



# Values: the future of governance and society

A review of *Value(s)* by Mark Carney

July 2021



## The Good Governance

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## Building a better world for all

“True leaders are stewards of the purpose of their organisation” - *Value(s)*, p370

“Organisations only exist in order to deliver on their purpose and, similarly, governance only exists in order to help them do that.” - *Professor Deon Rossouw, CEO of The Ethics Institute*

Dr Mark Carney, the former Governor of the central banks of England and Canada and one of the most renowned and respected financial figures in the world, has written a book about what the Good Governance Institute (GGI) has always said is at the heart of good governance: **purpose and values**. *Value(s)* is a book that reminds us that sometimes the enemy of good governance is too narrow an understanding of exactly what governance is.

Carney's book is predicated on a confusion of value and values. One which, Carney argues, can be attributed as a cause of the three great crises of our time: credit, climate and COVID. For Carney, socio-political determination of value needs re-defining and financial value needs separating from social, cultural and environmental values. We've forgotten that “finance is a utility, a means to an end with the ends determined by society” (*Value(s)* p.419). Finance needs to be pulled back from being the end in itself. In this great project both government and organisations - particularly public bodies and large private corporations - have a fundamental role to play. It all starts with re-evaluating purpose. Because from purpose comes values.

*Value(s)* echoes much of what GGI advocates about good governance. Achieving purpose starts with the right governance and flows through strategy, alignment of outcomes with performance and management incentives, the empowerment of employees and through to the full engagement of stakeholders. Carney calls for shared value approaches and a more integrated approach to reporting. His book supports transparency of values and it echoes the work of South African Judge, Professor Mervyn E. King in terms of public reporting and a focus on fairness and sustainability as recorded in corporate governance principles King I, II III and IV (see <https://www.good-governance.org.uk/assets/uploads/publication-documents/Reports-and-Papers/GGI-King-IV-for-Health-and-Social-Care-2018.pdf>).

Although the audience of *Value(s)* isn't entirely clear, its purpose is emblazoned on the front page subhead: 'building a better world for all'. Not yet a manifesto, and limited to addressing business organisations and their leaders, *Value(s)* contains clear guidance to those interested in building a better world for all. It demonstrates how to move beyond pursuing profit, organisational self-interest and code compliance towards ethical leadership, stakeholder and community engagement, clarity of purpose, defining added value, all with an absolute focus on delivery.

### The lectures

The origins of Carney's book can be traced back to his 2020 series of Reith Lectures for the BBC, which served as a testing ground for the ideas and reflections that make up the book, *Value(s). Building a better world for all*, which was published in 2021.

Both book and lectures assess how the world came to prioritise financial values over human and social values. This transition from 'a market economy to a market society', as Carney pithily puts it, has led leaders into a minefield of triple threat: credit, COVID and climate.

The book has been well received by many including Will Hutton, who calls it 'a landmark achievement' (though Hutton claims to have said it all before in *The State We're In*, 1995). Not everyone is impressed, the Daily Telegraph described it as 'a muddled farce' DT 21/3/21) and a North American publication, *National Review*, decried his 'shallow analysis'. Most of the reviews seem to have missed the point; this isn't the most robust financial analysis, nor is what Carney is pushing for particularly novel: stakeholder capitalism, socially motivated and environmentally conscious investing and purpose before profit. The real value - beyond this analysis coming from a man of Mark's background - is not in the what but the why.

First, let's look at the Reith Lectures presented on Radio 4 late in 2020 and titled 'How We Get What We Value'.

In the first of his lectures, *From Moral to Market Sentiments* (R4 2.12.20), Carney reflects that whenever he could step back from what felt like daily crisis management, the same deeper issues loomed. What is value? How does the way we assess value both shape our values and constrain our choices? How do the valuations of markets affect the values of our society? Carney argues that society has come to embody Oscar Wilde's old aphorism: "knowing the price of everything but the value of nothing". (*Lady Windermere's Fan*, 1892)

In lecture 2: *From Credit Crisis to Resilience* (R4 9.12.20) Dr Carney took us back to the drama of the financial crisis of 2008, which ended a period when bankers saw themselves as unassailable masters of the universe. More than a decade on, how much have bankers and the financial sector changed? Carney warns that we must remain vigilant and resist the three lies of finance: 'this time will be different' (the most expensive words in English, he says), 'markets always clear' and 'markets are moral'. If we don't, he warns, 'we will have to live with a system which is ill-prepared for the next crisis'.

