Modern Corporate Governance
Dynamic Briefing

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Modern Corporate Governance

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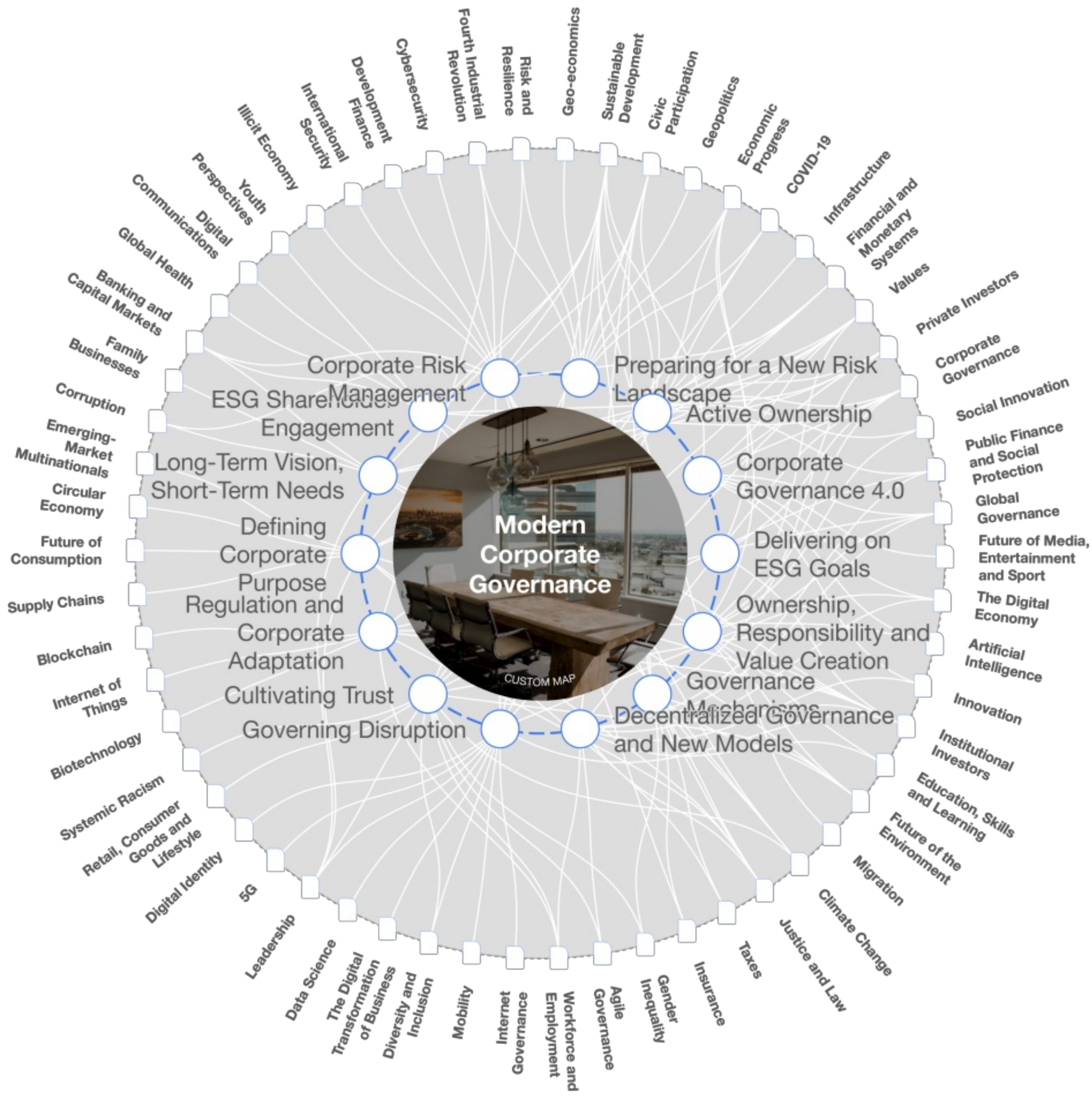
About

This dynamic briefing draws on the collective intelligence of the Forum network to explore the key trends, interconnections and interdependencies between industry, regional and global issues. In the briefing, you will find a visual representation of this topic (Transformation Map – interactive version available online via intelligence.weforum.org), an overview and the key trends affecting it, along with summaries and links to the latest research and analysis on each of the trends. Briefings for countries also include the relevant data from the Forum's benchmarking indices. The content is continuously updated with the latest thinking of leaders and experts from across the Forum network, and with insights from Forum meetings, projects communities and activities.



Executive summary

Modern Corporate Governance Intelligence Map - insights and perspectives curated by Digoshen via World Economic Forum Strategic insights and contextual intelligence.

1. Preparing for a New Risk Landscape

Companies have to build long-term growth and resilience strategies in an increasingly volatile business landscape.

2. Ownership, Responsibility and Value Creation

Family businesses are adopting the principles and practices of responsible ownership.

3. ESG Shareholder Engagement

Environmental, Social and Governance-based engagement can help drive climate action and address public health issues.

4. Delivering on ESG Goals

Companies are reorienting business strategies and operating models to deliver on their goals.

5. Long-Term Vision, Short-Term Needs

Balancing short- and long-term pressures is one of the most difficult business leadership challenges.

6. Governing Disruption

Organizations must be able to evolve and adapt, as the COVID-19 crisis has illustrated.

7. Cultivating Trust

Responsible corporate governance can create a culture of mutual trust.

8. Active Ownership

The shift to active ownership may help to foster longer-term value creation.

9. Regulation and Corporate Adaptation

Shifts in regulation can have profound corporate governance implications.

10. Corporate Governance 4.0

Family businesses can successfully renew themselves by taking a new approach to governance.

11. Decentralized Governance and New Models

The distributed nature of blockchain can facilitate new ways of doing business.

12. Corporate Risk Management

For boards, the volatility of risk scenarios is only increasing.

13. Governance Mechanisms

Corporate governance relies on a handful of mechanisms to align executives with owners and other stakeholders.

14. Defining Corporate Purpose

An organization’s reasons for being should extend well beyond financial gains.

Preparing for a New Risk Landscape

Companies have to build long-term growth and resilience strategies in an increasingly volatile business landscape

After the shocks and government stimulus of COVID-19, a volatile shakeout threatens the global business landscape. Protectionism, technological transformation, and social unrest had been disrupting economic activity for years, but the pandemic provided them with fresh momentum.

