THE FUTURE OF THE CORPORATE GOVERNANCE MOVEMENT pdf

1: The Future of Governance: Untangling Corporate Governance

Abstract. This paper discusses why a "corporate governance movement" that commenced in the United States in the s became an entrenched feature of American capitalism and describes how the chronology differed in a potentially crucial way for banks.

History[edit] Historical decisions of where financial assets would be placed were based on various criteria, financial return being predominant. It was in the s and 60s that the vast pension funds managed by the Trades Unions recognised the opportunity to affect the wider social environment using their capital assets [4] - in the United States the International Brotherhood of Electrical Workers invested their considerable capital in developing affordable housing projects, whilst the United Mine Workers invested in health facilities. As a response to a growing call for sanctions against the regime, the Reverend Leon Sullivan , a board member of General Motors in the United States, drew up a Code of Conduct in for practising business with South Africa. The conclusions of the reports led to a mass disinvestment by the US from many South African companies. The resulting pressure applied to the South African regime by its business community added great weight to the growing impetus for the system of apartheid to be abandoned. Towards the end of the century however a contrary theory began to gain ground. In James S. The investment market began to pick up on the growing need for products geared towards what was becoming known as the Responsible Investor. He coined the phrase the " triple bottom line ", referring to the financial, environmental and social factors included in the new calculation. At the same time the strict division between the environmental sector and the financial sector began to break down. The informal group of financial leaders, city lawyers and environmental stewardship NGOs became known as The Virtuous Circle, its brief was to examine the nature of the correlation between environmental and social standards and financial performance. In the early years of the new millennium, the major part of the investment market still accepted the historical assumption that ethically directed investments were by their nature likely to reduce financial return. Philanthropy was not known to be a highly profitable business and Friedman had provided a widely accepted academic basis for the argument that the costs of behaving in an ethically responsible manner would outweigh the benefits. However the assumptions were beginning to be fundamentally challenged. In two journalists Robert Levering and Milton Moskowitz had brought out the Fortune Best Companies to Work For, initially a listing in the magazine Fortune , then a book compiling a list of the best practicing companies in the United States with regard to corporate social responsibility and how their financial performance fared as a result. Of the three areas of concern that ESG represented, the environmental and social had received most of the public and media attention, not least because of the growing fears concerning climate change. Moskowitz brought the spotlight onto the corporate governance aspect of responsible investment. His analysis concerned how the companies were managed, what the stockholder relationships were and how the employees were treated. He argued that improving corporate governance procedures did not damage financial performance, on the contrary it maximised productivity, ensured corporate efficiency and led to the sourcing and utilising of superior management talents. The Freshfields report concluded that not only was it permissible for investment companies to integrate ESG issues into investment analysis but it was arguably part of their fiduciary duty to do so. Many in the investment industry believe the development of ESG factors as considerations in investment analysis to be inevitable. There has been uncertainty and debate as to what to call the inclusion of intangible factors relating to the sustainability and ethical impact of investments. Names have ranged from the early use of buzz words such as "green" and "eco", to the wide array of possible descriptions for the types of investment analysis - "responsible investment", "socially responsible investment" SRI , "ethical", "extra-financial", "long horizon investment" LHI , "enhanced business", "corporate health", "non-traditional", and others. But the predominance of the term ESG has now become fairly widely accepted. In fact, more than six in ten participants agreed they would be more likely to contribute or increase their contributions to their retirement plan if they knew their investments were doing social good. It also acknowledged that despite significant progress, many investors have yet to fully integrate ESG issues into their investment decision-making processes. Environmental governance Threat of climate change and the depletion of resources has grown, so investors have to factor sustainability issues into their investment choices. The issues often represent externalities, such as influences on the functioning and revenues of the company that are not exclusively affected by market mechanisms. Climate change[edit] The body of research providing evidence of global trends in climate change has led investors â€” pension funds, holders of insurance reserves â€” to begin to screen investments in terms of their impact on the perceived factors of climate change. Fossil fuel reliant industries are less attractive. Its conclusions pointed towards the necessity of including considerations of climate change and environmental issues in all financial calculations and that the benefits of early action on climate change would outweigh its costs. The Long Term view is becoming prevalent amongst investors. There is a growing perception that the broader the pool of talent open to an employer the greater the chance of finding the optimum person for the job. Consumer protection[edit] Until fairly recently, caveat emptor "buyer beware" was the governing principle of commerce and trading. The collapse of the US Sub-Prime Mortgage market initiated a growing movement against predatory lending has also become an important area of concern. Responsible investment[edit] The three concepts of social, environmental and corporate governance are intimately linked to the concept of Responsible Investment. RI began as a niche investment area, serving the needs of those who wished to invest but wanted to do so within ethically defined parameters. In recent years it has become a much larger proportion of the investment market. Investment strategies[edit] RI seeks to control the placing of its investments via several methods: Positive selection; where the investor actively selects the companies in which to invest; this can be done either by following a defined set of ESG criteria or by the best-in-class method where a subset of high performing ESG compliant companies is chosen for inclusion in an investment portfolio. Activism; strategic voting by shareholders in support of a particular issue, or to bring about change in the governance of the company. Engagement; investment funds monitoring the ESG performance of all portfolio companies and leading constructive shareholder engagement dialogues with each company to ensure progress. Integration; the inclusion of ESG risks and opportunities into traditional financial analysis of equity value. Institutional investors One of the defining marks of the modern investment market is the divergence in the relationship between the firm and its equity investors. Insurance companies, Mutual Funds and Pension Funds with long-term payout obligations are much more interested in the long term sustainability of their investments than the individual investor looking for short-term gain. By late , over a third of institutional investors commonly referred to as LPs based in Europe and Asia-Pacific said that ESG considerations played a major or primary role in refusing to commit to a private equity fund, while the same is true for a fifth of North American LPs. As of there were a total of PRI signatories, consisting of asset owners, investment managers and professional service partners. Equator Principles The Equator Principles is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in project finance. It is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. The Equator Principles, formally launched in Washington DC on 4 June , were based on existing environmental and social policy frameworks established by the International Finance Corporation. These standards have subsequently been periodically updated into what is commonly known as the International Finance Corporation Performance Standards on social and environmental sustainability and on the World Bank Group Environmental, Health, and Safety Guidelines. One of the major aspects of the ESG side of the insurance market which leads to this tendency to proliferation is the essentially subjective nature of the information on which investment selection can be made. By definition ESG data is qualitative; it is non-financial and not readily quantifiable in monetary terms. But the ESG intangibles are not only highly subjective they are also particularly difficult to quantify and more importantly verify. One of the major issues in the ESG area is disclosure. Environmental risks created by business activities have actual or potential negative impact on air, land, water, ecosystems, and human health [41]. The information on which an investor makes his decisions on a financial level is fairly simply gathered. With ESG considerations, the practice has been for the company under examination to provide its own figures and disclosures. One of the solutions put forward to the inherent subjectivity of ESG data is the provision of universally accepted standards for the measurement of ESG factors. Such organisations as the ISO International Organisation for