In lecture 3: *From Covid Crisis to Renaissance* (R4 16.12.20) Carney observed that the pandemic had forced states to confront how we value health, wealth and opportunity. During the first few months of the crisis, most states chose to value human life more than the economic well-being of the nation-state. Carney finds surprising differences in the financial value put on human life in different nations and goes on to argue that this reductionist approach fails to take into account deeper thinking about the worth of human existence.

Finally in lecture 4: *From Climate Crisis to Real Prosperity* (R4 23.12.20) Dr Carney turned his attention to climate change, arguing that the roots of our environmental emergency lie in a deeper crisis of values. He suggested how we could create an ecosystem in which society's values broaden the market's conceptions of value. In this way, individual creativity and market dynamism can be channelled to achieve broader social goals including inclusive growth and environmental sustainability.

Carney summarises that the success of an economy is contingent on a set of immutable, fundamental, common values and beliefs, which he lists as:

- dynamism - to help create solutions that channel human creativity
- resilience - to make it easier to bounce back from the shocks while protecting the most vulnerable in society
- sustainability - with long-term perspectives that align incentives across generations
- fairness - particularly in markets to sustain their legitimacy
- responsibility - so that individuals feel accountable for their actions
- solidarity - whereby citizens recognise their obligations to each other and share a sense of community and society
- humility - to recognise the limits of our knowledge, understanding and power so that we can act as custodians seeking to improve the common good.

## The book

*Value(s)* expands on all these themes. It is a great, if not an easy read. At 600 pages and a treatise that doesn't mention *governance* in its index once, this is still an important read for all those who seek to understand the tectonic plates at work in our economy and how to plan a just future: "Leaders must assess the landscape to determine how their organisation can *plan the future*. Note the distinction from *planning for the future*. Ambitious leadership means helping to shape the future rather than just reacting to it." (*Value(s)*, p371)

The book's early pages are structured as a history lesson of economists' attempts to understand value, including the story of Magna Carta; a warning of failures past and present, and a roadmap to a better world. Part one recalls the rise of the market society; part two identifies the three crises of values and in part three, explaining how we can reclaim our values, Carney suggests how purposeful individuals, companies and countries can seek to add value for a better world.

Starting with that Magna Carta (The Great Charter) story of 1215 but then moving onto the book's conclusions.

Magna Carta's core constitutional legacy is the importance of delegated authority, with clear lines of accountability. In practice, only four of the original 66 clauses remain (although many US states still incorporate the full opus including keeping the Thames clear of 'fish weirs'). In the UK the remaining clauses include protecting the ancient liberties of the City of London (Clause 13) and clause 40: 'justice is not for sale'.

A key tenet of the Great Charter was that power derives from the people and constrains the authority of the state. To function within a democracy the authority of independent bodies must be constrained, allowing them only to do that which is necessary to pursue specific objectives. As becomes clear in the book, for this to work organisations must be explicit about their purpose. The tension is that they must be both transparent and bold in the breadth of their influence.

**Purpose** is the crux of the book in terms of governance.

Carney argues that purpose is fundamentally a question of value and values. For Carney the relationship between the two is circular: "purposeful companies (organisations) create value" (*Value(s)*, p383-417). Governance is what connects them: "Achieving a company's purpose starts with the right governance and flows through to strategy, the alignment of management incentives, the empowerment of employees and full engagement of all stakeholders." (*Value(s)*, p383-417).

GGI has much the same view, shaped by years of working with the boards of organisations across all sectors.

If we are to reshape and redefine social values, organisations will need to play a key role. Reflecting on their sense of purpose is the starting point, followed by the practical step that "boards and management should agree the set of values necessary to deliver purpose and embed them in their company culture." (*Value(s)*, p403). Carney says: "Purpose requires balancing the core values of dynamism, fairness, responsibility, solidarity and sustainability which we must embed into all decision making." (*Value(s)*, p383).

It is operating from a clearer, more defined sense of purpose that will create the socially conscious organisations that we need to address how we construct, define and evaluate value in our socio-economic life: "A company with true corporate purpose drives engagement with a broader set of stakeholders by being a responsible and responsive employer; through achieving honest, fair and lasting relationships with suppliers and customers across the supply chain; and by being a good corporate citizen making full contributions to society." (*Value(s)*, p383). As health and social care undergo significant reform in England, boards may do well to heed Carney's advice: "Corporate purpose embeds solidarity at local, national and for the largest companies, global levels. And it recognises the need for sustainability across generations." (*Value(s)*, p383).

