Corporate Governance Matters

A Closer Look at Organizational Choices and Their Consequences

Third Edition

David Larcker
Brian Tayan

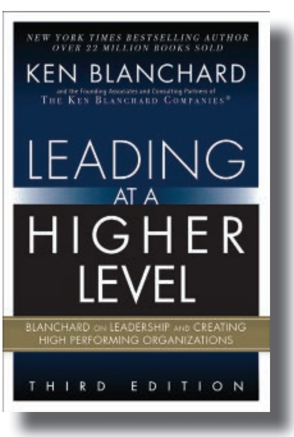
Corporate Governance Matters

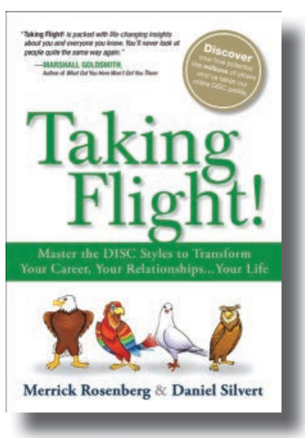
Third Edition

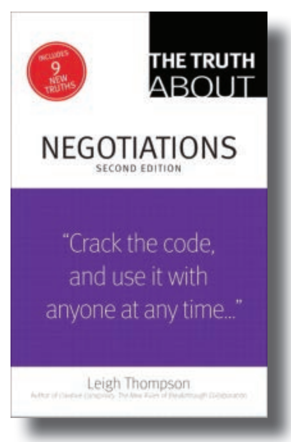
Business & Marketing Books, eBooks & Video

Pearson and FT Press, an imprint of Pearson, publish content from the world's best minds on the most important business and management topics. InformIT is the online presence of Pearson imprints focused on professional workforce topics including IT, business applications, and leadership.

Visit **informit.com/business** to shop and read sample chapters from featured products including these bestsellers.







Pearson

informIT.com
the trusted technology learning source

Corporate Governance Matters

A Closer Look at Organizational Choices and Their Consequences

Third Edition

David Larcker
Brian Tayan

Pearson

Editor-in-Chief: Mark L. Taub
Acquisitions Editor: Malobika Chakraborty
Development Editor: Sheri Replin
Managing Editor: Sandra Schroeder
Senior Project Editor: Lori Lyons
Production Manager: Vaishnavi Venkatesan/codeMantra
Copy Editor: Paula Lowell
Indexer: Ken Johnson
Proofreader: Betty Pessagno
Cover Designer: Chuti Prasertsith
Compositor: codeMantra

Library of Congress Control Number: 2020941960

ISBN-13: 978-0-13-666002-6

ISBN-10: 0-13-666002-9

ScoutAutomatedPrintCode

To Sally, Sarah, and Daniel,

Jack, Louise, and Brad,

Michelle and Rita

Nick

This page intentionally left blank

Contents at a Glance

Contents

Acknowledgments

First and foremost, we would like to thank Michelle E. Gutman of the Stanford Graduate School of Business, without whom this book would not have been possible. Michelle provided incredible support throughout this project and was instrumental at each step of the way, from concept and outline, to research, editing, and production. Her incredible work ethic and positive attitude are a model that researchers should strive to emulate, and our work and lives have been greatly enhanced because of her.

We would also like to thank the many experts who provided insight, commentary, and feedback to this work. In particular, we would like to thank Michael Klausner (Stanford Law School), who was invaluable in clarifying legal constructs—particularly those described in Chapter 3, Chapter 11, and Chapter 14. Priya Cherian Huskins (Woodruff-Sawyer & Co) was similarly invaluable in clarifying indemnifications and D&O insurance. Stephen Miles (The Miles Group) and Thomas Friel (Heidrick & Struggles) provided real-world insight into CEO succession planning, the executive recruitment process, and the labor market for directors. Ira Kay (Proxy Governance) provided important contextual understanding of executive compensation. Abe Friedman (CamberView Partners) helped us understand proxy voting from an institutional investor perspective.

The factual depth of this book would not have been possible without the generous resources made available to us by Stanford University. We would like to extend a special thank you to Arthur and Toni Rembi Rock for their generous funding of governance research through the Rock Center for Corporate Governance at Stanford University. We have been greatly enriched through the collaboration this center has allowed, particularly with our colleagues Michael Callahan, Robert Daines, Joseph Grundfest, Amanda Packel, and Kristen Savelle. Thank you also to Jonathan Levin of Stanford Graduate School of Business for his support of the Corporate Governance Research Initiative. We appreciate the resources and collaboration provided by Julie Williamsen and our colleagues in the Research Hub at Stanford Graduate School of Business. We would also like to thank David Chun (Equilar) for providing some of the compensation data used in the book.

We are grateful to Christopher Armstrong, Maria Correia, Ian Gow, John Kepler, Allan McCall, Gaizka Ormazabal, Daniel Taylor, Edward Watts, Youfei Xiao, Anastasia Zakolyukina, and Christina Zhu for their excellent assistance and thoughtful conversations about corporate governance. They also tolerated the idiosyncrasies of the lead author, for which he is particularly thankful.

Thank you to Sally Larcker for her rigorous and methodical editing of this work as we approached publication, and to Jeannine Williams for her diligent assistance throughout this project.

We are grateful to the high-quality support provided by Malobika Chakraborty, Sheri Replin, Lori Lyons, Paula Lowell, Vaishnavi Venkatesan, and others at Pearson. We would like to thank Stephen Kobrin for encouraging us to write this book.

Finally, thank you to our families—Sally, Sarah, Dan, Reese, Amy, Alexa, Avery, and Booker—who love and support us each day.

About the Authors

David Larcker is James Irvin Miller Professor of Accounting (Emeritus) at Stanford Graduate School of Business; Director of the Corporate Governance Research Initiative; and Senior Faculty, Arthur and Toni Rembe Rock Center for Corporate Governance. David's research focuses on executive compensation, corporate governance, and managerial accounting. He has published many research papers and is frequently quoted in both the popular and business press.

He received his BS and MS in engineering from the University of Missouri–Rolla and his PhD in business from the University of Kansas. He previously was on the faculty of the Kellogg Graduate School of Management at Northwestern University and The Wharton School at the University of Pennsylvania. Professor Larcker presently serves on the Board of Trustees for the Wells Fargo Funds.

Brian Tayan is a member of the Corporate Governance Research Initiative at Stanford Graduate School of Business. He has written broadly on the subject of corporate governance, including studies and other materials on boards of directors, succession planning, executive compensation, financial accounting, and shareholder relations.

Previously, Brian worked as a financial analyst at Stanford University's Office of the CEO and as an investment associate at UBS Private Wealth Management. He received his MBA from the Stanford Graduate School of Business and his BA from Princeton University.

Additional resources and supporting material for this book are available at:

Stanford Graduate School of Business
The Corporate Governance Research Initiative
www.gsb.stanford.edu/cgri-research

Preface

This is a book about corporate governance, written from an organizational perspective. It is intended for practitioners and aspiring practitioners who are interested in improving governance systems in their organizations. Unlike many other books on governance, this book is *not* written primarily from a legal perspective. Although we describe the legal obligations of selected organizational participants, our objective is not to rehash legal constructs. Books written by trained lawyers are much better for that purpose, and many fine works explain these obligations for the practitioner. Instead, our purpose is to examine the choices that organizations can make in designing governance systems and the impact those choices have on executive decision making and the organization's performance. This book is therefore relevant to corporate directors, executives, institutional investors, lawyers, and regulators who make organizational decisions.

Corporate governance is a topic that suffers from considerable rhetoric. In writing this book, we have attempted to correct many misconceptions. Rather than write a book that is based on opinion, we use the knowledge contained in the extensive body of professional and scholarly research to guide our discussion and justify our conclusions. This approach does not always lead to simple recommendations, but it has the advantage of being grounded in factual evidence. As you will see, not every governance question has been the subject of rigorous empirical study, nor is every question amenable to a simple solution. There are gaps in our knowledge that will need to be addressed by further study. Still, we hope this book provides a framework that enables practitioners to make sound decisions that are well supported by careful research.

In each chapter, we focus on a particular governance feature, describe its potential benefits and costs, review the research evidence, and then draw conclusions. Although the book is written so that it can be read from cover to cover, each chapter also stands on its own; readers can select the chapters that are most relevant to their interests (board structure, CEO succession planning, executive compensation, and so on). This book—along with our set of associated case studies and teaching materials—is also suitable for undergraduate and graduate university courses and executive education programs.

We believe it is important for organizations to take a deliberate approach in designing governance systems. We believe this book provides the information that allows them to do so.

