July 2021 ICGS NEWSLETTER Volume 8 Issue 2

PRESIDENT'S CORNER

Dear ICGS members,

I hope you and your families are fine.

Academic societies have been altogether affected by the virus all over the world. The COVID-19 pandemic has hit their business model and changed their habits, e.g., forcing them to organize virtual annual conferences instead of the traditional face-to-face ones.

The ICGS board has been working hard to promote the society and provide valuable services to its members during this difficult and uncertain period. Thanks to the active engagement of its directors and the contribution of several members, the society has increased its financial resources and its members despite the pandemic crisis. In sum, ICGS is in good health and ready to fulfill its ambitious goals.

The ICGS board has discussed extensively if to organize a virtual or a face-to-face conference in 2021. On the one hand, the virtual conference organized at Old Dominion University by Bill Judge and Krista Lewellyn was excellent and lively. The framework developed by the local organizers and the ICGS conference committee encouraged active participation and interaction and was appreciated by all attendees.

On the other hand, despite the efficient organization and the active contribution of all attendees, scholars missed the face-to-face interaction with friends and colleagues that was a key benefit of any academic conference until March 2020. The comments of some ICGS members - who underlined that they missed one-to-one talks with friends and colleagues - remind us that academic societies are lively communities that need intense social interactions among scholars to function smoothly and effectively.

In order to finalize the decision on the format of the 2021 annual conference, the ICGS board decided to launch a survey targeting all members and the authors of the papers submitted to the conference. The results of the survey clearly indicated the preference for a face-to-face conference. So, we will restart with such a format respecting all healthy and safety procedures to prevent COVID-19 transmission.

Based on these results, the 7th annual conference will be held on the 8-10 of October at Groningen University, the Netherland. The conference chairs – Niels Hermes (Professor of Finance), Jana Oehmichen (Professor of Organization and Management) and Swarnodeep Homroy (Associate Professor of Finance) – did a great work to organize the conference, that will be held face-to-face but with the possibility for members who cannot come to Groningen to present their works and to attend plenary sessions virtually. In line with past ICGS conferences, the Groningen conference will have paper presentation sessions, keynote speakers, guest panelists, meet the editors, and several other interesting sessions. Before the conference, CGIR and ICGS will organize a paper development workshop targeted to doctoral and untenured scholars. My considerable thanks to Niels, Jana and Swarnodeep for working so hard to organize the conference. You will find later in the newsletter more information on the Groningen conference.

I conclude saying the turbulent time of 2020 and 2021 is causing corporate governance to become more important. Firms need, in fact, to improve governance mechanisms and practices if they want to effectively address societal, technological and environmental issues challenging them. ICGS mission – *to promote a fruitful dialogue and collaboration among corporate governance scholars from any discipline and country* - remains a highly relevant objective to reach.

As the last academic year has been intense and exhausting, I wish you all a relaxing and happy summer break. At the same time, I am looking forward to meeting you all face-to-face – or virtually if you cannot reach Groningen – at the 7th ICGS annual conference!

Alessandro

How Covid-19 Focused Boards on What is Important

By Patricia Lenkov

Does any company not express the following sentiment: "*our employees are our greatest asset*"? Yet despite the frequency of this allegation, human resources and/or human capital are still often and remarkably thought of as a cost center, an expense, and not a revenue generator.

Yes, the function of the Chief Human Resources Officer (CHRO) has changed over the years and today this person is often a partner to the CEO, involved in the big picture thinking of the organization. This is as it should be. However, when it comes to the boardroom, human capital for the most part, has not garnered the importance it should. But this is changing, in large part due to Covid-19.

The Initial Crisis and Business Continuity

Some will say that March 11, 2020, was a day that changed the world. This was when the World Health Organization declared Covid-19 a pandemic. Two days later U.S. President Donald Trump declared the pandemic a national emergency. On March 16th Canadian Prime Minister Justin Trudeau announced substantial entry restrictions into Canada and around the world other countries made their own plans and declarations.

During these initial days of chaos and uncertainty, companies around the world went into triage mode. Leaders and their boards of directors attempted to understand the inconceivable and make sense of the challenges their organizations faced. As they reconstructed their businesses in real time and without the benefit of precedent, workforce decisions were often made for them. People were scared and wanted to stay home. Policies and permission to stay home followed suit.

Mid-Crisis

History will show the incredible speed at which businesses reacted to the pandemic. When faced with this crisis of epic proportions companies were obligated to focus on the health and safety of their employees. And after some of the initial dust settled and a new working cadence was established, senior firm leadership and boards around the world were tasked with creating parameters and processes for their new world. To do this, of course, required much reliance on the CHRO and his or her team. These experts in human capital were called upon to provide expertise on managing the current workforce as well as laying off many because of significantly changed circumstances companies faced.