According to the Forum’s Global Risks report 2021, business ecosystems in many countries are faced with sclerotic, regressive torpor or accelerated creative destruction. Indecisive or misguided leadership has the potential to exacerbate these trends, sending ripples through the global economy and locking in catastrophic outcomes. A disorderly shakeout would precipitate economic stagnation in advanced economies, lost potential in emerging and developing markets, greater bifurcation between major and minor companies, the collapse of millions of small businesses, greater inequality, and the attrition of long-term global sustainable development imperatives.

KEY INSIGHTS FROM THE DISCUSSIONS

Risks in the post-COVID-19 world will not be materially different than they were before the pandemic. It is urgent, however, that we emerge from the pandemic with a new mindset for managing these risks. “Our view of risk - and their potential impacts - remains too narrow, and our responses too anchored in the past.”

Cybersecurity has emerged during the pandemic as the top future risk. In July 2020, CEOs had surveyed ranked it as the 5th highest risk, though it had become the top risk by early 2021.

While the risk profile faced by various industries is similar, the way they manage those risks must be approached differently.

Alongside the risks we are already facing, there are others that are poised to become more prominent in the years ahead - including the digital divide, blockchain, and climate change.

Related insight areas: Civic Participation, Risk and Resilience, Geopolitics, Sustainable Development, Economic Progress, Fourth Industrial Revolution, COVID-19, Geo-economics

No Knowledge

We don't have any recent, relevant knowledge available on Preparing for a New Risk Landscape, but you can check back later using Strategic Intelligence if you would like to monitor Preparing for a New Risk Landscape in real-time. You can find more information on how by looking at the "Continue the experience online" page later on in this briefing.

Ownership, Responsibility and Value Creation

Family businesses are adopting the principles and practices of responsible ownership

Ownership can no longer be passive or speculative - and many families have begun adopting principles and practices that enable them to approach their roles as owners in a genuinely professional manner. In order to truly understand what it takes to be a responsible shareholder of a family business today, in an atmosphere of heightened expectations for corporate behaviour, it requires a specific type of education. Responsible families now understand that while they may devolve day-to-day operations to managers, they are accountable for the long-term stewardship of their business. They are promoting meaningful engagement between the board, investors, and other stakeholders, in order to build trust and promote high standards of conduct. They are also putting the needs of the business before their own short-term financial interests, by encouraging long term vision, patient capital investment that does not demand quick returns, and education and training for staff. The primary responsibility of owners is to ensure the long-term success of a business, which can in turn bolster job security and living standards for employees. Responsible owners are committed to the area where they work and live. They know that returns that come in the form of loyalty and engagement are some of the most beneficial.

These types of owners are also ideally placed to take on broader, external leadership roles - and more are starting to do so. Amid widespread concern about climate change and growing inequality, businesses are being called upon to assume more expansive social and environmental responsibilities. They can do so by not only looking after financial returns, but by also looking after communities and helping to preserve natural resources. Several studies have shown that such responsible ownership does not compromise commercial performance; on the contrary, it can actually enhance shareholder returns when measured over the long term. That is because businesses that are clearly committed to a responsible corporate vision can better create long-term value, and secure higher levels of trust and respect. Responsible practices are unlikely to stem from a business's leadership team alone. They tend to have their origins in responsible ownership, typically among family owners. These owners are long-term shareholders, and there are relatively few of them per company, so their relative influence can be considerable. Responsible family businesses can therefore serve as role models not only for other family firms, but for all businesses working towards a fairer and more sustainable economic model.

This key issue is curated in partnership with Denise Kenyon-Rouvinez, the Wild Group Professor and Director of the IMD Global Family Business Center at IMD International.

Related insight areas: Economic Progress, Social Innovation, Education, Skills and Learning, Future of the Environment, Migration, Corporate Governance, Global Governance, Sustainable Development, Values

No Knowledge

We don't have any recent, relevant knowledge available on Ownership, Responsibility and Value Creation, but you can check back later using Strategic Intelligence if you would like to monitor Ownership, Responsibility and Value Creation in real-time. You can find more information on how by looking at the "Continue the experience online" page later on in this briefing.

ESG Shareholder Engagement

Environmental, Social and Governance-based engagement can help drive climate action and address public health issues

In addition to shaping their portfolios through ESG integration, investors may choose to actively drive related improvements at companies through greater shareholder engagement. Evidence suggests this is a far more effective way of shaping corporate behaviour than simply buying and selling stock. The ways in which investors can approach this depends on asset class, however. Private equity investors, for example, are likely to have relatively large ownership stakes and therefore more direct access to management teams (large PE funds like KKR and TPG regularly engage with senior and middle managers, as well as front line workers, to identify ESG issues and encourage development of related strategies, measurement, disclosures, and operational practices). For buyers of public equities, the style of engagement depends on their scale and objectives. Large asset managers with long-term investment styles are likely to have greater and more prolonged access to management teams, similar to what is afforded to private equity backers. Meanwhile activist hedge funds tend to take large stakes in firms for short periods of time, through leveraged capital and borrowing - and then use that time to mount aggressive campaigns.

Examples of ESG-centred shareholder engagement include Aviva Investors' push for Apple to address youth smartphone addiction, and Engine No. 1's campaign to drive stronger climate action at Exxon Mobil by replacing board members. Smaller, socially-responsible asset management firms like Boston Trust Walden, and values-based asset owners like religious pension funds, often engage firms by initiating shareholder proxy votes that call for stronger ESG strategies. Individual retail investors can join campaigns mounted by larger activists, though most delegate their voting power to index fund managers like BlackRock or Vanguard (which tend to follow shareholder voting guidance from firms like ISS and Glass Lewis). ESG shareholder action tends to focus on three objectives: disclosure, target setting, and governance. Disclosure, the most common, relates to the frequency of, quality of, and auditor assurances behind ESG information. Target setting can occur once ESG data is made available, and can be used to improve things like greenhouse gas emissions. Ir terms of governance, investors may simply ask for more rigour from a firm - both for its own sake, and as an enabler of the greater good through instruments like aligning executive compensation with sustainability goals.