Carney sets out a mantra for purposeful organisations:

### **Purpose**

**First** define your purpose and stick to it obsessively

**Second** in a world of division fusion will bring breakthroughs. Select your teams wisely and recognise that whilst diversity is a reality, inclusion is a choice. Take it by recruiting widely, set targets for diversity and then exceed them by pursuing deliberate strategies to develop your teams and empower them. (P380)

**Third** whilst you should marshal facts, you must engage people's intuitions and trust. A leader in this disruptive age must not only set their eyes on the horizon but also see from the periphery. (where the disengaged sit)

And explains how do they should go about this:

### **Key challenges for any organisation:**

- What is its purpose?
- Who owns it
- To whom is it responsible
- Over what horizon
- How dependent is it on its operating environment
- What contribution does it make to the communities in which it operates?

*Finally: the fundamental challenge for modern corporate governance is to translate purpose into practice P403*

## Environmental, social and governance (ESG)

Carney quotes ESG (environment, social and governance) criteria at length as a step beyond compliance-driven corporate social responsibility (CSR). CSR usually refers to practices and policies undertaken by corporations that are intended to have a positive influence on the world. Carney calls for the move from financial ESG and/or sustainability reports towards value-based reporting, similar in definition and intent to the integrated reporting methodology promoted by Professor Mervyn King.

Carney talks about a shared value approach based on creating new products that address emerging social needs or enhance productivity in the value chain. There is some practical advice for leaders here. Indeed the book is peppered with key phrases and guidance for boards, leaders and senior management teams, not least regarding ESG.

Carney puts great store on the development of ESG factors.

Environmental Impacts	Social Contributions	Governance and Management
<ul style="list-style-type: none"> <li>• Climate change and GhG emissions</li> <li>• Air and water pollution</li> <li>• Biodiversity</li> <li>• Deforestation</li> <li>• Energy efficiency</li> <li>• Waste management</li> <li>• Water scarcity</li> </ul>	<ul style="list-style-type: none"> <li>• Customer satisfaction</li> <li>• Data protection and privacy</li> <li>• Gender and diversity</li> <li>• Employee engagement</li> <li>• Community relations</li> <li>• Human rights</li> <li>• Labour standards</li> </ul>	<ul style="list-style-type: none"> <li>• Board composition</li> <li>• Audit committee structure</li> <li>• Bribery and corruption</li> <li>• Executive compensation</li> <li>• Lobbying</li> <li>• Political contributions</li> <li>• Whistleblower schemes</li> </ul>

To be effective the relevant ESG factors must be fully integrated and internalised into governance, strategy, operations and performance management rather than segmented and de facto subordinated as matters of corporate social responsibility.

Every board committee should have the relevant ESG factors integrated into its work and the full board should be informed on how ESG issues affect company risk management. For example, Unilever’s progress on targets in this area are verified by a third-party accounting firm overseen by the board’s audit committee.

Carney says: “...a critical aspect of a board’s supervisory role is challenging and supporting management to allocate capital to intangible drivers of long-term value such as research and innovation, respect for human rights, employee wellbeing, talent development, reinforcing corporate culture, strengthening external; stakeholder relationships and building public trust.” (p.404)

Carney recognises such long-term initiatives are unlikely now to be recognised in company reward systems as executives realise they can be better compensated by other more weighted measures. In the public sector achieving these long term aspirations may go unrecognised when top executives have such a short shelf life. It is estimated by the Health Service Journal that the average NHS CEO lasts only around three years. (HSJ 17 Jun 2019).

Carney acknowledges that even less well represented in company metrics are considerations to local communities and future generations, something that needs addressing as England, Scotland and others emulate Wales’ early attention in the 2015 Future Generations Act.

## Back to the beginning of Value(s)

The title of the book is value or value(s). What is value?

Why has, in Carney's view, how we define value in society gone wrong? Carney quotes Margaret Thatcher's notorious rejection of society - 'there is no such thing' - and bases his thesis on the contrary view that each of us is nothing without society, and that we need to maximise value for the many, not the few. In *Value(s)*, Carney examines the shortcomings and challenges of the market in the past decade, which he argues has led to rampant public distrust and the need for radical change.

Focusing on four major crises - the global financial crisis, the global health crisis, climate change and the fourth industrial revolution - Carney proposes responses to each, offering tangible action plans for leaders, companies and countries to transform the value of the market back into the value of humanity.

*Value(s)* then moves on to two profound challenges: recovery from the COVID-19 crisis, with already-deep inequalities even more entrenched, and climate change. As Carney writes: "The revealed values of the citizens in the midst of the COVID pandemic have been those of solidarity, fairness and responsibility." If the government fails to tackle inequalities, Carney hints, the legitimacy of the state will be undermined.