For Boards of Directors the pandemic required a radically altered focus. In December 2020, the Diligent Institute published the results of a study titled "What Lessons Have Boards Learned from COVID-19?" and they stated: "*Part of what makes COVID-19 a uniquely crippling crisis is that it threatens financial, physical, and emotional well-being at every level of society. Directors have focused on the human aspect of the crisis, and of doing business, like never before.*"[1]

Learnings and a New and Improved Board Priority

It can be argued that focus on the human aspects of business had been flourishing anyway. In August 2019, the CEOs of The Business Roundtable "overturned a 22-year-old policy statement that defined a corporation's principal purpose as maximizing shareholder return."[2] The new statement of purpose of the corporation can be summarized as follows: "companies should serve not only their shareholders, but also deliver value to their customers, invest in employees, deal fairly with suppliers and support the communities in which they operate."[2]

This evolution of corporate purpose goes hand-in-hand with the significantly and continuously expanding attention to all matters associated with ESG. "ESG funds captured $51.1 billion of net new money from investors in 2020, a record and more than double the prior year, according to Morningstar."[3] Clearly, we are witnessing a transformation and shift in priorities for businesses of all shapes and sizes.

But when it comes to the boardroom and the composition of boards, despite the transformative forces described above, prior to the pandemic boards were still structured in a way that did not prioritize the human elements of business. Human capital was for the most part omitted from both the composition of the board, the structure of its committees and oftentimes the board meeting agenda. Interestingly, the closest boards get to the human aspects of business is with the Compensation Committee. EY Center for Board Matters surveyed directors in the fall of 2019 and found that only 40% of boards discussed human capital management oversight regularly (i.e., at every board meeting). For most companies, this topic is discussed on an ad hoc basis or considered to be embedded in other board discussions and decisions.[4]

Covid-19 and events following demonstrated unequivocally that people are at the heart of all businesses and without care and concern for employees, companies will eventually go out of business. Board's must focus not only on the health and safety of their work force, but on new ways of working that will continue to include a dispersed and remote workforce. This requires new methods of management and leadership as well as constant upgrades of technology. The priorities of employees have been changed because of Covid-19 and corporate culture must take this into account. All of this requires an increased focus on human capital by the board. Some boards may want to change their committee structure and/or add a new committee to reflect our "new normal." Others may want to add human capital management expertise to their board in the form of a CHRO or the like. No matter the specific path, one thing is certain, we can no longer assume the human aspects of companies are an afterthought.

Notes:

1. https://www.diligentinstitute.com/wp-content/uploads/2020/12/20201204-Ask-a-Director-Report-3-1.pdf.
2. https://purpose.businessroundtable.org/.
3. https://www.cnbc.com/2021/02/11/sustainable-investment-funds-more-than-doubled-in-2020-.html.
4. https://www.ey.com/en_us/board-matters/how-the-governance-of-human-capital-and-talent-is-shifting.

We are pleased to announce Patricia Lenkov, founder of Agility Executive Search and a regular contributor to ICGS' newsletter, has a forthcoming book titled:

Time's Up: Why Boards Need to Get Diverse Now.

Lenkov addresses board level under-representation of minority ethnic groups. Minority ethnic groups are 40% of the U.S. population and 12.5% of board directors. Lenkov argues societal focus on economic inequity make urgent the need for firms to act. Evidence of the extent of socioeconomic fractures began with the #MeToo movement and extend to recent protests and ongoing consumer social media campaigns. As a senior executive recruiter, Lenkov is well positioned to provide insight on why boards continue to be 'pale, male and stale' and what can be done to bring about change. We encourage members to check out Patricia's book when it comes out August 17, 2021.

ICGS Fellows Notice

As you may know, the ICGS has a cadre of distinguished Fellows associated with it. In the interest of creating more synergy between the Fellows Group and the larger society, we are considering offering "State of the Art" meetings with individual Fellows in the near future. Specifically, these virtual sessions are expected to begin in 2022 and they will focus on the state of research in the Fellows' particular area of expertise and include identification of key research issues in that same area. We currently have ten Fellows in our group. If you would like to hear from a particular Fellow, please contact me (wjudge@odu.edu) with that person's name and identity where your research interests overlap with his or her research. Armed with that information, I will approach the nominated Fellows and invite them to make a presentation. You can find the entire list of Fellows on the ICGS website.

Bill Judge,

Dean of ICGS Fellows

ICGS Researcher-Practitioner Micro-Communities Initiative

To foster meaningful, mutually beneficial, and complementary connections between researchers and practitioners, ICGS has been developing a micro-communities initiative. Micro-communities are self-managing groups, open to any researcher and practitioner, inclusive of any discipline and any field of corporate governance. The purpose is to create a space for ongoing conversations between researchers and practitioners, building on the international dimension of ICGS membership, and leading to a dialogue about what is important to both sides, learning from each other, and co-creating research agendas.