Related insight areas: Global Health, Climate Change, Private Investors, Sustainable Development, Corporate Governance, Institutional Investors, Digital Communications, Youth Perspectives, Banking and Capital Markets

World Economic Forum

Why trust is key to leading companies unlocking value

11 August 2022

Lack of trust is eroding confidence in stakeholder capitalism and ESG claims. Corporate leaders must work even harder to build and maintain trust. Three core components can help cultivate trust and build stakeholder confidence. Corporate leaders today are measured by a new yardstick. The supreme test of a CEO and board of directors is now the value they create not just for shareholders, but for all stakeholders.

GreenBiz

How ESG reporting signals a shift towards a revised ‘social contract’

22 June 2022

Influential economist Milton Friedman famously said , "There is one and only one responsibility of business: to use its resources and engage in activities designed to increase its profits." In a world recovering from covid-19, grappling with war, climate change, ecological destruction and human rights, profit alone cannot be the sole objective of companies. COVID-19 highlighted social inequalities Having just emerged from the damaging effects of the global recession, the pandemic exacerbated already deep inequalities and pushed millions into poverty. Vulnerable groups such as women, the poor, elderly, disabled, indigenous people and migrants were hit hardest, with growing insecurity over access to food, health care and housing.

Raconteur

The new consumer dilemma – lean or green?

22 June 2022

Macro trends in today’s world have the power to pull and push where people spend their money. As a result, consumer attitudes are constantly evolving. Over the last few years, for example, we’ve watched sustainability become a priority, with eco products, services and experiences taking centre stage. More recently, the rising cost of living has had a profound effect on how shoppers navigate their budgets.

Sci Dev Net

$33bn funding gap for climate ‘loss and damage’

16 June 2022

Funding needed for UN humanitarian appeals linked to extreme weather has increased eight-fold over the past two decades, with donor countries falling desperately short of meeting the demand, according to a new analysis. Reports by the Intergovernmental Panel on Climate Change (IPCC) have made clear that climate change impacts are already widespread and intensifying, and that developing countries are paying the highest price.

UN Climate Change

Signals of change: Why a net zero world by 2050 is within reach

08 June 2022

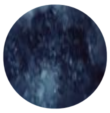
Deloitte Climate and Sustainability Consultant, Talal Rafi, explains why with increasing support for environmental sustainability, green investments and climate innovation, key sectors can decarbonize and move towards a net zero. .

Kearney

How national policies can accelerate the transition to a reuse economy

08 June 2022

Governments, public sector leaders and civil society organizations such as NGOs need to work together to create clear action plans and target for national policies to fasten our transition to a reuse economy.



World Economic Forum

From Aspiration to Action: Credible Corporate Climate Leadership and the Net-Zero Imperative

01 June 2022

Global Future Council on the Net-Zero Transition releases two White Papers on the eve of Stockholm+50 As many in the environmental community gear up for the UN high-level meeting Stockholm+50 on 2-3 June, which will mark fifty years since the UN's first environmental conference, the Global Future Council on the Net-Zero Transition is releasing two White Papers examining how industry can be at the forefront of building a low-carbon future. The first paper on Corporate Accountability recognises that a growing number of companies are making climate pledges but notes that these are still insufficient to bend the global emissions curve to limit warming to no more than 1.5°C.

Delivering on ESG Goals

Companies are reorienting business strategies and operating models to deliver on their goals

A clear consensus is emerging: for a company to enjoy sustainable value creation and long-term success, it must clearly understand who its key stakeholders are, engage with them, and bring their voice into decision-making. According to the Forum's Future of Corporation 2021 white paper, recent years have seen a clear shift towards greater stakeholder activism. Certainly, the pandemic has changed the rhetoric from "returns" to "value creation," and investors and shareholders are demanding more transparency and meaningful engagement with boards on environmental, social, and governance (ESG) issues.

The white paper also emphasizes that for a corporation to maintain its licence to operate, it must gain and retain the trust of its material stakeholders: those who can reasonably be expected to be significantly affected by its activities, products and services; and those whose actions can reasonably be expected to affect the ability of the corporation to implement its strategies and achieve its objectives.

KEY INSIGHTS FROM THE DISCUSSIONS

When asked to rank their company on its ESG journey, 38% of participants said it is in "advanced deployment" (10+ metrics), while 25% said it is at a "moderate" deployment level (5-10 metrics), and 25% described it as being in "initial" deployment (1-5). Only one participant saw his/her organization at an early stage with no deployment. 45% described their company's adoption of ESG metrics as strategically driven, while 26% deemed it culturally driven, 24% saw it as functionally driven, and only 5% as "ad hoc."

When it comes to implementing and delivering on ESG goals, companies should not wait to be perfect – but instead get started now and evolve. It is also important not to get distracted by competition over ratings. What is key is to focus on the purpose of the effort, and to communicate that effectively.

Smart incentive plans can be instrumental in the acceleration of ESG integration processes. Individual employee targets can be personalized through variable compensation.

Companies must engage with peers and join coalitions, as many contemporaries are working through the same challenges.

As companies embrace ESG-related goals, the most important issues for strategy are: diversity and inclusion, employee mental and physical health, an internal ESG narrative to get everyone on board (and explain the influence their organization can exert on these issues). Companies also need to ensure that they are credible - and deliver on their commitments.

Related insight areas: Institutional Investors, Corporate Governance, Economic Progress

McGill University

Can Loyalty in Investor Relationships Calm the Competitive Disruption of ETFs?

09 June 2022

On the surface, the Exchange Traded Fund or ETF is a simple idea: a financial product that gives investors the opportunity to invest in a set of stocks tracked by a market index, without having to buy shares in each one. Yet this relatively straightforward concept has become a major disruptor in the sphere of money management. In the past few years, mutual fund managers started to also manage ETFs for their clients—a way to potentially alleviate competition, maintain client loyalty, and keep institutional money within a growing family of funds.