13

Stakeholders and Stakeholder Activism

The governance mechanisms discussed in this book so far have been considered from a shareholder-centric perspective. A fundamental premise throughout is that the primary purpose of a corporation is to create value for shareholders and the obligation of a board is to ensure this purpose is achieved. Chapter 3 outlines board operations and fiduciary duties from this standpoint. Chapter 6 evaluates strategy development and risk management with this objective in mind. Chapter 11 accepts the premise that an effective market for control facilitates the transfer of corporate assets to owners who will derive the highest value from them. Many of the empirical studies discussed in this book measure the effectiveness of governance mechanisms by their impact on shareholder value and corporate profitability, and the central definition of corporate governance that we employ—that a separation between the ownership of a company and its management creates opportunity for self-interested managers to take actions that benefit themselves at the expense of shareholders—is rooted in the premise that preserving shareholder value is a primary objective.

An alternative viewpoint, however, exists—that a corporation should exist not only to increase value for shareholders but also to address the needs of other (non-shareholder) stakeholders. These stakeholders include employees, trade unions, customers, suppliers, local communities, and society. In this chapter, we turn to this issue. We start with an overview of the pressures that corporate managers face to incorporate stakeholder objectives into their planning, including pressures that come from their own shareholder base. We discuss the legal and economic implications of a stakeholder-centric governance model, including its potential impact on strategy, risk, and value creation. Then we examine how corporate managers and directors view their obligations to stakeholders, and discuss the recent trend of CEO activism on social issues. We end with a discussion of the metrics used to track a corporation's progress toward achieving social goals—including those developed by third-party rating providers—and their effectiveness.

As we will see, managing a corporation from a stakeholder perspective is not a simple undertaking and highlights a fundamental tension that has long existed in corporate boardrooms: how to balance competing interests to ensure the success of the organization over the long term.

Pressure to Incorporate Stakeholder Interests

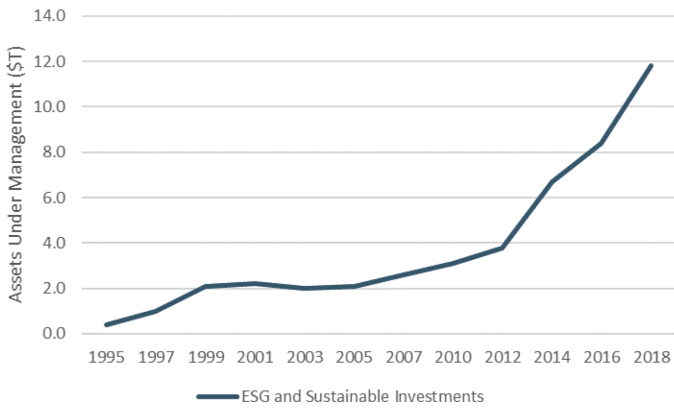
In 1970, economist Milton Friedman famously argued that a company's only social responsibility is to maximize shareholder value. He argued that corporate executives are employed by the owners of the firm (shareholders) and their obligation is to manage the business in accordance with the wishes of their employer—that is, to increase its value under the constraints of the law and accepted ethical standards. When other purposes are added to the equation, they require trading off this objective by diverting resources to a purpose that the owners of those resources have not approved, with the cost borne by shareholders through lower profit, customers through higher prices, and workers through lower wages and employment.[1]

Despite Friedman's argument, pressure has grown on large, publicly traded firms to incorporate stakeholder interests into their long-term planning. Without providing an exhaustive list, **stakeholders** include employees of the firm, customers, suppliers, creditors, trade unions, local communities, and society at large. The interests of these groups are broad and include environmental sustainability, reduction in waste or pollution, higher wages, workplace equality, diversity, providing access to groups who cannot afford products or services, and being a responsible counterparty or local citizen. Because companies operate in different industries, stakeholders and stakeholder interests differ across corporations. When we talk about stakeholder interests, we generally refer to the most directly relevant issues—such as climate change for energy producers, product waste for goods manufacturers, or affordability for healthcare providers. In some cases, the social interest is assumed to be common across companies, one example being diversity.

Various labels have been applied over time to describe corporate and investor efforts to address stakeholder needs. These include **socially responsible investing (SRI), corporate social responsibility (CSR), and environmental, social, and governance (ESG)**.

Pressure for corporations to address stakeholders' interests has come from multiple fronts:

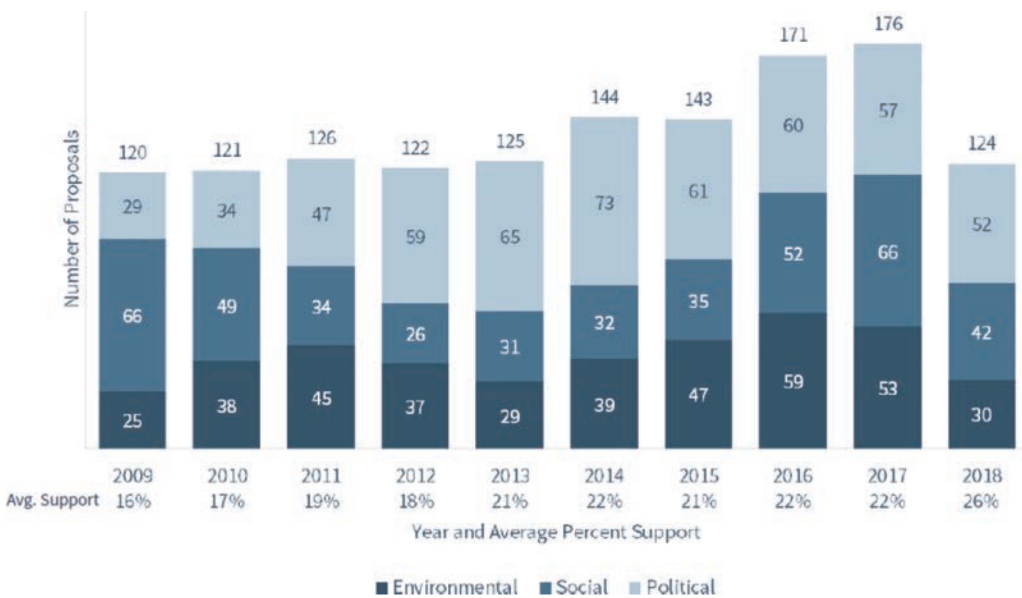
- **Money flowing into sustainable investment funds—**In 1995, less than $1 trillion was invested with money managers and institutional investors dedicated to sustainable, responsible, and impact investing in the U.S. By 2018, that number exceeded $12 trillion (see Figure 13.1).[2]



Source: U.S. SIF Foundation, "Sustainable and Impact Investing—Sustainable Investing Basics (2018).

Figure 13.1 Sustainable and responsible investing in the U.S.

- **ESG-related proxy proposals—**The number of shareholder-sponsored proxy proposals relating to ESG considerations has generally increased in time and the percent of shares voted in favor of these proposals has also increased (see Figure 13.2).[3]



Note: The decline in shareholder-sponsored proxy proposals in 2018 was the result of higher direct engagement between companies and sponsoring shareholders.

Source: FactSet. Calculations by the authors in David F. Larcker, Brian Tayan, Vinay Trivedi, and Owen Wurzbacher, "Stakeholders and Shareholders: Are Executives Really 'Penny Wise and Pound Foolish' About ESG?"

Figure 13.2 Shareholder-sponsored proxy proposals on ESG-related topics.

- **Institutional investors—**Large institutional investors that had previously taken passive stances on ESG-related issues have become more assertive. For example, each of the "Big Three" index funds—BlackRock, Vanguard, and State Street Global Advisors—have engaged in advocacy campaigns in recent years to shape the governance practices of their portfolio companies in areas relating to social responsibility. (We discuss this more fully later.)
- **ESG metrics—**Data providers use survey data and publicly observable metrics to rate companies along a variety of stakeholder dimensions. This data is sold to institutional investors to inform investment decisions or is used in magazine rankings. Examples of data providers include MSCI, HIP ("Human Impact + Profit"), and TruValue Labs. Examples of published indices include Barron's 100 Most Sustainable Companies, Bloomberg Gender Equality Index, Ethisphere Institute's Most Ethical Companies, and Newsweek Top Green. The Sustainability Standards Board (SASB) has tried to standardize the reporting of these metrics. (We discuss ESG measurement more fully later and in Chapter 14.)
- **Employee activism—**Employees of some companies have become more vocal expressing their views to management on environmental or social issues. Social media and internal corporate communications platforms have facilitated this process. Employee activism has forced companies to change corporate policy, withdraw from commercial activities, and take public stances on societal issues about which the company might traditionally remain silent (see the following sidebar).