Four micro-communities have already been started:

1. Institutional investors, the board, and activist investors.

2. Venture boards.

3. Board diversity.

4. Family business.

To find out more, get introduced to the above micro-communities, or to start your own micro-community and get matched with others, contact Natalia Blagburn at n.blagburn@northumbria.ac.uk.

Upcoming events, deadlines and special issues.

August 20, 20201. Deadline for nominations for the ICGS Board of Directors. 3-year term beginning November 2021. Nominations and accompanying documents to Executive Director Sara Russell Riggs at director@icgsociety.org.

September 30, 2021 deadline. AD-Minister Journal Special Issue on *Building a Sustainability-oriented Corporate Governance in Emerging Markets under a Risk Environment*. ICGS member Maria Ilieva is co-editor.

October 8-10, 2021. 7th Annual ICGS conference. Groningen, Netherlands.

November 12-13, 2022. Annual ICGS 8th conference. *Corporate Governance in a Digital Era: Challenges and Opportunities.* Miami Herbert Business School. Miami, USA.

*The **International Corporate Governance Society** (ICGS) is a nonprofit, educational organization formed to provide an academic forum for corporate governance scholars that enhances research, teaching, and consulting on corporate governance systems, practices, and outcomes throughout the global economy. Its focus is the global economy and its constituent societies, so governance scholars and government officials from every economy of the world can find value in this association. It is governed by an internationally representative board of directors and supervised by its officers. We attempt to think and act consistent with our society's values.*

ICGS 2021 Conference Update

We are quickly approaching the opening of the 7th annual ICGS Conference, in Groningen. Conference chairs have notified all paper presenters. The clear result of a survey of presenters was for an in-person event, with the ability to join remotely for those that cannot yet travel internationally. The in-person agenda includes the paper development workshop preceding the conference. The theme of the 7th annual conference is Corporate Governance in Times of Disruption. Two separate panel sessions will address the theme directly from the perspective of boards and owners, respectively.

The 7th annual conference will feature two keynotes. One will be by Alex Edmans (London Business School) and, one by Jaap Winter (Erasmus University, U. of Amsterdam and VU Amsterdam). Edmans recently published a book featured as a Financial Times 2020 Book of the Year. In this newsletter we provide an introduction to Edmans' book in order to catalyze a lively session at the conference.

Early registration fees of US$475 for faculty and practitioners are available up until July 31. The PhD student early fee is US$200. Fees are $50 higher from 1 August-7 September. After September 7 registration fees of US$575 and US$300, for faculty and PhD students respectively, apply. Online registration options and additional detail about the conference schedule are available at the conference website:

https://www.rug.nl/feb/icgs2021/

ICGS 7th Annual Conference Keynote Preview

ICGS is pleased to have Alex Edmans as a keynote speaker. Dr. Edmans is Professor of Finance at London Business School. He has spoken at Davos, in the UK House of Commons and has given Ted and TedX talks on the purpose of business. We provide herein a brief synopsis of Alex Edmans new book ***Grow the Pie***, a Financial Times 2020 book of the year.

Citation: Edmans, A. (2020). Grow the pie: how great companies deliver both purpose and profit. Cambridge University Press.

Alex Edman's *Grow the Pie* is a timely and appropriate book for presentation, in order to promote dialog among society members on the purpose of business. The book goes beyond the instrumental view of Jensen (2001, 2010). Edmans presents his arguments in four sections.

The first section is the most extensive, introducing Pieconomics and building an argument as to why business should seek to enhance social well-being as a its objective function, rather than to seek first to increase profits. The difference in objective functions is illustrated with an extreme case-oriented contrast between corporate leaders Roy Vagelos of Merck and Martin Shkreli of Turing Pharmaceuticals. Vagelos offers pharmaceuticals to lower income countries at great cost to Merck, while Shkreli acquires and then dramatically raises prices on essential single-source drugs.

In section two Edmans uses peer-reviewed empirical analysis to answer the rather broad research question "what grows the pie?" Section two covers incentives, stewardship and share buybacks. It is possible to find less satisfaction in Edman's conclusions of incentives and CEO pay. It is argued that CEO pay may have risen to extraordinary levels versus median worker pay as talent has simply become more valuable over time (p131).

Section three transitions into a study of practical steps that can be taken by firms to improve society. Edmans contributes several statements of corporate purpose in the Chapter 8 lead in. We found compelling a concise question to ask of CEOs: 'how is the world a better place by your company being here?' (p192). Notable case examples are given, including CVS pharmacies terminating tobacco sales. Edmans provides several propositions regarding how investors can participate in growing the pie. It is asserted investors should have defined stewardship policies and be active monitors and voters of firms they own.