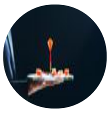
Long-Term Vision, Short-Term Needs

Balancing short- and long-term pressures is one of the most difficult business leadership challenges

There is a commonly-held view that investors pursue short-term profit at the expense of long-term value. According to the results of a survey published by the Rock Center for Corporate Governance at Stanford University in 2019, 70% of CEOs and CFOs at S&P 1500 Index companies were facing pressure to maximize short-term returns at the expense of long-term growth. When firms focus on the short term, it often translates into lower investment in the long-term sustainability of a company at the expense of other stakeholders. Management has to be able to both articulate a long-term strategy and deliver sufficient short-term returns in order to ensure support and continued investment. Consistent metrics for measuring the success of long-term strategies are important. Corporate governance can play an important role in this regard by implementing incentives and pay aligned with these long-term metrics. Another means to tilt the balance towards a longer-term approach has been the increased adoption of Environment, Social and Governance (ESG) criteria in corporate strategies and investment decisions - which can draw the attention of shareholders zeroing in on firms with a longer-term, socially-conscious approach.

According to a white paper published by the World Economic Forum in 2019, quarterly reporting requirements are not the sole reason for short-termism - though corporate leaders describe them as a “necessary evil.” According to the white paper, these leaders must become better storytellers about their companies, by framing each quarter as a step in a longer-term story. Management and their boards must engage in constant conversation about how the company will grow, and the risks it will take to get there. Leaders of global companies have been signing a World Economic Forum compact for responsive and responsible leadership, committing them to ensure that their boards oversee the definition and implementation of corporate strategies that pursue sustainable long-term value creation, to encourage the periodic review of corporate governance, long-term objectives and strategies at the board level, to promote meaningful engagement between the board, investors, and other stakeholders that builds mutual trust and promotes the highest possible standards of corporate conduct, and to implement policies, practices, and long-term strategies aimed at cultivating sustainable growth for the benefit of all stakeholders.

Related insight areas: Family Businesses, Future of the Environment, Private Investors, Banking and Capital Markets, Institutional Investors, Corruption, Values, Leadership, Sustainable Development



Harvard Business Review

Build a Strategy that Addresses Your Gnarliest Challenges

23 June 2022

Too many “strategies” produced by companies and national governments are weak, lacking astute diagnosis and actions with any bite. To counter this phenomenon, we must recognize what a strategy actually is. The essence of a strategy is a design for actions required to meet an important challenge or opportunity. Whether in chess, war, business, or politics, the basic idea is to focus energy and resources where they will do the most good — on the enemy or opponent’s weakness, or where the opportunity for gain is the greatest. A strategy is not a list of aspirations or ambitions, nor is it a list of all the things the committee members think are good ideas. Whether on the chessboard, the battlefield, a political campaign, or in a business, effective strategies are designs of coordinated action aimed at overcoming specific challenges.

VoxEU

Revisiting the anticompetitive effects of common ownership

15 June 2022

The rise of common ownership of publicly traded companies has important implications for competition in product markets. This column argues that it is important to distinguish inter-industry from intra-industry effects of common ownership. Using data from the airline industry, it shows that intra-industry common ownership is positively associated with prices, while inter-industry common ownership is negatively associated with prices. Antitrust regulation should take into account the procompetitive inter-industry effects of common ownership.

Governing Disruption

Organizations must be able to evolve and adapt, as the COVID-19 crisis has illustrated

A board of directors has the responsibility to drive the continuous reinvention of an organization - in a way that ensures it is fit for purpose relative to shifting customer demands, social expectations, and unexpected calamities. Technological innovation at the core of the Fourth Industrial Revolution is changing the way we live, work, and relate to one another - and forcing the decision-makers guiding organizations to rethink how they can create value and reinvent the ways they function. As the global economy weathers the impact of the COVID-19 pandemic, for example, many organizations that had previously focused on maximizing resilience through technologies like cloud computing may find themselves in better shape than others. Innovation impacts many of a board's core responsibilities, including long-term planning, fostering a corporate culture, executive compensation, setting strategy, and making investments and acquisitions. While established incumbents are at risk of lacking sensitivity to evolving technology needs and responsibilities, younger players need the financial resources and data enjoyed by their older counterparts - and each can gear their corporate governance efforts towards sharing resources in a way that creates value.

New collaborative models may require entirely new corporate governance approaches that are much less based on traditional vertical control and siloed mechanisms - while still maintaining accountability to shareholders. The United Nations has emphasized the critical potential for breakthrough innovation to help achieve the Sustainable Development Goals, which are designed to enable a more sustainable global economy by 2030. It is a matter of corporate governance to consider how this innovation can both enable sustainable economic growth and help fulfil a specific organization's purpose. In terms of investor stewardship, for example, shareholders must be engaged on the topic of innovation in order to better understand long-term prospects both for the business and for society as a whole. Some organizations have specific board committees dedicated to technology and innovation, while others bring on consultants or other external advisors. Boards at the most forward-looking companies consider the long-term prospects of a business alongside its internal capabilities - essentially looking into the future in order to assess whether a company might be impacted by a paradigm shift in technology and business models, or a global crisis, and whether there are related opportunities and risks.

Related insight areas: Internet Governance, Mobility, Fourth Industrial Revolution, 5G, Diversity and Inclusion, The Digital Economy, Private Investors, Data Science, The Digital Transformation of Business, Institutional Investors, COVID-19, Digital Identity, Sustainable Development, Leadership

YiCai Global

Shanghai to Keep Upgrading Itself as Global Economic, Finance, Shipping, Trade, Hi-Tech Hub

21 June 2022

As Shanghai builds itself into an economic, finance, trade, shipping and hi-tech research center of global influence, the city will continue to attract many multinationals to set up their regional headquarters in the city. But in order to keep ahead of the game amid an uncertain world economy, Shanghai must not rest on its laurels even after it achieves these goals and should continue to improve on them.

Cultivating Trust

Responsible corporate governance can create a culture of mutual trust

Trust is crucial for the long-term success of companies - especially at the board level. Genuine trust is underpinned by personal integrity, and by putting the interests of the organization (and of society) above those of individuals. Boards need to be able to trust that management will bring full transparency into the boardroom, and that will only happen thanks to shared integrity. There is a strong sense of pessimism about leadership in both the private and public sectors, and anxiety related to job security is high - due to a general lack of training and increasing automation, and not least due to the global pandemic. This threatens to fuel the growth of nationalist and protectionist movements. According to the Pew Research Center, as of 2019 only about one-third of adult Americans had a great deal or fair amount of confidence in elected officials to act in the public's best interests, and less than half said the same about business leaders (attitudes were far more positive when it came to the medical professionals now grappling with COVID-19). In addition to the general public, employees increasingly expect their employers to do the right thing and take action on issues related to inequality, the environment, and climate change.

