On 23 April 2020, the International Corporate Governance Network (ICGN) published an open letter, setting out governance priorities aimed at executive management, board directors and investors, which aims to help companies maintain viability during the COVID-19 outbreak and its aftermath.

The ICGN letter advocates that board directors and investors have a “shared interest” and therefore a “shared responsibility” to promote the success of companies in a way that “preserves and enhances long-term value, contributing to strong economies and healthy societies”.

**Prioritise employee safety and welfare while meeting short-term liquidity requirements to preserve financial health and solvency**

It is recommended that companies should treat the workforce “equitably” in order to ensure the health and well-being of all staff. Where possible, companies should seek to avoid redundancies and offer paid sick leave and medical benefits for furloughed workers. Enhanced sensitivity should be given towards female workers, who often make up a higher proportion of part-time and low-income positions compared to male counterparts, and who are often considered first for redundancy.
Pursue a long-term view on social responsibility, fairness and sustainable value creation and publicly define a social purpose

Executive remuneration policies should reflect the overall workforce experience, therefore a company’s long-term financial health must take precedence over bonus considerations. Remuneration policies should aim for an “equitable” treatment of ordinary staff with that of senior executive management.

The ESG agenda is still to be front and centre. Ultimately, COVID-19 presents a risk that needs to be prioritised immediately, however investors should continue to encourage boards and executive management to ensure that the effects of climate change are “identified, monitored and managed” in their business models and risk management systems.

Take a holistic and equitable approach to capital allocation decisions, considering the workforce, stakeholders and providers of capital

Companies should ensure that capital raising and dividend payments fully reflect the companies’ performance and business model.

Some companies will need to raise additional capital in order to continue business operations. To assist with this, The U.K.’s Pre-emption Group has recently amended its normal stance, encouraging investors to support equity issues that could be 20% dilutive, up from the current recommended limit of 10%. While the ICGN supports regulatory efforts to enable a more efficient approach to capital raising, the preference is for any new capital raisings to be offered to existing shareholders first to minimise dilution to shareholdings.

In respect of dividends, companies that face a downturn in business activity may need to reduce or completely suspend dividend payments. While we expect dividend payments to fall, ordinary pensioners and long-term savers should not be forgotten about. And, if companies have the ability to continue dividend payments, they should pay them, providing it is in the long-term interests of the company.

From an investors’ perspective, there should be an expectation that capital allocation decisions will be made in accordance with the long-term interests of the company. Companies should look to the level of capital reserves and balance sheet resilience.

The ICGN letter strongly encourages investors who wish to benefit from current market volatilities to do so in a responsible manner.

Communicate comprehensively with all stakeholders to instill confidence and trust in a company’s approach to build resilience into strategy and operations

Throughout the COVID-19 pandemic, many companies are holding their Annual General Meetings virtually. My colleague, Hannah Crosland, has provided a useful insight into the implications of COVID-19 on AGMs (the link can be found here).

Investors may attempt to seek assurance of a company director’s competence in performing their duties. Thus, it is important that companies continue to report on
their current position. The ICGN letter confirms that “investors and auditors are focusing more attention on cash flow statements, risk scenario planning and capital allocation approaches”. In addition, investors should be “flexible” and supportive to companies while ensuring that companies’ activity is monitored for deviation from corporate governance standards.

Social, economic and environmental governance factors should be upheld in order to promote the company’s long-term success. Directors should ensure that capital allocation and distribution decisions are sustainable and in the best interests of the company. In other words, we are all in this together, be fair and take the long view.

Philip Mabbott also contributed to this article

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