In the concluding section of the book, Edmans applies ultimatum game principles to a wide array of unit of analysis; from nation-level international trade, all the way down to individuals. The conclusions emphasize the key idea of the book that a pie-growing mentality, and suitably designed corporate governance mechanisms, can refresh the social contract toward a more prosperous and equitable society, in a free-market context.

Future research motivated by Edman's book may include exploration of the reasons why some act as Vagelos and some as Shkreli. For example, how are individual CEO personal values and virtues associated with firm level pie growing action? The keynote presentation is sure to be stimulating, spurring fruitful dialog amongst 7th Annual ICGS conference attendees.

ANNALS OF CORPORATE GOVERNANCE

ACG 5:1 -- Corporate Governance in IPO Firms by Silvio Vismara and Erik Lehmann.

ACG 5:2 – Decentralized Corporate Governance via Blockchain Technology by Wulf A. Kaal.

ACG 5:3 – The Relationship Between Corporate Governance and Tax Havens: A Critical Review and Future Research Directions by Yama Temouri, Ali Ahmed, Vijay Pereira & Chris Jones.

ACG 5:3 - Rumors of an Eclipse are Exaggerated. The PE Model is Here to Stay by Mike Wright & Ranko Jelic.

ACG 5:4 - Decentralized Autonomous Organizations: Internal Governance and External Legal Design by Wulf A. Kaal.

ACG 6:1 – The Social Purpose of the Modern Business Corporation by Peter Buckley (forthcoming).

ICGS Board Member Spotlight

Dr. José Rivas, global strategy and leadership professor at ITAM joined the ICGS board in 2021. We spoke with Professor Rivas to listen to his perspective on corporate governance and important issues facing the field.

What do you find most interesting about researching corporate governance issues?

There are large areas of opportunity for corporate governance research. The potential impact of CG in the emerging market context is substantial. Strong institutions at the firm level can substitute for weaker nation level institutions. Better governed Latin American firms are more valuable to society and investors.

Why did you first join ICGS, and why did you take on a leadership position in the organization?

I am passionate about corporate governance. It has been a research focus since my doctoral dissertation. I appreciate ICGS founders and the collaborative culture they created. I know many of the members of the society and appreciate sharing ideas and working on research together. Second, I was an insider board member of a large firm in Mexico for eight years (ADO Mobility). I was always curious as to how the governance could be improved. It was a focus of the board however, there were still many areas that could be improved. Quality academic research can inform firms and catalyze better governance.

What causes boards to not make needed CG changes?

There are several issues that limit positive change. First, wishful thinking. In our personal lives we talk about life in *ideals*. We plan to become champion tennis players of golfers. Generally we shortly forget about the grand goals. Second, stakeholder expectations may be misplaced. Third, sometimes governance mechanisms to hold CEOs and Board Chairs accountable are not in place.

How does the Latin America governance context differ from other global regions?

Ownership structure is different. Most firms are family owned to some degree. When one or two families own a firm, the families tend to link a particular governance initiative to a personal interest. The personal conflicts may help or hurt any particular CG initiative in terms of its effective implementation. Second, developed economy firms are held more accountable than emerging economy firms. Analysts, financial press and activist shareholders all play a substantial monitoring role. The monitoring is less intense in Latin America.

Where do you believe the corporate governance agenda is going in the future?

One significant and well-known issue is ESG. Another important theme not as widely considered is artificial intelligence ("AI"). There are many aspects to AI. Consider how AI can help boards. Most audit committee work is redundant, imperfectly looking for policy compliance and executive loopholes. The board can use AI for the monitoring component of board duties.

What are the corporate governance lessons of the 2020/2021 Covid-19 pandemic?

Most firms and boards were not prepared for a crisis like this. Most large firms have crisis management in place for public relations issues, natural disasters or product related issues. No large firm was prepared for a pandemic. Boards need a pandemic plan as part of its crisis management policies.

Current Research Focus:

Boards, IPOs, CEO Compensation, ESG and Internationalization.

The many notable items of Dr. Rivas' curriculum vitae include a distinguished 17-year career in the securities and transportation industries, as well as teaching and visiting appointments at Tulane and Arizona State Universities.

ICGS Newsletter Editor

Dr. Andrew Root is an Assistant Professor of Finance at Regent University. His research spans organization capital, economic policy uncertainty and corporate governance. Prior to his academic career, Andrew spent twenty two years in global Finance, including as a research director at Goldman Sachs and Macquarie Capital.

ICGS NEWSLETTER SUBMISSION PROCESS

If you have contributions for our next newsletter (Volume 9, Issue 1) which will be published in January 2022, please contact Andrew Root (aroot001@odu.edu) by **December 1, 2021.** We welcome information on upcoming book publications from ICGS members or conferences/events that will be of interest to other ICGS members. We especially would appreciate information about activities in which ICGS members may be involved given the global community of scholars that comprise the ICGS.

Don't forget to visit our website at www.icgsociety.org