As people lose faith in their political leaders, it appears that they have higher expectations for CEOs. According to the 2019 Edelman Trust Barometer, more than three-quarters of the general population, or 76%, want CEOs to take the lead on necessary social and economic change rather than waiting for governments to act. While organizations must comply with legislation and regulation on everything from taxes to consumer protection, competition, corruption, and environmental protection, they can also be positively influenced in terms of corporate governance and trust by industry self-regulation and voluntary practices - such as a code of conduct. Most cases of fraud and breach of trust among stakeholders can be traced to corporate governance failures, and so corporate leaders have the ultimate responsibility for creating an organizational culture that supports trust - and ensures that management and employees embody and act on the stated values and mission of their organization. Particular areas of increased social expectations that require the attention of boards of directors include diversity (including gender diversity), transparency, equal opportunity, and eliminating all forms of harassment.

Related insight areas: Climate Change, Retail, Consumer Goods and Lifestyle, COVID-19, Systemic Racism, Agile Governance, Workforce and Employment, Artificial Intelligence, Diversity and Inclusion, Civic Participation, Future of the Environment, Leadership, Values, Gender Inequality, Public Finance and Social Protection, ESG

VoxEU

Executive compensation tied to ESG performance

02 August 2022

Environmental, social, and governance metrics are receiving increasing attention as a measure of corporate performance. This column uses cross-sectional data to assess the prevalence and impact of including such metrics in executive compensation schemes. Usage of 'ESG pay' has grown rapidly in the past decade, with over 30% of firms including ESG metrics in their key performance indicators in 2021. It is more common in countries perceived to be sensitive to ESG concerns. Firms adopting ESG pay do receive more favourable ESG scores from rating agencies, but the impact on shareholder wealth is ambiguous.

GreenBiz

Social inequality has become an investor priority

22 June 2022

When the European Union embraced the concept of double materiality in the Corporate Sustainability Reporting Directive, mandating that investors consider risks corporations externalize onto people, the business and human rights movement notched a significant win. Now the notion of double materiality is also taking shape in a different guise beyond Europe: in rising investor concerns around systemic risks, including inequality. Systemic risks are risks that affect the economic system as a whole, creating "systematic portfolio risk" to an investor's entire portfolio. Large institutional asset owners and asset managers, due to their size, own hundreds, even thousands of assets. Their portfolios mimic the market and give rise to their status as " universal owners .".

Active Ownership

The shift to active ownership may help to foster longer-term value creation

Banks and brokers are the most widely disparaged culprits behind the financial crisis, due to their short-termism and excessive risk taking. Yet, they were acting on behalf of large institutional investors who failed to effectively monitor their investments. Pension funds, endowments, insurers, and sovereign wealth funds should therefore share some of the blame, due to their passive corporate governance. In the future, they will hopefully act as better stewards of the companies they invest in by adopting a more active stance. A broader transition to active institutional ownership is gaining momentum, largely due to the extensive shedding of debt taking place in the corporate and financial spheres. By replacing debt with equity, investment managers are likely to become less inclined to maximize short-term results and instead focus on companies' long-term value creation. Norway's $1 trillion sovereign wealth fund, for example, has clearly stated its expectations for the companies it invests in, in terms of corporate governance, shareholder rights, social issues, and the environment. The fund's active ownership is a tool to both protect shareholders' rights, and to benefit the people of Norway.

Active ownership has implications for the relationship between asset owners and managers, with performance no longer hinging purely on short-term market benchmarking, but also on longer-term metrics like internal rates of return. The organizational impact of this will be profound, as layers of intermediaries are reduced, more reliance is placed on internal capabilities and in-house expertise, and fewer mandates are granted to external managers and funds of funds (a mutual fund, for example, that invests in other funds). Dedicated teams can more effectively operationalize an institution's long-term mission, and improve corporate governance at the companies being invested in. In principle, the cost of active ownership is the increased volatility that results from more concentrated portfolios; diversification is widely considered the surest way to achieve better returns. However, institutional ownership of large stakes in companies could provide better monitoring, and more aligned incentives, without necessarily increasing risk thanks to so-called relationship investing - or actively investing for the long term, in exchange for some say in how a firm is run. Stewardship should matter to institutions that take the long view. Some asset managers may not welcome it, as it involves spending more effort and resources. However, until institutional investors start to behave like well-informed, responsible owners, managerial entrenchment will undermine the long-term prospects for finance capitalism.

Related insight areas: Private Investors, Public Finance and Social Protection, Sustainable Development, Civic Participation, Corporate Governance, Values, Financial and Monetary Systems, Social Innovation, Infrastructure, Economic Progress

World Economic Forum

3 tips from trillion-dollar investors on sealing the co-investment deal

03 August 2022

Co-investing is a financial model that sees smaller investors collaborate with larger partners, avoiding fees, exchanging knowledge and opening up new investments. In 2012, 24% of Limited Partners used co-investment. In 2021, that figure was 71%. Top investors have shared their tips on how best to approach landing a co-investment deal. Co-investing as a strategy has been on the rise for years.

Wharton School of the University of Pennsylvania - Knowledge@Wharton

Corporate Good vs. Social Good: Can Investors Have Both?

19 July 2022

In an episode from the "All Else Equal" podcast series from Stanford Graduate School of Business, Wharton's Jules van Binsbergen and Stanford's Jonathan Berk discuss the strategies available to the social-minded investor, and why they are not clear-cut. … Read More.

VoxEU

Europe's growing league of small corporate bond issuers

08 July 2022

Historically, only very large firms issued in the European corporate bond market. However, recent years have seen the entry of many new players: small, private, and unrated issuers. This column uses firm-level data to show these new players face different game dynamics. They are disconnected from aggregate market movements and still depend heavily on banks. A better understanding of the differences between new and more established corporate bond issuers could help identify policy implications for financial stability, capital markets development, and growth.