Employee Activism

Microsoft

In 2018, more than 100 employees protested the company's work with U.S. Immigration and Customs Enforcement (ICE), writing in a letter to management that "Microsoft must take an ethical stand and put children and families above profits." The company, which provided data processing and artificial intelligence capabilities to ICE, said that it was not aware of its products being used for unethical purposes. Still, it expressed "dismay" over U.S. immigration policy, and CEO Satya Nadella called certain border enforcement practices "cruel and abusive."[4]

Amazon

In 2019, more than 4,000 employees signed a letter to senior leadership calling on Amazon to take a more aggressive stance in combatting climate change. The letter asked management to make firm commitments to reduce its carbon footprint. It also asked the company to support a shareholder-sponsored proxy resolution on climate reporting. The company responded by highlighting initiatives underway to reduce carbon emissions in its distribution network. The company did not support the proxy resolution, which did not pass.[5]

Google

Over the years, Google has faced multiple instances of employee activism. In 2018, employees protested work the company performed for the U.S. Defense Department, causing Google not to renew the contract. That same year, employees staged a walkout over reports that Google had paid severance to senior executives accused of harassment. Workers have also engaged in internal debate on social and political topics, and some have protested speakers invited to speak in company offices. Google developed guidelines to moderate internal discussion groups, saying it would discipline employees whose discussions are "disruptive to a productive work environment."[6]

Of these sources, institutional investors have played a particularly prominent role promoting stakeholder interests. Beginning in 2014, Vanguard launched a program of direct engagement with portfolio companies to discuss governance-related topics. It dubbed this program "quiet diplomacy." Vanguard subsequently included ESG criteria in this effort.[7] In 2017, State Street Global Advisors launched what it called the "Fearless Girl" campaign to advocate that its portfolio companies increase the number of women on their boards.[8]

BlackRock has been the most vocal of the Big Three investors to advocate that companies give greater consideration to stakeholder interests. For the last several years, BlackRock CEO Larry Fink has written an annual letter to the CEOs of the companies in BlackRock's investment portfolio, encouraging them to address a variety of stakeholder-related issues. In 2016, he advocated they lay out "a strategic framework for long-term value creation" and stated that "generating sustainable returns over time requires a sharper focus not only on governance, but also on environmental and social factors."[9] The next year, he encouraged greater attention to "long-term sustainability" and discussed such topics as globalization, wage inequality, tax reform, and a more secure retirement system for workers.[10] In 2018, he argued that a company needs to have a "sense of purpose" that serves all stakeholders and that "to prosper over time, every company must not only deliver financial performance but also show how it makes a positive contribution to society."[11] In 2019, he argued that "purpose and profit are inextricably linked" and that purpose is "the animating force" to create stakeholder value.[12] In 2020, he announced that BlackRock was putting "sustainability at the center of our investment approach" and asked companies to disclose more information on their sustainability efforts, including climate change.[13]

Because of BlackRock's size and ownership stake, it is positioned to influence corporate practice: In 2018, it held more than 7 percent of the equity value of the Russell 3000 Index and had an ownership position greater than 5 percent in almost every company in the S&P 500 Index (see the following sidebar).[14]

Is BlackRock the New ISS?

The evidence presented in Chapter 12 demonstrates the influence that Institutional Investor Services (ISS) has on shareholder voting and corporate practices. Because of BlackRock's size and ownership position across U.S. companies, is BlackRock similarly positioned to influence corporate decision making?

In his 2020 letter, CEO Larry Fink makes clear that his firm "will be increasingly disposed to vote against management and board directors when companies are not making sufficient progress on sustainability-related disclosures and the business practices and plans underlying them."[15]

This advocacy raises several questions: How does BlackRock determine whether its advocacy stances on stakeholder issues are value increasing to shareholders? Does empirical evidence support this conclusion or is it driven by normative assumptions about how companies "should" behave? Are the company's advocacy positions consistent with its fiduciary responsibilities, given that it does not own shares in these companies itself but instead on behalf of beneficial owners? How should the views of the CEO of an investment company with more than $7 trillion under management influence the voting behavior across a firm's entire investment portfolio?

Despite Fink's advocacy of stakeholder issues, the firm has made investments that conflict with some of the positions put forward in his annual letter. For example, in 2019, BlackRock invested in a $12 billion inaugural bond offering by Saudi Arabian oil company Aramco, despite that company's contribution to carbon emissions. Of the bond offering, Fink said "We wanted [it] to be much bigger." Regarding investment in Saudi Arabia, he said, "The region is not perfect, no region is perfect. The fact that there are issues in the press doesn't tell me I should run from a place, it tells me we should run to a place."[16]

In response to pressure from these sources, more than 180 CEOs affiliated with the Business Roundtable agreed to revise the association's statement on the purpose of a corporation, to emphasize a commitment to all stakeholders and not just shareholders. According to the association:

> Since 1978, Business Roundtable has periodically issued Principles of Corporate Governance that include language on the purpose of a corporation. Each version of that document issued since 1997 has stated that corporations exist principally to serve their shareholders. It has become clear that this language on corporate purpose does not accurately describe the ways in which we and our fellow CEOs endeavor every day to create value for all our stakeholders, whose long-term interests are inseparable.
>
> Under the revised statement, association members commit to:
>
> - Delivering value to our customers. We will further the tradition of American companies leading the way in meeting or exceeding customer expectations.
> - Investing in our employees. This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity and inclusion, dignity and respect.
> - Dealing fairly and ethically with our suppliers. We are dedicated to serving as good partners to the other companies, large and small, that help us meet our missions.
> - Supporting the communities in which we work. We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses.
> - Generating long-term value for shareholders, who provide the capital that allows companies to invest, grow and innovate. We are committed to transparency and effective engagement with shareholders.[17]

We discuss the implications of this commitment next.

Legal and Economic Implications

It is not clear what tangible impact a commitment to stakeholders has on the manner in which a corporate director advises and oversees management and the corporation. Fiduciary duty under Delaware law requires that shareholder considerations be primary. The adoption of ESG-related principles does not change this.[18] According to Delaware Supreme Court Chief Justice Leo E. Strine, Jr:

> [A] clear-eyed look at the law of corporations in Delaware reveals that, within the limits of their discretion, directors must make stockholder welfare their sole end, and that other interests may be taken into consideration only as a means of promoting stockholder welfare.[19]

Similarly, former Chancellor William B. Chandler III of the Delaware Court of Chancery wrote:

> I cannot accept as valid … a corporate policy that specifically, clearly and admittedly seeks not to maximize the economic value of a for-profit Delaware corporation for the benefit of its shareholders.[20]

Nevertheless, Delaware law does allow stakeholder considerations to be taken into account to the extent that they protect the value of a firm or decrease its long-term risk. According to Skadden Arps:

> The shareholder primacy path does not preclude a for-profit company from taking social issues into account in the conduct of its business. What is required to stay on the path is that the company's consideration of those social issues have a sufficient nexus to shareholder welfare and value maximization.[21]

In evaluating a stakeholder's need, the board is expected to gather reasonably available material, evaluate the costs and benefits, and make a decision in a disinterested manner in the best economic interest of shareholders—just as it does all other business decisions. The board's decision then falls under protection of the business judgment rule.[22]

As such, it is not clear that the board of a company that explicitly adopts ESG-related principles can or would make substantially different economic decisions than a corporation that does not. In order for a board to make a decision that reduces economic outcomes for shareholders to benefit other stakeholders, a fundamental change to corporate law would have to occur. (Some politicians have advocated such a change.)[23] If the decision does not reduce outcomes, then it could be argued that the decision-making framework of a board that adopts ESG-related principles is no different than the standard decision-making framework that directors currently and have historically employed. ESG is just a different strategic approach to achieving similar economic ends. (The Business Roundtable statement cited earlier appears to walk this line when it says that the long-term interests of shareholders and stakeholders are inseparable. Many ESG-related initiatives also appear to walk this line. See the following sidebar.)

Is It Really ESG?

Corporations tout public initiatives to demonstrate their commitment to environmental and social issues. Many initiatives, however, are closely aligned with the company's existing business model. Are these examples of management willing to invest in costly initiatives to address a stakeholder need, or do they represent decisions under a standard framework to increase shareholder value by mitigating potential risk?

