

# Could Responsible Governance be an untapped value well?

Banks have started to adopt “ESG” initiatives by trying to adhere to the regulation (e.g. SFDR in Europe) and focusing on the environmental and social aspects, whilst snubbing or prioritizing governance. But in the light of recent scandals (e.g. Renault-Nissan, Orpéa, Wirecard, Credit Suisse) it is becoming commonly admitted that **governance is correlated with value creation and that best practices of governance are a prerequisite for sustainable value creation**, both directly (i.e. preventing value destruction) and indirectly (i.e. attracting and retaining talent). Thus, the concept of Responsible Governance emerges, that is deploying initiatives beyond what is imposed by the regulation and not simply adhering to SFDR’s vaguely defined “good governance” principles and addressing the “non-financials”.

We believe that the Responsible [or ‘Sustainable’] Governance concept **is an opportunity for banks to protect and differentiate themselves** (i.e. financing and investing in companies with responsible governance).

We have identified 5 reasons for adopting sustainable governance practices, that are both defensive and offensive in nature:

## DEFENSIVE

**a) Avoiding or Reducing shareholder value destruction** caused by a resurgence in governance scandals (discrete but potentially catastrophic in nature).

**b) Mitigating the risks of reputational damage** that are amplified by the rapid distribution of information through internet and which are

especially relevant for public and semi-public actors’ “role model” status.

**c) Contributing to shape the governance related regulations and consequently reducing implementation costs.** Corporations are already **adapting to their stakeholders’ expectations** by deploying initiatives that are not required by the regulation. On the other hand, certain market players do highlight that governance is already largely covered by the banking regulation.

## OFFENSIVE

**a) Research suggests responsible governance is value creating.** In fact, companies that have responsible governance practices tend to have a higher marginal value of their excess cash and the opposite is true for companies with poor governance practices. This is, for instance, reflected in the strong stock performance of family business and low carbon ETFs which happen to be characterized by high governance scores. Consequently, this leads to **companies with responsible governance practices attracting more capital.**

**b) Responsible governance also creates value in the form of talent attraction and retention.** Research suggests that **companies characterized by responsible governance have higher employee satisfaction** levels and in turn, companies with high employee satisfaction have **higher levels of innovation, are more profitable and have higher client satisfaction.**

A few banking players, supported by FinTechs and Expert firms have started to **design products and services related to responsible governance** such as:

| **Governance scoring** (central enabler) based on public and private data [fragmented] sources (cf. Ethics&Boards, ISS, RepRisk).

| **Governance advisory** (secondary enabler).

| “G” ETFs (cf. Euronext).

| **Governance maturity assessment services** (cf. Ethics&Boards).

| Use of proxy voting to influence the governance practices of portfolio companies (cf. Morrow Sodali).

| Application of an internal proprietary governance scoring system to select investments in portfolios (cf. Robeco)

| Tax optimization advisory services (cf. Société Générale).

We believe, that as the regulatory agenda on “ESG” is currently very much geared towards environmental issues, there is value for the Financial Services players in **anticipating the responsible governance agenda by:**

| Defining a bespoke offensive and / or defensive stance for the firm raising awareness at Board Level. That is, for instance, costing reputational damage and time to good reputation recovery.

| Deriving a portfolio of value creating initiatives .

| Scouting the Responsible Governance enabling ecosystems (e.g. FinTechs) to accelerate adoption and secure implementation.

Let’s get in touch to start the adventure