Asian Development Bank

Do Greenness Standards Matter for Green Bonds? Some Empirical Evidence

21 June 2022

A green bond is a debt security that exclusively funds projects with environmental or climate-related benefits. As a financial instrument that aims to mitigate the negative impacts of human economic activity on climate change, green bonds have been gaining more attention from financial market participants. Since the first green bond, Climate Awareness Bond, was issued in 2007, the global green bond market has expanded rapidly. According to the Climate Bonds Initiative (CBI), annual global green bond issuance reached $155.5 billion in 2017. Despite its rapid growth, the green bond market remains much smaller than conventional bond markets, accounting for less than 2% of global bond issuances in 2016.

Regulation and Corporate Adaptation

Shifts in regulation can have profound corporate governance implications

A wide variety of legal and regulatory environments have been constructed around the world; the OECD Corporate Governance Factbook contains information about nearly 50 different national institutional, legal, and regulatory frameworks. Some institutional and legal settings have proven to be more conducive to effective corporate governance than others. Enhancing governance reform in the many places where it is lacking is a potential source of value creation both for individual companies and broader economies. One example of legal governance reform is 2002's Sarbanes-Oxley Act in the US, which expanded disclosure and auditing requirements and the responsibilities of the boards at all publicly-traded companies. Sarbanes-Oxley triggered similar reforms around the world: Australia in 2004, India in 2005, and Japan in 2006. Since then, other important reforms have been put in place - such as the Dodd-Frank Act enacted in 2010, in response to the banking industry excesses that resulted in the financial crisis, and the Jumpstart Our Business Startups, or JOBS Act, which was designed to facilitate the funding of small businesses in the US by exempting them from certain regulatory requirements.

The right mix of legislation, regulation, and self-regulation depend on a country's specific circumstances, history, and culture. The corporate governance structures developed in response typically cover the ownership of publicly-listed companies and stock exchanges, shareholder rights and responsibilities, takeover rules, board structures and composition, and information disclosure. Technological progress has created situations where regulatory needs are not necessarily black and white. Services like Uber and Lyft, for example, have made it unclear if drivers should be treated like regular employees or contractors under the law. Legislation passed in California in 2019 requires these ride-sharing platforms to treat drivers in that state as employees when it comes to wage and benefit protections, creating uncertainty about the financial prospects of the broader "gig economy" amid the possibility that other states and countries might follow suit. This shift could impact many boards and the ways they approach compliance, risk management and corporate strategy. Other areas of technological development with significant corporate governance implications include artificial intelligence, blockchain, the Internet of Things, and biotechnology - all of which are likely to trigger new regulations and corporate governance needs.

Related insight areas: Financial and Monetary Systems, Institutional Investors, Workforce and Employment, Biotechnology, Internet of Things, Artificial Intelligence, Fourth Industrial Revolution, Blockchain, Global Governance, Justice and Law

INSEAD Knowledge

Too Many ESG Funds Mislead Investors

20 June 2022

Regulatory reckoning with ESG funds does not go far enough. Regulators are cracking down on ESG funds that pretend to want to save the planet without actually investing in green stocks – an all-too-common practice known as greenwashing. The European Union has recently adopted a corporate sustainability reporting directive that includes guidelines for funds targeting the ESG market. Similarly, the Securities and Exchange Commission (SEC) is proposing rules requiring ESG funds to disclose information about their strategies.

Corporate Governance 4.0

Family businesses can successfully renew themselves by taking a new approach to governance

Governance needs to be optimized, rather than minimized. The four arms of governance at a family business - the owners, controlling family members, the board, and non-family executives - have to step up, as regulation piles up in response to scandals and political pressure. While there is considerable discussion about the technologies shaping the Fourth Industrial Revolution, such as artificial intelligence and robotics, there is less attention paid to the specific impact of new innovation on governance. A family business that aims to be tech-savvy and lean will struggle with an antiquated board; we therefore need to move to Corporate Governance 4.0, in order to enhance communication, better define roles, and ensure agility. Governance should provide vision and a sense of responsibility, and ensure accountability. And, in a world where compliance reports run to hundreds of pages, specific roles must be clearly defined. Family business owners and boards have to strike a balance, by understanding the business without being drawn into day-to-day management. Owners must establish a vision and standards, while giving clear direction on speed, growth strategy, ethics, and risk appetite.

With Corporate Governance 4.0, and enhanced clarity on roles, overlap between different management and oversight structures can be kept to a minimum. Communication among all levels, cohesion around a shared vision and values, and direction can all be centred on the leanest viable structure - augmented by digital systems that present data on everything from unit profitability to staff turnover. While sadly rare in practice, this sort of super-intelligent dashboard providing sophisticated information in real time is possible with existing technology. Such a tool could be liberating for boards, as around half of all board meetings are currently consumed with analyzing financial and other statements. In this way, technology can free up human intelligence to focus on what it is best at: strategic judgement, establishing and maintaining values, and setting direction. Many family businesses fail to adapt effectively when faced with unpredictability and change, especially during a time of increasing regulation. Those best able adapt will do so thanks to a willingness to adopt technology and to clearly articulate the roles set by their governing bodies.

This key issue is curated in partnership with Denise Kenyon-Rouvinez, the Wild Group Professor and Director of the IMD Global Family Business Center at IMD International.

Related insight areas: The Digital Economy, Private Investors, Future of Media, Entertainment and Sport, Corporate Governance, Innovation, Global Governance, Artificial Intelligence, Sustainable Development, Values

No Knowledge

We don't have any recent, relevant knowledge available on Corporate Governance 4.0, but you can check back later using Strategic Intelligence if you would like to monitor Corporate Governance 4.0 in real-time. You can find more information on how by looking at the "Continue the experience online" page later on in this briefing.

Decentralized Governance and New Models

The distributed nature of blockchain can facilitate new ways of doing business

In order to make the most of blockchain technology, organizations will have to collaborate. In an acknowledgement of this fact, there has been a proliferation of industry consortia dedicated to blockchain exploration and implementation. These groups are often collaborating to an unprecedented degree, even drawing together rival businesses determined to cooperate in order to truly unlock the full potential of technology through new governance models. To-date, almost 400 such organizations have been registered, with several seeming to appear every month. The Blockchain Insurance Industry Initiative (b3i), for example, has brought together 20 key industry players such as Allianz, Liberty Mutual, and the China Pacific Insurance Company in order to explore and deploy the technology in different ways. The consortium's core activities include developing the standards and infrastructure necessary to facilitate data-sharing across separate organizations. However, collaborative models also raise new questions about intellectual property ownership, shared liability, data sharing, and more. To address such questions, consortium models generally require clear communication and alignment on roles and responsibilities.