The Coca-Cola Company

In 2018, Coke announced a sustainability initiative called "World Without Waste." The company, which has been criticized by environmental groups for generating plastic waste, set a goal of collecting and recycling the equivalent of 100 percent of its packaging by 2030. According to its CEO, "The world has a packaging problem—and like all companies, we have a responsibility to help solve it."[24]

Republic Services

In 2019, management company Republic Services announced aggressive goals to reduce its climate footprint, reduce waste, and increase safety and charitable giving as part of its 2030 Sustainability Goals.[25] The company has been recognized by third-party rating associations for its progress on these measures.[26] According to its CEO, "We actually think so much about this that we formed an additional committee in our board of directors called sustainability and corporate responsibility to look at things like sustainability, things like safety, things like environmental impact. … Sustainability matters, and we think it's good for business, and our customers are telling us that they will pay more for a company that actually takes this seriously."[27]

Gilead

Like many pharmaceutical companies, Gilead offers a payment assistance program to make the company's products affordable to low-income patients. In 2013, the company received approval to market and sell Sovaldi, the world's first treatment to cure Hepatitis C.[28] Under Gilead's payment assistance program, "Most eligible patients will pay no more than $5 per co-pay."[29] The list price of the drug charged to payment providers, however, was $1,000 per pill, or $85,000 for the full regimen.

Corporate executives need to make rational strategic and investment decisions for both the short and long term.[30] The debate about the importance of ESG hinges on the time horizon that public company executives use to make those investment decisions (and, by extension, the board of directors that approves those decisions). ESG advocates contend that companies, motivated by compensation incentives and shareholder activism, are too short-term oriented and do not make sufficient investment in important stakeholder groups (such as employees, customers, suppliers, or environmental preservation) because they are overly focused on quarterly profit maximization to increase the current share price. As a result, their business model is presumed to be unsustainable: At some point in the future, this lack of investment will either lead to a deterioration in performance or contribute to a societal ill that the company is forced to redress through government action (an **externality**).[31] An important assumption underlying these claims is that shareholders do not notice the damage being done to the company today and will bid the stock price up based on current earnings without accurately pricing in the long-term risk created by foregone investment.

The solution to the problem, when framed this way, is to create more sustainable companies. This explains in part the advocacy of BlackRock and its emphasis on "sustainable, long-term growth."[32] It also explains the support for ESG-related initiatives by prominent corporate law firms such as Wachtell, Lipton, Rosen & Katz, which urges companies to reject a "short-term myopic approach" and embrace "sustainable improvements … [that] systematically increase rather than undermine long-term economic prosperity and social welfare."[33]

Unfortunately for those who want to resolve the issue, robust empirical evidence does not exist to evaluate the claim of whether CEOs are too short-term oriented. (We discuss the viewpoints of executives and directors on this question in the next section.) Denis (2019) reviewed research evidence on shareholder investment horizon, shareholder activism, corporate investment, and shareholder reaction to corporate investment over a three-decade period and concluded that "there is little systematic evidence to suggest that short-termism is a pervasive problem plaguing U.S. companies."[34]

Ioannou and Serafeim (2019) found that sustainability initiatives are adopted first by market leaders and then spread over time to become common industry practice. Sustainability initiatives contribute most positively to corporate performance when environmental and social issues are relatively more important in the industry. They concluded that sustainability initiatives are strategic choices.[35]

The impact of a stakeholder orientation on corporate governance is also uncertain. Jensen (2002) argued that stakeholder theory allows managers to design their own objective functions and run firms in their own interests. That is, a stakeholder orientation has the potential to increase agency costs by replacing a measurable objective (shareholder value) with a less measurable objective (stakeholder value).[36] Mehrotra and Morck (2017) argued that shareholder value maximization constitutes a bright line to evaluate performance, "whereas stakeholder welfare maximization is an ill-defined charge … that gives self-interested insiders broader scope for private benefits extraction."[37] Similarly, Bebchuk and Tallarita (2020) contended that a stakeholder orientation insulates management from shareholders, reduces accountability (by lessening financial performance as a disciplining mechanism), and harms economic performance. They concluded that a stakeholder orientation has the potential to be costly to shareholders, stakeholders, and society alike, and counterproductive to the objective of advancing the very interests that ESG advocates embrace.[38]

Note, these are theoretical arguments. It is likely that companies that adopt a stakeholder orientation do so out of a variety of motives and experience a variety of outcomes from their initiatives. The impact of *requiring* a stakeholder orientation on all firms through a change to corporate law, however, is likely negative. We return to this question at the end of the chapter.

Director and CEO Views on Stakeholders

We have seen the pressures that companies face to adopt stakeholder-friendly initiatives and the legal and economic implications of these initiatives. What are the viewpoints of corporate directors and executives on this issue? Survey data suggests that they embrace the concepts behind advancing stakeholder interests and generally are satisfied with the decisions their companies make to address stakeholder needs within the constraints of maximizing shareholder value.

A survey of corporate directors from PricewaterhouseCoopers found that many directors accept, at least in part, the concept of a stakeholder orientation. Four out of five directors believe that social purpose and corporate profitability are not mutually exclusive. Three-quarters believe that companies should have a social purpose. A lower but still significant percentage (58 percent) believe that stakeholder needs should be prioritized alongside shareholder needs in making company decisions.

Many directors also believe stakeholder needs should be incorporated—again, in part—into strategic planning and investment. Approximately half believe ESG-related issues should be part of strategic formulation. Slightly more than half (57 percent) say they should be part of the company's risk management framework. However, as we discussed in Chapter 3, corporate directors believe that some of the external focus on ESG is excessive. Approximately 60 percent believe shareholder focus on board diversity is excessive, 56 percent that the focus on environmental sustainability is excessive, and 47 percent that the focus on corporate social responsibility is excessive.[39]

Corporate executives also appear to embrace the concept of addressing stakeholder needs and claim that they currently do so as part of their long-term planning. They do not agree that increasing shareholder value requires that stakeholder needs be ignored or disregarded.[40] A 2019 survey of more than 200 CEOs and CFOs of companies in the S&P 1500 Index found that almost 90 percent believe stakeholder interests are critical to their long-term planning. Furthermore, very few (23 percent) believe that shareholder interests are significantly more important than stakeholder interests; instead most (77 percent) believe that shareholder interests are only slightly more important or that some level of parity exists between the two. Almost all (96 percent) are satisfied with the job their company does to meet the interests of their most important stakeholders.

The most surprising result of this survey is that very few executives accept the central premise that incorporating a stakeholder orientation into corporate planning requires a trade-off between short-term costs and long-term benefits. In fact, only 12 percent of CEOs and CFOs hold such a view. Instead, most believe *either* that investing in ESG-related initiatives is costly in both the short and long terms (37 percent)—in which case it is not worth doing at their company—*or* that ESG initiatives are beneficial in both the short and long terms (28 percent)—in which case the decision requires no trade-off and is not difficult to make.[41]

Finally, many CEOs and CFOs do not believe their largest investors see stakeholder considerations as being in conflict with their financial interests as owners (see the following sidebar).[42]

These are perception data, but they suggest that in the eyes of corporate decision makers, most companies try to strike an appropriate balance in pursuing shareholder value without imposing harm or cost on stakeholders. Most companies believe they are sustainable.

BlackRock Speaks. Does Anyone Listen?

Earlier in the chapter, we described the advocacy efforts of BlackRock CEO Larry Fink who urged companies to pay greater attention to the "long-term sustainability" of their businesses. What is the reaction of CEOs?

A 2019 survey by the Rock Center for Corporate Governance at Stanford University found that 67 percent of CEOs report receiving Larry Fink's letter. Sixty-eight percent agree with the ideas expressed in his letter—in particular, the notion that companies have an obligation to address broad economic and social issues. Half discussed this letter with the board. However, almost none (87 percent) say the letter led them to evaluate or implement new ESG initiatives.[42]

These results do not necessarily suggest that shareholders like BlackRock are ineffective in their advocacy efforts. Dimson, Karakas, and Li (2015) studied shareholder engagement activity over the ten-year period 1999–2009. They found that successful engagement on environmental and social issues is followed by positive abnormal returns; unsuccessful engagement has no impact on returns. It is interesting to note that the rate of successful engagement in the study (18 percent) is not significantly different from the percent of CEOs motivated by Fink's letter (13 percent).[43]

ESG Metrics and Disclosure

The absence of reliable reporting metrics is a considerable obstacle to assessing the degree to which a company invests in stakeholder initiatives and to measuring their effectiveness. A 2020 survey by the National Association of Corporate Directors (NACD) found that lack of uniform disclosure standards was the single greatest challenge directors face in providing oversight of ESG matters. If directors, who have access to nonpublic information, struggle with this challenge, then external observers no doubt struggle even more so.