The third part moves on to what to do, particularly in the arenas of corporate governance and finance. Carney's prescriptions are a mix of the practical (develop standard metrics for companies' ESG performance, ensure executive pay is aligned with long-term performance and corporate aims) and moral (leadership must be values-based, effective government or governance require social solidarity).

Carney, not surprisingly, is a good read on business and relates how companies are becoming more purposeful and ethical in their treatment of people, communities and the planet, in many cases goaded by investors and regulators. He recounts that investors such as Blackrock expect companies to issue their annual strategic framework to shareholders after it has been formally approved by the company board. Such a framework should include how the business 'is navigating the competitive landscape, how it is innovating, how it is adapting to technological disruption or geopolitical events, where it is investing and how it is developing its talent'. It should set out the metrics that management uses to gauge progress and detail how these influence management incentives and compensation. (*Value(s)*, p407)

A major initiative of the Business Council of the World's Economic Forum, working in concert with major accounting firms, is broadening this approach to a core set of ESG metrics arguing that companies whose employees report that management actions matched its words and that management was honest and ethical in its business practices are more profitable (The business case for purpose, Harvard Business Review, 2015).

Carney is cagey and has less to offer on how the state should up its game from rhetoric to action and his book predates the outrage of the UK government's abdication of standards for public life with its alleged cronyism and corruption. Carney does quote Greta Thunberg: 'You have stolen my dreams and my childhood with your empty words' (UN climate change summit 23.9.19).

Carney is not so good a read on public institutions, other than the Bank of England (BoE), from which he has a few interesting anecdotes. He tells the story of his early concerns about the long-windedness of BoE decision-taking, about how he wandered down the road to Amazon's European headquarters to ask Doug Gurr how they take decisions. Amazon's approach was influential on him and Gurr is now seen as a potential candidate for the CEO role at NHS England:



- Define the purpose of the meeting, including whether it is for decisions, discussion and brainstorming or debriefs
- Include everyone necessary in the meeting and identify who needs to be informed of the outcome. Be as inclusive as possible
- Ensure everyone has all the necessary information beforehand, that they read it and that they all expect to participate
- Take clear decisions and ensure immediate follow up

Carney raises the issue of fiduciary duty and widens the concept beyond the narrow interest of shareholders or those whose money they invest. The dilemma in public services is whether this means buying at the lowest price or recognising the benefits to a local community in terms of jobs and wellbeing outweighs the additional cost. Again, should the board focus on a hospital's survival, even if it is unable to lift itself about mediocre levels of access and outcomes?

Carney argues that a trustee role is to act in the interest of the beneficiary, which means maximizing their welfare, not merely their financial returns. New EU rules support this broader concept. Just as beneficiaries can specify their risk appetites they could also specify the degree by which they wish to prioritise non-financial value.

## Who is going to make all this happen?

Carney is clear: leadership is key but not in the heroic form of 'follow me'. He writes: "In my experience, behavioural and participative forms of leadership underscore the extent to which leadership is less about what leaders achieve themselves and more about both the sense of purpose they impart to their colleagues and the actions they catalyse in pursuit of that objective". (*Value(s)*, p346)

For Carney, leaders must assess the landscape to determine how their organisation can plan the future: "Ambitious leadership means helping to shape the future rather than just reacting to it" (*Value(s)*, p371). Good leaders combine personal humility, self-knowledge and the ability to learn. This means "admitting mistakes, seeking and accepting feedback and sharing the lessons" (*Value(s)*, p377).

Leaders should also be masters of the art of asking questions, a key part of creating a culture on boards and in organisations of constructive challenge. Carney urges them to ask the right questions while demonstrating the value and importance of doing so: "...a number of authorities came up with a range of explanations for why subprime would be contained. They didn't ask the relevant questions about the implications if it wasn't" (*Value(s)*, p378). Carney's parting message to leaders is: "don't stay too long, take a cue from Cincinnatus and Washington and leave before you are asked" (*Value(s)*, p371).

There's nothing particularly groundbreaking in *Value(s)*, but Carney's advice is measured, inspired by experience and evidence-driven. It's a useful roadmap for leaders who want to make the world better for all. However, the intrinsic importance of this book is less what is being said than who is saying it. In 2020 Dr Mark Carney relinquished his seven-year tenure as Governor of the Bank of England. He had worked through a series of crises as a central bank governor in Canada at the start of the global financial crisis. He had the Euro crisis, the ongoing climate crisis and then of course the COVID crisis. Mark is now the UN Secretary-General Special Envoy for Climate Finance. A man, in other words, who has sat at and is listened to by those with seats at the highest tables. Let's hope they are paying attention.

*Value(s): Building a Better World for All* by Mark Carney is published by William Collins (£30).



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