Blockchain technology can enable decentralized autonomous organizations, also known as "DAOs" - which operate on code-based rules and are intended to be controlled by members without a hierarchical structure. These organizations are designed to provide a secure, digital ledger in a way that eliminates the need for a third party to approve or warehouse a transaction or agreement - so that parties could securely sign and execute a contractual work agreement, for example, without even necessarily knowing one another's identity. By enabling the re-thinking of the foundations of businesses and organizations from the ground up, there may be opportunities to consider new incentive structures. For example, traditional organizations have faced the "principal-agent" problem, where the decisions of front-line workers may not align with the interests of top-level decision-makers. Decentralized autonomous organizations present the opportunity to integrate demand, decision-making, and production in ways that enable an organization to adapt in a more nimble and aligned manner. However, the anonymity provided by this decentralized means of decision-making can come into conflict with corporate governance rules and regulations.

Related insight areas: Global Governance, Public Finance and Social Protection, Civic Participation, Innovation, Corporate Governance, Education, Skills and Learning, The Digital Economy, Agile Governance, Justice and Law, Workforce and Employment

Asian Development Bank

Fintech and COVID-19: Impacts, Challenges, and Policy Priorities for Asia

27 July 2022

Fintech and COVID-19: Impacts, Challenges, and Policy Priorities for Asia describes how the COVID-19 pandemic has accelerated digital technology adoption in the financial sector and the role of financial technology (fintech) firms in supporting households and businesses during the crisis. The book also highlights critical structural policy changes needed to ensure an efficient and safe fintech environment that minimizes risks to consumers and financial stability. Part I focuses on the impact of fintech on consumers, businesses, and the macroeconomy during the pandemic. Part II discusses the post-pandemic policy implications for enhancing fintech’s effect on inclusive growth.

World Economic Forum

Are 'decentralized autonomous organizations' the business structures of the future?

24 June 2022

Decentralized Autonomous Organizations (DAOs) can replace the way in which we see companies today. DAOs are a new type of organizational structure built on code and blockchains. They have the ability to be global vehicles that enable a true digital revolution, unlocking the potential of web3. Decentralized Autonomous Organizations (DAOs) are a new kind of organizational structure that run as code on blockchains. They're owned and run by members who normally hold tokens that provide decision-making rights and/or economic rights in the organization.

Frontiers

On-Farm Data Security: Practical Recommendations for Securing Farm Data

21 June 2022

The growth in the use of Information and Communications Technology (ICT) and Artificial intelligence (AI) has improved the productivity and efficiency of modern agriculture, which is commonly referred to as precision farming. Precision farming solutions are dependent on collecting a large amount of data from farms. Despite the many advantages of precision farming, security threats are a major challenge that is continuously on the rise and can harm various stakeholders in the agricultural system. These security issues may result in security breaches that could lead to unauthorized access to farmers' confidential data, identity theft, reputation loss, financial loss, or disruption to the food supply chain. Security breaches can occur because of an intentional or unintentional actions or incidents.

The Tokenist

US Cryptocurrency Bill Proposes Treating Bitcoin as a Commodity

07 June 2022

The author, tim fries, nor this website, the tokenist, provide financial advice. Please consult our website policy prior to making financial decisions. This Tuesday, Sen. Cynthia Lummis (R-WY), together with Sen. Kirsten Gillibrand (D-NY), introduced the Responsible Financial Innovation Act . The bill aims to reach a balance between consumer protection and safeguarding digital asset innovation. Most importantly, it should officially classify nearly all digital assets including Bitcoin as tax-favorable commodities.

Project Syndicate

What’s the Crypto Regulation Endgame?

06 June 2022

Absent a crisis, stiffer regulation of cryptocurrencies could take many decades, especially given that major players are pouring huge sums into lobbying. But it probably won't take that long, because the crisis for private digital currencies is likely to come sooner rather than later.

Corporate Risk Management

For boards, the volatility of risk scenarios is only increasing

Every organization is confronted with some type of risk - operational, financial, technological, environmental, regulatory - which can have devastating consequences. Effective corporate governance requires continuous and systematic management of all types of risk, both current and anticipated. First, risks must be prioritized, and here the board of directors can play a key role by deciding in what priority they should be addressed, what is to be deemed simply unacceptable, and how they should be addressed from a structural perspective. For example, evidence gathered from the 2007 global financial meltdown indicates that banks with boards that had identified a need to establish a separate risk management committee managed the crisis better than those with integrated committees. The benefits of this type of separation have become only more evident as fiduciary duties have come to include oversight of a broad range of matters, including compliance with international accounting rules and stability measures that require banks to set aside capital in case of potential losses. Implementing a robust risk management system requires the integration of different parts of an organization, including the board's risk committee, internal auditing, finance, legal, and operations.

Increasingly complex and rapidly changing economic, environmental, social, and technological conditions have multiplied potential risk scenarios. Worsening climate change, geopolitical tensions, trade wars, and social upheaval like the protests that spread in Hong Kong in 2019 require corporate governance that is proactive when it comes to identifying risks and addressing them. Determining an appropriate board structure and approach to risk management will depend upon both a company's industry and stage of its life cycle; risk exposure is very different for financial institutions than it is for petrochemical firms. Even within the financial sector, different approaches are required - from insurers exposed to extreme weather events related to climate change, to retail banks making loans to small businesses during volatile periods. Organizations are dealing with complexity and litigiousness like never before, forcing their boards to assess current and past organizational exposure. Still, there are some strategic advantages to taking risks; after all, achieving sustained growth requires some degree of risk-taking. Incorporating risk management into corporate strategy is therefore crucial.

Related insight areas: Development Finance, Justice and Law, Cybersecurity, Climate Change, Banking and Capital Markets, Illicit Economy, Insurance, International Security, Financial and Monetary Systems, Corruption, Risk and Resilience, Civic Participation

Harvard Business School Working Knowledge

How a Multimillion-Dollar Ice Cream Startup Melted Down (and Bounced Back)

07 July 2022

A Brooklyn-based ice cream shop was getting buzz, and Disney was pitching a brand partnership. So how did the business wind up filing for bankruptcy? A case study by Thomas Eisenmann and Lindsay N. Hyde examines the rise and fall—and recent rebound—of Ample Hills Creamery.