To increase transparency, some companies are disclosing information about their stakeholder-related initiatives through supplemental reports to their required financial disclosure. Examples include:

- **Sustainability report—**A report that describes the economic, environmental, and social impact of a company's activities, and describes the link between corporate strategy and sustainable outcomes.
- **Human capital report—**A report that includes qualitative and quantitative information about a company's workforce, critical skills and expertise requirements, workforce development initiatives, diversity initiatives, training, human resource policies and practices, and trends within the company.
- **Climate change impact report—**A report that enumerates the potential impact of climate change on a company's governance, strategy, and risk management including metrics and targets to assess and management climate-change risk. These reports are often developed in accordance with the recommended guidelines of the Financial Stability Board Task Force Recommendations (TCFD).[44]

In addition to these, some companies voluntarily disclose ESG-related initiatives in the annual proxy. The NACD reports that approximately 23 percent of Russell 3000 companies make a statement on sustainability in their proxy statement, 6 percent on human capital management, and 6 percent on climate change. [45] ESG disclosure is more prevalent among large corporations. For example, Ernst & Young found that half of the Fortune 100 voluntarily highlight workplace diversity initiatives, and between a quarter and third highlight workplace compensation, culture initiatives, or workplace health and safety initiatives. [46] Some companies disclose the use of ESG-related metrics in their executive compensation programs (see the following sidebar).

ESG Disclosure

Chevron: Corporate Responsibility Report

Chevron's corporate responsibility report provides an overview and metrics about its ESG initiatives:

- **Environment:** Protecting the environment, addressing climate change, and managing water resources
- **Social:** Valuing diversity and inclusion, creating prosperity, contributing to the United Nations sustainable development goals, and respecting human rights
- **Governance:** Getting results the right way, prioritizing our culture and operational excellence, operating safely and reliably, and engaging our stakeholders

Examples of performance data in the report include greenhouse gas emissions, water usage, gender and ethnic diversity at different levels of the organization, and safety data.

IBM: Proxy Disclosure on Climate Risk

"IBM considers risks as identified by the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) in its risk management process. IBM senior management assesses the significance of environmental and climate-related risks. In addition, they manage these risks and provide regular updates to the Board and to the Directors and Corporate Governance Committee. Furthermore, IBM has established internal objectives and targets for energy conservation, procurement of renewable energy, carbon dioxide (CO2) emissions reduction and other key environmental performance indicators. Performance against these objectives and targets is routinely monitored, and results are reviewed annually by the Board's Directors and Corporate Governance Committee. Details on IBM's performance against key environmental performance indicators can be found in our annual IBM and the Environment Report."[47]

Clorox: Proxy Disclosure on Product Sustainability

"We strive to be a leader in responsible product stewardship with a focus on progressive actions to enhance the practices of our company and the consumer packaged goods industry overall.

- We surpassed our product sustainability goal two years early, having made sustainability improvements to 58% of our product portfolio versus our goal of 50% by 2020.
- Across our portfolio, 92% of our primary packaging is recyclable and 85% of our domestic retail sales volume carries the How2Recycle label.
- We've eliminated 100% of polyvinyl chloride (PVC) in our U.S. packaging and are on track to achieve our goal to eliminate PVC in packaging globally by the end of 2020.
- In May 2019, leaders from our Burt's Bees and Glad businesses participated in the inaugural Ocean Plastics Leadership Summit, a forum for developing innovative solutions to the causes of plastic waste.
- Our new IGNITE Strategy furthers our commitment to sustainable products and packaging and includes goals of reducing virgin packaging by 50%, and using 100% recyclable, reusable or compostable packaging and also plastic post-consumer recycled content in packaging."[48]

Vermilion Energy: Sustainability Skills Matrix

Vermilion Energy lists the experiences required for sustainability oversight and highlights how the skills and experiences of each director map to these requirements.

Environment: Greenhouse gas emissions, air quality, waste and wastewater management, ecological impacts, renewable energy

"Larry J. MacDonald: As Chief Operating Officer of Anderson Exploration, had direct responsibility for health, safety and environment, including cold bitumen production; helped initiate an experimental project to re-inject produced sand into existing wells."

Social and human capital: Human rights and indigenous relations, community relations and development, employee health and safety, people management, labor rights

"Robert B. Michaleski: As CEO of Pembina, was responsible for human resources, corporate philanthropy, community engagement and Indigenous relations; personal volunteering as Co-Chair of the Energy section of United Way Cabinet for three years, and a member of United Way Board of Directors for five years, including role as Chair."[49]

Microsoft: Executive Compensation

Microsoft assigns a 33.3 percent weight to the achievement of culture and organizational leadership goals in awarding executive bonuses.

"Mr. Nadella continued to demonstrate his commitment to evolve Microsoft culture, where his successes include achieving aspirational goals for diversity goals in hiring and retention. In fiscal year 2019, nearly 80% of employees and managers surveyed indicated they understand how to leverage a new core priority for inclusion to contribute towards building a more diverse and inclusive workplace. Moreover, 90% of employees said their managers created an inclusive environment. Work remains to be done to provide additional training and resources for the Company's mid-level managers and address the needs of the millennial workforce.

Surveys of employee sentiment and Senior Leadership Team feedback show strong support for Mr. Nadella's cultural push for One Microsoft and Growth Mindset initiatives."[50]

A lack of rigorous, quantitative, and uniform metrics makes it difficult to assess the quality of stakeholder-related efforts across large samples of companies. Without uniform metrics, companies effectively can choose what variables to report and how to calculate them.

To address this challenge, a nonprofit organization called the **Sustainability Accounting Standards Board (SASB)** developed a set of standards for companies to make consistent and comparable disclosure about ESG-related issues. These standards are organized into five dimensions: environment, social capital, human capital, business model and innovation, and leadership and governance. Each dimension is further organized into three to seven general-issue categories. Additionally, SASB provides a materiality map to identify the dimensions and general-issue categories that are relevant to each industry. For example, the general-issue category "greenhouse gas emissions" is considered material to the transportation industry but the category "water and wastewater management" is not.[51]

SASB standards are therefore tailored to each industry and, as a result, a sustainability report compiled by a company in the commercial banking industry would include different metrics from one compiled by the casinos and gaming industry. A commercial bank SASB report includes metrics and disclosure language on financial inclusion through the availability of lending and savings products in underserved communities. [52] By contrast, the casino SASB report includes metrics on responsible gaming.[53]

Despite the similarity of its name to the Financial Accounting Standards Board (FASB) and International Accounting Standards Boards (IASB) that develop the accounting standards used to prepare public financial statements, SASB standards are not officially endorsed by the SEC. As a result, few companies include SASB metrics in their Form 10-K disclosure. Instead, companies that report SASB metrics do so through separate sustainability reports on their website.[54]

Furthermore, sustainability metrics are generally not audited by a public accounting firm. In some instances, companies will engage independent third-party organizations to certify their report, although the verification procedures of these organizations are not overseen by Public Company Accounting Oversight Board (PBAOC).[55] As a result, some shareholder groups are skeptical of the quality of the ESG-related information they receive from companies. PricewaterhouseCoopers found that only 29 percent of investors are confident in the quality of ESG disclosure.[56]

The research on sustainability reporting is mixed. Christensen, Hail, and Luez (2019) provided a literature review on corporate social responsibility (CSR) reporting. They found that CSR information can benefit capital markets through greater liquidity, lower cost of capital, and better capital allocation. At the same time, CSR disclosure might also be associated with higher litigation risk. The authors found large variations in disclosure (length and quality) across firms, which likely reflect heterogeneity in firms' business activities, the materiality of CSR to firms' activities, and the perceived cost and benefits of disclosure. Because most CSR initiatives and disclosure are voluntary, it is difficult to measure the impact of these on performance and valuation. The authors concluded that mandatory CSR reporting standards "have the potential to improve information to investors and other stakeholders" but the "net effects of a CSR mandate are not a priori obvious."[57]

External Assessment of ESG

Shareholder and stakeholder demand to better understand corporate ESG initiatives has spawned a cottage industry of third-party organizations that publish rankings and ratings of companies on various environmental and social dimensions. Examples of rankings include:

- ***Bloomberg* Gender-Equality Index—**Measures how companies "invest in women in the workplace, the supply chain, and in the communities in which they operate."[58]
- ***Corporate Responsibility* Magazine Best Corporate Citizens—**"Recognizes outstanding environmental, social and governance (ESG) transparency and performance among the 1,000 largest U.S. public companies."[59]
- ***Ethisphere Institute* Most Ethical Companies—**"Recognizes [companies] for setting the global standards of business integrity and corporate citizenship."[60]
- ***Fortune* Best Workplaces for Diversity—**Ranks companies that "create inclusive cultures for women and people of all genders, people of color, LGBTQ people, employees who are Boomers or older, and people who have disabilities."[61]
- ***Newsweek* Green—** Compiles "environmental performance assessments of the world's largest publicly traded companies."

