing can be a strong and productive investment in those stakeholder relationships. The current crisis and its uneven impacts is also triggering in citizens a very strongly held sense of fairness – those companies failing to share super-profits appropriately with stakeholders will run the risk of being accused of profiteering, even if they are simply following market signals. A responsible business will take these broader long-term stakeholder considerations into account in decision-making.

<u>Executive pay</u>

If a business were to pay executive bonuses despite receiving government support, can you see the business suffering as a result of revolts from the public?

Where a company has received Government support and pays bonuses, it is very difficult to avoid the accusation that it is the taxpayer that is paying those bonuses. This is likely to lead to significant political backlash, and indeed we have seen some companies in the US return Government support because of that risk. Therefore taking Government support and paying bonuses at the same time, particularly for senior executives, carries significant reputational risks. This is exacerbated by hangover from the banking crisis where it is still felt by large parts of the population that bank bailouts were used to continue to fund bonus pools, and that this shouldn't have been the case. Although the issue is more complex than often admitted, it's an area that needs to be treated with great care.

On bonuses, what about industry differences? Would responsible business suggest healthcare company executives (who have been on the front line) should keep their pay levels and bonuses? What about bonuses for government cheifs working 80 hour weeks under enormous stress?

In a time of crisis or severe recession it is always the case that executives and employees work harder for less pay. It is a feature of the business cycle. Having said that, there is a case for continuing to reward and incentivise those undertaking critical tasks at this time. Therefore we've seen, for example, Tesco paying a 10% bonus to store workers during the pandemic. There is a similar case for various front line public sector workers, although fiscal constraints may dominate.

Moreover, executives leading businesses at this time will have greater than normal influence on the futures of their companies. This is a time when the difference between good and bad strategic decisions in terms of the long term prospects of the business could be very great. So again the importance of having appropriate incentivization should not be ignored.

However, this is also a crisis that has affected society in very far reaching ways and its impacts are very unequal. Those benefitting from the crisis need to be sensitive that this is in part due to good luck – being in the right sector at the right time – and that other citizens are suffering greatly. This is why we are seeing some businesses that are not directly taking Government support still showing gestures of solidarity with customers who are affected.

Businesses that have not taken Government support are generally continuing to operate pay programs relatively normally, and this is likely to remain acceptable. However, it would be wise to show particular sensitivity when determining pay-outs to ensure that they are not deemed to be excessive or the result of profiteering.

Pay cuts may encourage fraud

Any action on pay needs to be thought through in terms of the unintended consequences. Does cutting pay make employees more dependent on their bonus and therefore more likely to take risks? This is where purpose and culture are particularly important through the crisis, as if well embedded they should provide a strong 'north star' to guide employee action through the crisis.

Businesses need to innovate to continue to be relevant. How can we encourage regulators to evolve their views on remuneration so that we can incentivize innovation?

In our work with The Purposeful Company, we have shown the strong business case for a simplified approach to remuneration with less dependence on performance conditions, which could encourage innovation and creation of long-term value for all stakeholders. See also Chapter 5 of GTP. Indeed in a follow-up study we found strong support for change from investors and asset owners. However, progress remains very slow and those companies trying to take innovative approaches to executive pay often come up against opposition from proxy agencies or entrenched investor views.

Regulators, particularly in financial services, have not helped by imposing very formulaic pay rules, which take a very mechanistic approach to pay based very much on a traditional view of the role of targets in performance-based pay. By contrast for the CEO, the best target is growing the share price over the long-term, which integrates many ESG considerations with shareholder interests as shown in Chapter 4 of GTP.

There have been positive developments. In the UK the Financial Reporting Council changed its guidelines on executive pay so that they were less biased against simplified pay models such as restricted stock. The UK Investment Association and the US Council of Institutional Investors have both worked to encourage consideration of pay reform.

In our view, there is not much more Government can do in this area, other than perhaps to simplify some of the financial services pay regulations over time. This is an issue for the market to resolve, and in particular for asset managers to form a more welcoming and coherent response to pay reform as their asset owner clients are encouraging them to do.

Specific issues

What do you think about real estate sector? Demand for apartments seem decrease much. who will burden cost of decreasing demand?

We are not specialists in this sector. However, it seems plausible that the crisis will have long-term impacts on demand for commercial property, both offices and retail, and residential property especially in cities. Inevitably, a significant share of the cost of decreasing demand will fall upon current owners.

Do you see a major shift on how we do business with China for most of produced goods in the future?

The impact of the crisis on supply chains will almost certainly create a renewed focus on supply chain resilience. This will mean avoiding dependence on one territory in a way that can create a single-point-of-failure in supply chains. This may well mean a desire to diversify away from China to some degree, although equally it may result in a build of certain other activities in China as other regions with very concentrated industries also seek to diversify.

What services can prove material to the business of a financial services advisor who specialises in Insurance only?

It is often said that in the area of personal finance insurance is sold and not bought. It is well known that consumers are often under-protected in key areas such as income protection and life insurance. Even simple strategies like having an emergency fund are underutilised. With heightened awareness of risk there is a great opportunity for financial services advisers to help consumers better protect their financial futures, ensuring that their plan is built on a sound foundation. However, insurance is a business where there are significant asymmetries of information. Consumers are often lacking confidence in financial matters and the quality of products often doesn't become evident for many years when a claim is made.

There is a risk that irresponsible advisors use the current heightened awareness of risk to take advantage of consumers. A financial services advisor wanting to build long-term trust can use the catalyst of the current crisis to illustrate to clients the importance of insurance cover, but do it in a way that matches the product to their real long-term interests.

How will technology companies be of help to the companies post pandemic era?

We have seen in recent months how essential technology has been to keeping the economy and our personal lives going during lock-down. In the developed world, the impact of lock-down has been attenuated at least somewhat by the ability of many to work from home and to communicate with friends and relatives and entertain themselves using technology.

These trends will only accelerate. One of my (Tom's) clients said to me that they had been trying to convince leadership to enable call-centre workers work from home for years and had been told it wasn't possible. They achieved it in two weeks in April.

At the same time, many people's understanding of what can be achieved remotely seems likely to have permanent impacts on business travel.

More broadly, the crisis shows how quickly change can happen and how technology can be deployed to improve productivity. Will companies accept a return to the slow and ineffective technology change programmes of the past? It seems unlikely. It seems that the pandemic will strongly accelerate the move to digitisation.

However, this creates responsibilities for companies, and in particular technology companies. A striking feature of this crisis is its uneven impacts. Knowledge workers living in houses with gardens have experienced the lock-down as an opportunity to simplify their lives, reconnect with their families, recharge, and live a calmer existence. Low paid workers in retail, hospitality and care sectors have either seen cuts in income or have experienced a highly stressful and at times risky work environment. The digital divide has been amplified as another fault line in society. Companies, and in particular technology companies, will need to think about how they can promote digital inclusion in order to create a fairer society in a world where the impact of technology on the world of work is only going to accelerate.

Moreover, technology will increase the winner-takes-all economy which has already been accelerating due to globalisation. As explained in Chapter 5 of GTP, globalisation has lead to high returns to any talent that is scalable – CEO pay has risen because CEOs now run global companies; the pay of best-selling authors has also risen since their books can be sold worldwide. Technology further enhances scalability – a famous fitness instructor is not limited by the number of clients she can teach in a physical class, but can have workouts that are viewed worldwide. This means that inequality needs to be addressed with systematic solutions, such as higher income taxes, rather than caps on CEO pay in particular.