Standardisation provide highly researched and widely accepted standards for many of the areas covered. The corporate governance side of the matter has received rather more in the way of regulation and standardisation as there is a longer history of regulation in this area. The conclusions that the commission reached were compiled in into the Combined Code on Corporate Governance which has been widely accepted if patchily applied by the financial world as a benchmark for good governance practices.

2: The Future of Corporate Governance

The Global Convergence of Corporate Governance Practices. The introduction of corporate governance regulations and best practices in one country or region increasingly affects corporate governance practices elsewhere in the world.

Explore the latest strategic trends, research and analysis Large corporations can and should play a significant role in how we deal with social and environmental issues. To do this, however, they need to focus on building long-term value for all stakeholders rather than focusing on delivering short-term returns to shareholders. When managers and board of directors of widely held, stock-market listed corporations look at the financial and governance landscape, what do they see? Executive compensation systems, which in spite of all efforts are still considered by many as aberrant and based on measures that reward short-term performance Senior executives may well believe in the need to broaden the horizon and the goals of the corporation. But the diktats of financial markets and typical executive compensation linked to stock price will convince them of the wisdom of a rising stock price and ever-growing earnings per share. All other stated goals become secondary, lip service or good public relations. Until some pretty fundamental changes are made to this system, widely held, listed corporations will not, cannot really, pursue long-term strategies beneficial to all stakeholders, and society at large. An important change, or rather a clarification, relates to the fundamental question: The pat answer, of course, is shareholders. But this shareholder primacy is largely a myth. Corporate citizenship Several other measures would likely change the pernicious dynamics just described. For instance, in all decent societies, newcomers must wait a period of time before acquiring full citizenship and the right to vote. Why do institutional investors continue to be hostile towards dual-class shares, a capital structure in companies such as Berkshire-Hathaway, Google, Facebook, The New York Times and Netflix? This form of ownership, when structured in a way that protects minority shareholders, provides continuity of control for entrepreneurs, protects long-term planning and makes the company impervious to short-term financial games. Alternatively, why not allow companies to limit, through their charter, the percentage of votes which may be exercised, irrespective of the percentage of shares owned. Why not give corporations the possibility to calibrate dividends according to holding period, as is possible under French corporate law? What if governments were to set tax on capital gains on a sliding scale, decreasing as holding periods increase? Compensation The forms and levels of executive compensation have often turned management into well-paid servants of shareholders addicted to stock price rushes. Why not eliminate executive compensation directly linked to share prices? Large companies should attend to the needs of several constituencies, including investors. But that will not happen, really happen, unless changes are brought to the sort of financial capitalism which has come to dominate the economic functioning of societies.

3: The future of corporate governance | World Economic Forum

McCahery, Joseph A. and Vermeulen, Erik P. M. and Hisatake, Masato, The Present and Future of Corporate Governance: Re-Examining the Role of the Board of Directors and Investor Relations in Listed Companies (May 21,).

4: Environmental, social and corporate governance - Wikipedia

movement" quickly emerged.3 This would ultimately evolve into a "corporate governance complex" composed of a dense array of public institutions, private firms and academic centers dedicated to the pursuit of "better" corporate governance. 4.

5: Corporate Governance | Business Roundtable

Summing Up Future Corporate Governance: Different, But More Effective?

6: Framing the Future of Corporate Governance | Deloitte US

Corporate citizenship Several other measures would likely change the pernicious dynamics just described. For instance, in all decent societies, newcomers must wait a period of time before acquiring full citizenship and the right to vote.

7: Whatâ€™s the Future of Corporate Governance?

Corporate governance in reflects dramatic trends for public company boards. These trends include greater shareholder access to annual proxies, boards shrinking in size, boards meeting more frequently, new board committees for issues like risk management and cybersecurity, a focus on diversity with the definition of "diversity" expanding, and greater communication between management.

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