Examples of ratings include:

- **FTSE Russell—**"Allows investors to understand a company's exposure to, and management of, ESG issues in multiple dimensions."[62]
- **HIP Investor Ratings—**"Derived from quantitative performance measures that demonstrate positive social, environmental and economic outcomes. Higher HIP Ratings also correlate with lower future risk and greater future return potential."[63]

- **MSCI ESG—**"Helps investors identify environmental, social and governance (ESG) risks and opportunities within their portfolio."[64]
- **Sustainalytics—**"Helps investors identify and understand financially material ESG risks at the security and portfolio level."[65]
- **TruValue Labs—**"Applies artificial intelligence to uncover opportunities and risks hidden in massive volumes of unstructured data, including real ESG behavior that has a material impact on company value."[66]

These ranking and rating organizations employ diverse methodologies. Some rely on information publicly disclosed in financial statements or sustainability reports. Some rely on proprietary surveys distributed to the company or its employees. Others incorporate information derived from the media and event-related press releases. Multiple sources of information are sometimes combined to arrive at the assessment.

We examine the methodologies of selected firms and the predictability of their ratings in greater detail in the next chapter. However, several issues are worth noting here. The first one is the availability of information. Disclosure of ESG data is primarily voluntary, and more information is available about large corporations than small ones—because of their more extensive disclosure practices, larger investor relations departments, and greater media coverage. As such, an ESG rating firm must determine how to evaluate companies with different disclosure practices.

The second issue is how to assign weightings to ESG dimensions to generate an overall score. The concept of ESG includes a broad array of somewhat disparate environmental, social, and ethical issues. A ranking such as the *Bloomberg* Gender Equality Index makes an assessment of one ESG dimension and so weightings are less of an issue. *Corporate Responsibility Magazine* Best Corporate Citizens, on the other hand, takes a broad view and has to decide how to incorporate difficult-to-relate variables into a single outcome. This includes a determination of how to compute an overall score when an individual data element is not publicly available.

The third challenge is materiality. As discussed earlier in reference to SASB standards, various ESG dimensions have different relevance to different industries. How should the environmental stewardship of an energy or manufacturing company be compared to that of a technology or service company, given their different exposure to environmental challenges (carbon emissions, pollution, waste, and so on)? Should a company be compared only against its industry peers to determine which ones handle the matter better, or can companies in different industries be compared against each other?

Each ranking or rating firm makes choices on these questions. Because of this, the ratings assigned to companies vary considerably depending on the firm that assigns them. For example, MSCI gives Tesla Motors one of its highest ratings for environmental performance, but FTSE Russell gives Tesla a low score on environment because the FTSE Russell model does not take into account emissions from a company's cars and only includes emissions from its factories. FTSE also penalizes Tesla in its social rankings because Tesla discloses little information about its practices, whereas MSCI assumes that if a company does not disclose information on a dimension that its performance is in line with industry averages. In another example, Sustainalytics gives ExxonMobil a relatively high ranking because it puts a 40 percent weight on social issues whereas MSCI ranks it lower because it puts a 17 percent weight on social issues.[67]

Still, on average, we see that large U.S. companies tend to receive high scores across providers. Whether this is due to greater availability of information about these firms, their willingness to engage with rating providers to supplement information, their embrace of and willingness to invest in stakeholder initiatives, or methodological biases by the rating firms is not known.

An analysis of 11 prominent rankings of companies based on environmental, climate-related, human rights, gender, diversity, and social responsibility factors shows that 68 percent of the Fortune 100 companies are recognized on at least one ESG list. The combined market value of these companies is $9.4 trillion, which comprises 84 percent of the market value of the entire Fortune 100. Cisco Systems appears on the most lists (eight); Microsoft on seven; and Bank of America, HP, Procter & Gamble, and Prudential Financial each appear on six lists. Even companies that are widely criticized by advocacy groups for their business practices are rated highly by third-party observers for ESG factors. For example, Chevron appears on the Dow Jones sustainability index and the Forbes list of best corporate citizens. Walmart is on Bloomberg's gender equality Index. Comcast is on DiversityInc's top 50 corporations for diversity. General Electric is named to Ethisphere Institute's list of most ethical companies. (Perhaps unexpectedly, Berkshire Hathaway is not named to this list nor does it appear on any of the 11 lists reviewed. See Table 13.1.[68])

Table 13.1 Fortune 100 Companies Appearing on the Most ESG Rankings

# Lists	Companies	Barron's Most Sustainable	Bloomberg Gender Equality	CDP – Climate Change A List	CDP – Water Management A List	Corporate Knights Most Sustainable	Corporate Responsibility	DiversityInc	Dow Jones Sustainability	Ethisphere Most Ethical	Forbes Best Corporate Citizens	Fortune Best Workplace for Diversity
8	Cisco Systems	x	x	x		x	x		x		x	x
7	Microsoft	x		x	x		x		x	x	x	
6	Bank of America		x	x		x	x		x			x
	HP	x				x	x		x		x	x
	Procter & Gamble	x	x				x	x		x	x	
	Prudential Financial	x	x				x	x		x	x	
5	AT&T		x				x	x	x		x	
	General Motors		x				x	x	x		x	
	Johnson & Johnson			x			x	x	x		x	

# Lists	Companies	Barron's Most Sustainable	Bloomberg Gender Equality	CDP – Climate Change A List	CDP – Water Management A List	Corporate Knights Most Sustainable	Corporate Responsibility	DiversityInc	Dow Jones Sustainability	Ethisphere Most Ethical	Forbes Best Corporate Citizens	Fortune Best Workplace for Diversity
4	3M						x		x		x	x
	Allstate							x	x	x	x	
	Anthem							x	x	x	x	
	Best Buy	x		x			x		x			
	Citigroup	x	x				x		x			
	CVS Health		x				x	x	x			
	Goldman Sachs		x	x			x		x			
	Intel						x		x	x	x	
	MetLife		x			x			x		x	
	PepsiCo	x					x			x	x	
	UPS	x		x			x				x	
# of Fortune 100 on List		11	20	10	2	5	34	19	29	13	38	10

Based on rankings published between 2017 and 2019.

Source: Loosey-Goosey Governance (2019).

Research generally shows a modest relation between sustainability scores and firm performance and risk. Lins, Servaes, and Tamayo (2017) studied the performance of companies with high CSR scores during the financial crisis. They found that firms with high CSR ratings from MSCI experienced higher returns, profitability, growth, and sales per employee than firms with low ratings. However, there were no significant associations between CSR rating and performance in the periods before or after the crisis.[69] Deng, Kang, and Low (2013) studied the relation between CSR and firm value by examining stock price returns around acquisition announcements. They found modest evidence that firms with high CSR ratings exhibit higher announcement returns and higher long-term operating performance post-acquisition. Performance differences were largely the result of below-average performance by low-rated CSR firms; highly rated firms did not exhibit above-average performance.[70] Ferrell, Liang, and Renneboog (2016) studied the relations between CSR, agency problems, and firm value. They found that firms with low agency problems have higher MSCI ratings. They also found a positive association between firms with both low agency problems and high MSCI ratings and firm value.[71]

Margolis, Elfenbein, and Walsh (2009) conducted a meta-analysis of the research on CSR and firm performance. Their sample included 251 studies between 1972 and 2007. They found a small, positive association between CSR and performance but also that the positive association declines throughout the measurement period (that is, the effects of CSR were stronger in earlier studies and less so in later studies). They concluded:

> After thirty-five years of research, the preponderance of evidence indicates a mildly positive relationship between corporate social performance and corporate financial performance. The overall average effect … across all studies is statistically significant, but, on an absolute basis, it is small.[72]

Finally, Gerard (2018) conducted a literature review on the relation between ESG scores and stock and bond price performance. He found that high ESG scores are related to higher profitability and firm value. He also found that positive performance differentials observed in the 1990s decreased in the early 2000s and disappeared in the 2010s, suggesting that any financial benefit of ESG is priced into securities markets.[73]

In general, research on ESG suffers from a problem of causality. Does a commitment to environmental or social goals make a company more profitable, or are more profitable companies able to spend more on these activities?

Despite pressure on companies to engage in ESG-related activities and corporate efforts to disclose their commitment to these initiatives, our ability to assess ESG quality remains limited. Inconsistent metrics, voluntary disclosure, and lack of comparability across firms account for much of the problem. Furthermore, it is not clear that the metrics that third-party firms develop to measure companies on ESG dimensions are accurate or reliable. (We turn to this question in the next chapter.)