Governance Mechanisms

Corporate governance relies on a handful of mechanisms to align executives with owners and other stakeholders

Corporate governance involves establishing mechanisms to align the goals of a company's executive team with those of owners and other stakeholders (customers, local communities) in the interest of fostering sustainable and long-term development. One of the main mechanisms is the board of directors. It plays a vital role in keeping the executive team both accountable, and on track relative to its stated purpose and long-term goals. There has been a lot of discussion about the most effective structure for a board - which tends to depend on the nature of the organization, its market, and its regulatory environment. For a board to be truly effective it must decide on its optimal size, the independence of its members, the means to assess potential risks, and the renewal process necessary to maintain effectiveness. There has been heated debate about how to add diversity (in terms of both skills and backgrounds) to boards, in the interest of enhancing strategic guidance. Another high-profile topic is incentives, or setting the right type of compensation for top executives in order to encourage long-term decision making that is in line with the organization's purpose.

The compensation debate revolves around not only pay levels but also structure: short-term vs long-term, preferred stock vs. options, performance vesting options as well as discretionary bonuses. Research has shown that setting variable incentives tied to long-term horizons is conducive to long-term profitability, an increase in innovation, and increases in employee and client satisfaction. One key mechanism is the ability of shareholders to engage with management and discuss material matters, and to (most importantly) vote on proposals at annual meetings. Shareholders can include anyone from founding families to institutional investors like pension funds, and a significant share will likely be participating via retirement plans. Shareholder engagement keeps managers on their toes - and while not every form of activism genuinely adds value, making managers respond to shareholder pressure helps them to avoid becoming entrenched and insulated. There has been a marked increase in corporate responsiveness to shareholder pressure related to climate and gender equality issues in recent years, as well as a greater emphasis on long-term strategic plans - reflecting the fact that many shareholders now have longer-term investment horizons.

Related insight areas: Taxes, Private Investors, Climate Change, Justice and Law, Institutional Investors, Future of the Environment, Civic Participation, Insurance, Gender Inequality, Sustainable Development

VoxEU

Socially responsible divestment

17 June 2022

Responsible investing has become an increasingly popular practice, with the blanket exclusion of ‘brown’ industries – such as tobacco, gambling, and fossil fuels – widely regarded as its purest form. This column suggests that in some cases, ‘tilting’ (leaning away from a brown sector but keeping an industry leader) is a more effective strategy than shunning the industry outright. Though exclusion may work best for such industries as controversial weapons, tilting is preferable for an industry, such as fossil fuels, in which managers can be pressured to take corrective action.

Defining Corporate Purpose

An organization’s reasons for being should extend well beyond financial gains

The Business Roundtable, an association of CEOs of the largest American companies, has departed from a longstanding view that corporations exist solely to serve their shareholders. In 2019, the organization declared that companies should benefit all stakeholders, including customers, employees, suppliers, and communities - in addition to shareholders. This strongly reinforced the idea that profits are not the sole purpose of a business, and that corporations should exist to solve problems and provide services. If they are successful at doing this, long-term shareholder returns can increase, as society in general is better served. Establishing purpose is not an abstract exercise; it has proven to be essential for guiding decision making and for establishing priorities. London Business School Professor Alex Edmans has noted that as virtually all of the major decisions a company makes involve trade-offs, one of the main benefits of having a strong purpose is to guide these trade-offs. Purpose must not only be explicitly defined, however - it must also be implemented. Shareholders must understand the organization’s purpose, and be able to identify the metrics (both quantitative and qualitative) related to delivering on it.

Some of these metrics incorporate the traditional concepts behind corporate social responsibility (CSR), such as maintaining positive working conditions and employee satisfaction, cultivating workforce diversity, and focusing on client satisfaction and product quality. But purpose can go well beyond CSR - one example is the clothing company Patagonia, which states that its reason for being is to help protect life on Earth. This is (presumably) understood by its investors, and implemented by designing, producing and selling products in the most environmentally sustainable way possible, and by building its supply chains and customer service around the circular economy ideas of repairing, reusing, and recycling. Responsible corporations create value for society and are motivated by the desire to do so. Survey results published by researchers at Stanford Graduate School of Business in 2018 showed that 65% of Americans believe CEOs at large companies should use their positions to address broad social, political, and environmental issues. That is to say, most Americans realize that corporations need to be committed to providing solutions and value to everyone - and that businesses have a responsibility to society.

Related insight areas: ESG, Sustainable Development, Leadership, Circular Economy, Justice and Law, Values, Future of Consumption, Financial and Monetary Systems, Institutional Investors, Emerging-Market Multinationals, Taxes, Supply Chains

Wharton School of the University of Pennsylvania - Knowledge@Wharton

How Responsible Research Can Tackle Society's Toughest Challenges

23 June 2022

Companies aren't the only ones feeling pressure to meet environmental, social, and corporate governance metrics. Business schools are also working to ensure their coursework and research adhere to a higher standard of responsibility. … Read More.

Science Direct - family business strategy

In family firms we trust – Experimental evidence on the credibility of sustainability reporting: A replication study with extension

02 June 2022

One of the greatest and most widely acknowledged challenges today for organizations is to operate a sustainable business model (Schaltegger, Hansen, & Lüdeke-Freund, 2016). In an organizational context, the (long-term) performance of an organization is signaled to the market, for example, by specific corporate social responsibility (CSR) activities (Zerbini, 2017). This is relevant, especially for the perception of the organization's trustworthiness by external stakeholders. It is, thus, important to understand how stakeholders view an organization in terms of its sustainability endeavors. Many firms utilize sustainability reporting, defined as corporate disclosure "(…) concerned with the economic, social and environmental impacts of the (mostly for-profit) organization and the (good) intentions of its management" (Milne & Gray, 2007, p.

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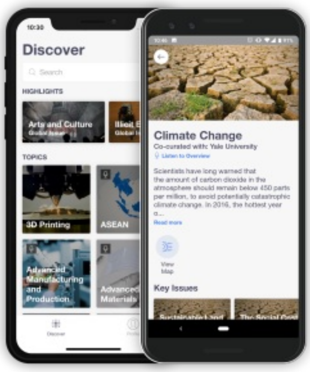

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