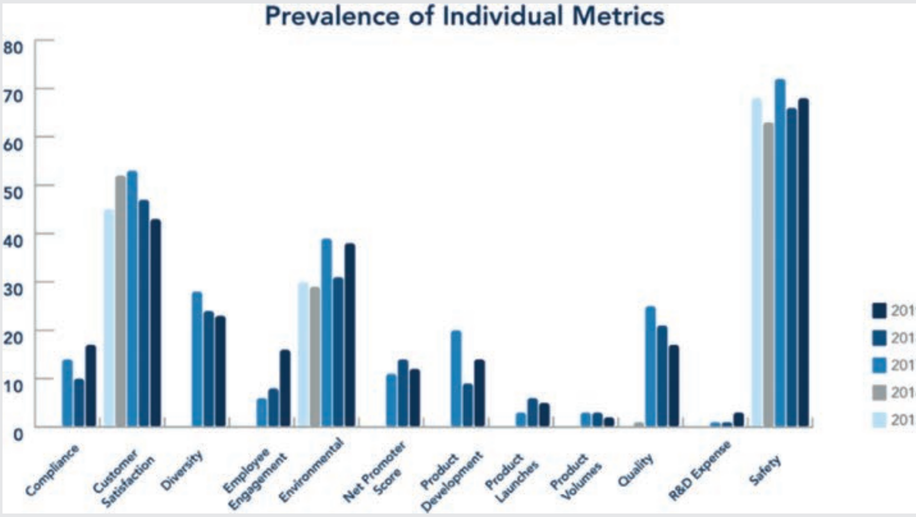
As such, requiring all companies to incorporate a stakeholder orientation into their corporate planning—beyond the extent to which they already do so—would likely have unintended consequences with the potential to harm shareholders, employees, and outside stakeholders alike. Governance systems today—with an emphasis on shareholder returns, accountability of management to a board of directors, clearly defined performance metrics, and a capital market that disciplines companies for poor performance—might have their shortcomings, but the objective nature of stock price and operating returns are effective gauges for measuring performance and risk.

One solution (and one which many companies currently embrace) is to include ESG factors as key performance indicators in the same manner as other qualitative or nonfinancial information is used today to measure performance and award compensation—such as customer satisfaction, employee engagement, and product innovation (see the following sidebar). This gives discretion to companies and allows their shareholders and stakeholders to advocate for the adoption of policies most relevant and tailored to their situation and interests. It does not solve the problem of comparability of metrics across companies, particularly when a company chooses not to disclose proprietary information for competitive reasons, but it lessens the risk that management is held accountable to measures without a proven correlation to value, thereby weakening board oversight. (An interesting, related question is whether CEO activism—the practice of CEOs taking a personal stance on social, environmental, or political issues—is in the interest of a company. See the subsequent sidebar.)

The greatest challenge, and greatest opportunity, for ESG advocates is to incorporate a stakeholder orientation within a shareholder mandate, without disrupting the positive benefits that the current system accrues to shareholders and stakeholders alike.

ESG Compensation Incentives

According to Glass Lewis, 35 percent of S&P 500 companies use ESG-related metrics in their executive compensation programs, primarily in their short-term rather than long-term bonus plans. This statistic is somewhat misleading in that Glass Lewis categorizes metrics such as safety, customer satisfaction, and production waste management that historically have been considered nonfinancial operating metrics as ESG metrics.[74] According to Equilar, the overall prevalence of nonfinancial metrics has not increased over the last five years.[75] This raises the question of whether ESG-related metrics in compensation plans are serious goals or window dressing (see Figure 13.3).



Source: Equilar

Figure 13.3 Prevalence of nonfinancial performance metrics related to ESG

Examples of ESG-related metrics in the annual bonus include the following:

Clorox

Clorox ties the annual bonus of named executive officers to corporate ESG initiatives relating to diversity, packaging, and environmental goals:

- "We have exceeded the 20% reduction goals we set in our 2020 Strategy for greenhouse gas emissions (33% reduction), solid-waste-to-landfill (21% reduction), and water use (21% reduction).
- "We have cut energy usage by 18% and are on track to meet our reduction goal by the end of 2020.
- "100% of our Glad facilities worldwide achieved zero waste-to-landfill status in the 2019 fiscal year, bringing our total to 13 global company sites versus our goal of 10."[76]

The company does not disclose the weighting of ESG targets in the overall bonus calculation.

Alcoa

"We continued to link 30% of our incentive compensation goals to non-financial metrics relating to sustainability—safety, gender representation in the workforce, and reductions in greenhouse gas emissions due to process improvements."[77]

Walmart

"The performance evaluation of each of our NEOs and most other management associates includes performance with respect to culture, diversity, and inclusion. The [compensation committee] considers performance evaluations, along with other factors, when making pay decisions. Additionally, any associate's annual cash incentive payment may be reduced by up to 30% if they engage in behavior inconsistent with our discrimination and harassment policies."[78]

Are these difficult targets? How much would the board reduce an incentive award if the CEO achieved revenue, earnings, and other operating metrics but did not meet an ESG objective?

CEO Activism

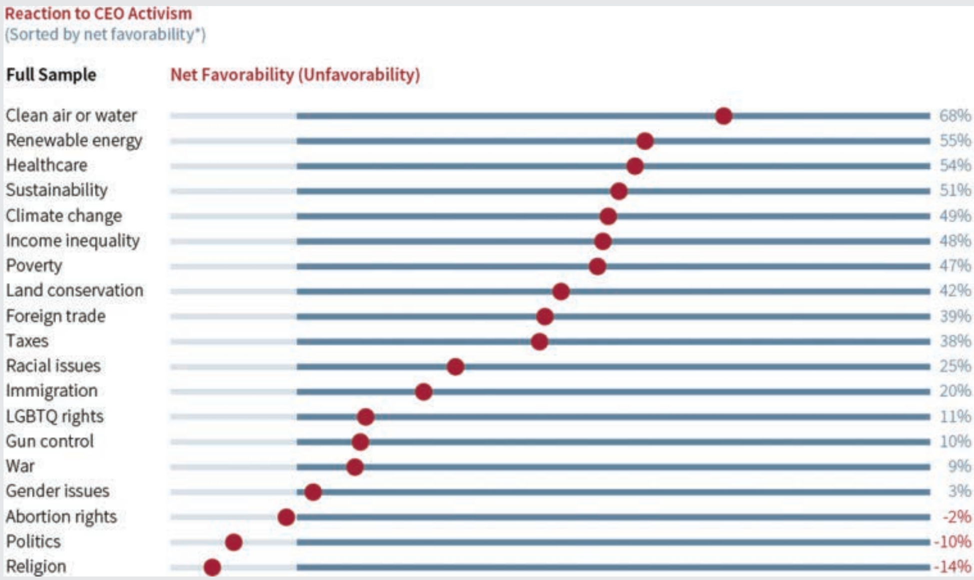
In recent years, we have seen CEOs take a personal stance on social, environmental or political issues. Examples include the following:

- Apple CEO's opposition to Indiana's religious freedom law on the basis that it was discriminatory to gay rights.[79]
- Citigroup CEO's restriction on financing to companies that sell certain categories of firearms.[80]
- Costco CEO's call for an increase in the federal minimum wage.[81]
- Goldman Sachs CEO's criticism of U.S. immigration policy.[82]
- NRG Energy CEO's call for a tax on carbon emissions.[83]
- Salesforce CEO's advocacy for the homeless.[84]
- Starbucks CEO's activism on race relations.[85]

One review found that CEOs are most likely to take a public stance on diversity, including gender, racial, or sexual-orientation diversity or equality. They are next most likely to take public positions on environmental matters, followed by immigration and human rights, other social issues, and politics. Still, the overall rate of CEO activism is low (between 4 and 12 percent of CEOs), and incidents of CEO activism are concentrated among the largest U.S. companies.[86]

CEO activism raises several questions. One is whether it is appropriate for a CEO to leverage their public position to advocate for an issue that might be divisive to their shareholders, employees, or customers. A second question is whether a board should intervene if the public expression of a personal belief has the potential to impact the company's reputation or performance. A third is how to distinguish between a company's official position on an ESG-related issue and a CEO's personal belief.

Research shows that CEO activism can be a double-edged sword. A 2019 survey found that, by a two-to-one margin, the public believes CEOs should use their position to advocate on ESG issues. The public's view of advocacy, however, varies considerably by topic. They are most in favor of advocacy about the environment, healthcare, poverty, and taxes. Support is more mixed about diversity and equality. Contentious issues—such as gun control and abortion—and politics and religion garner the least public support (see Figure 13.4).[87]



Note: Net favorability calculated as the percent of respondents who select "thank you for speaking up" minus the percent of respondents who select "keep your mouth shut." Excludes respondents who select "no opinion."

Source: 2018 CEO Activism Survey, Stanford Survey Series (October 2018).

Figure 13.4 Public reaction to CEO activism by topic

The survey found that Americans claim to change their purchasing behavior depending on their agreement with an activist CEO's position. In a warning to companies, respondents are significantly more likely to remember products they stopped using or use less because of the position the CEO took than products they started using or use more. Specifically, 35 percent of the public could think of a product or service they use less, while only 20 percent could think of a product they use more.

If true, this suggests that CEOs who take positions to build loyalty with employees, customers, or constituents might also inadvertently alienate segments of these populations.

The actual impact of CEO activism on purchase behavior is essentially unknown. Chatterji and Toffel (2018) found that CEO activism can "increase consumers' intentions to purchase the company's products" but only to the degree that there is "alignment between the CEO's message and individuals' policy preferences."[88] Korschun, Aggarwal, Rafieian, and Swain (2016) found that CEO activism is viewed positively by consumers if the company is considered "values-oriented" but negatively otherwise. The authors argue that the impact of CEO activism on purchase behavior is driven by the degree of "perceived corporate hypocrisy."[89]

Endnotes

1. He stipulated that value maximization is to be pursued under the constraints of the law and ethical standards. See Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits," *New York Times Magazine* (September 13, 1970).
2. US SIF Foundation, "Sustainable and Impact Investing—Sustainable Investing Basics" (2018). Accessed March 24, 2020. See www.ussif.org/files/2018%20Infographic%20overview%20(1).pdf.
3. Data from Factset, calculations by authors. See David F. Larcker, Brian Tayan, Vinay Trivedi, and Owen Wurzbacher, "Stakeholders and Shareholders: Are Executives Really 'Penny Wise and Pound Foolish' About ESG?" Stanford Closer Look Series (July 2019). See www.gsb.stanford.edu/faculty-research/publications/stakeholders-shareholders-are-executives-really-penny-wise-pound.
4. Sheera Frenkel, "'Zero Tolerance' Roils the Workplace," *New York Times* (June 20, 2018, Late Edition – Final):1. Also see Sheera Frenkel, "Employees Confront Microsoft's Chief over Contract with ICE," *New York Times* (July 27, Late Edition – Final): B. 3.
5. Karen Wiese, "Employees Push Amazon to Do More on Climate," *New York Times* (April 11, 2019). Also see Amazon Inc., Form DEF 14A, filed with the Securities and Exchange Commission April 11, 2019.
6. Daisuke Wakabayashi, and Scott Shane, "Google to Quit Pentagon Work That Riled," at end of Staff *New York Times* (June 2, 2018, Final Edition). Also see Kate Conger, Daisuke Wakabayashi, and Katie Benner, "Google Workers Plan Walkout to Protest Harassment Culture," *New York Times* (November 1, 2018 Late Edition – Final): 1; See Kirsten Grind and Douglas MacMillan, "Political Arguments Consume Google —The Tech Giant Struggles to Tame a Workplace Culture of Nonstop Debate," *Wall Street Journal* (May 2, 2018): A.1. See Douglas MacMillan, "Google Reins in Workplace Debate," *Wall Street Journal* (June 28, 2018): B.1.
7. The Vanguard Group, Inc., "Vanguard's Responsible Investment Policy" (2020). Accessed April 2, 2020. See https://about.vanguard.com/investment-stewardship/principles-policies/.

8. State Street Corporation, "State Street Global Advisors Calls on 3,500 Companies Representing More Than $30 Trillion in Market Capitalization to Increase Number of Women on Corporate Boards" (March 10, 2017, press release). Accessed March 2, 2020. See https://newsroom.statestreet.com/press-release/corporate/state-street-global-advisors-calls-3500-companies-representing-more-30-tri-0.

9. Larry Fink, "Larry Fink's 2016 Letter to CEOs," BlackRock, Inc. (2016). Annual letter to CEOs by Mr. Larry Fink, Founder, Chairman, and CEO of BlackRock, Inc. Accessed April 2, 2020. See www.blackrock.com/corporate/investor-relations/2016-larry-fink-ceo-letter.

10. Larry Fink, "Larry Fink's 2017 Letter to CEOs," BlackRock, Inc. (2017). Annual letter to CEOs by Mr. Larry Fink, Founder, Chairman, and CEO of BlackRock, Inc. Accessed April 2, 2020. See www.blackrock.com/corporate/investor-relations/2017-larry-fink-ceo-letter.

11. Larry Fink, "Larry Fink's 2018 Letter to CEOs: A Sense of Purpose," BlackRock, Inc. (2018). Annual letter to CEOs by Mr. Larry Fink, Founder, Chairman, and CEO of BlackRock, Inc. Accessed April 2, 2020. See www.blackrock.com/corporate/investor-relations/2018-larry-fink-ceo-letter.

12. Larry Fink, "Larry Fink's 2019 Letter to CEOs, Purpose and Profit," BlackRock, Inc. (2019). Annual letter to CEOs by Mr. Larry Fink, Founder, Chairman, and CEO of BlackRock, Inc. Accessed April 2, 2020. See www.blackrock.com/corporate/investor-relations/2019-larry-fink-ceo-letter.

13. Larry Fink," A Fundamental Reshaping of Finance," Letter to CEOs," BlackRock, Inc. (2020). Annual letter to CEOs by Mr. Larry Fink, Founder, Chairman, and CEO of BlackRock, Inc. Accessed April 2, 2020. See www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter.

14. Lucian A. Bebchuk and Scott Hirst, "The Specter of the Giant Three," *Boston University Law Review* 99 (2019): 721–741.

15. Larry Fink (2020).

16. Zainab Fattah and Abeer Abu Omar, "BlackRock to Open Saudi Office as Fink Scouts for Mideast Deals" *Bloomberg L.P.* (April 24, 2019). Accessed April 2, 2020. See www.bloomberg.com/news/articles/2019-04-24/blackrock-s-fink-sees-large-opportunities-in-mideast-post-aramco.

17. Business Roundtable, "Our Commitment" (2019). Accessed April 2, 2020. See https://opportunity.businessroundtable.org/ourcommitment/.

18. Peter Atkins, Marc Gerber, and Edward Micheletti, "Social Responsibility and Enlightened Shareholder Primacy: Views from the Courtroom and Boardroom," Skadden, Arps, Slate, Meagher & Flom LLP (February 21, 2019). As posted on the Harvard Law School Forum on Corporate Governance. Accessed October 24, 2019. See https://corpgov.law.harvard.edu/2019/02/21/social-responsibility-and-enlightened-shareholder-primacy-views-from-the-courtroom-and-boardroom/.

19. Ibid.

20. Ibid.

21. Ibid.

22. Also see Martin Lipton, "Stakeholder Governance—Some Legal Points," Wachtell, Lipton, Rosen & Katz (September 20, 2019). As posted on the Harvard Law School Forum on Corporate Governance. Accessed September 19, 2019. See https://corpgov.law.harvard.edu/2019/09/20/stakeholder-governance-some-legal-points/.

23. In 2018, Sen. Elizabeth Warren of Massachusetts proposed federal regulation that would require the federal charter of large corporations and provide that corporate directors consider the interests of all major stakeholders—not only shareholders—in company decisions. Her proposal would also require employee representation on public boards, limit political contributions, and place broad restrictions on equity grants to executives and directors. See Elizabeth Warren, "Companies Shouldn't Be Accountable Only to Shareholders," *Wall Street Journal* (August 15, 2017, Eastern edition): A.17.

24. The Coca-Cola Company, "The Coca-Cola Company Announces New Global Vision to Help Create a World Without Waste," *Business Wire* (January 19, 2018). Accessed April 3, 2020. See www.businesswire.com/news/home/20180119005104/en/.

25. Republic Services Inc., "2018 Sustainability Report" (2018). Accessed April 3, 2020. See www.republicservices.com/cms/documents/sustainability_reports/2018SustainabilityReport.pdf.

26. Republic Services Inc. News Release, "Republic Services Recognized on CDP "A List" for Taking Lead on Climate Change," *PRNewswire* (January 21, 2020). See http://media.republicservices.com/2020-01-21-Republic-Services-Recognized-on-CDP-A-List-for-Taking-Lead-on-Climate-Change.

27. Conference Call Transcript, "Republic Services Inc. at Raymond James Institutional Investors Conference —Final," *CQ FD Disclosure* (March 8, 2016). Accessed September 21, 2018. See factiva.com.

28. Gilead Sciences Inc. press release, "U.S. Food and Drug Administration Approves Gilead's Sovaldi™ (Sofosbuvir) for the Treatment of Chronic Hepatitis C," *Business Wire* (December 06, 2013). Accessed April 3, 2020. www.gilead.com/news-and-press/press-room/press-releases/2013/12/us-food-and-drug-administration-approves-gileads-sovaldi-sofosbuvir-for-the-treatment-of-chronic-hepatitis-c.

29. Gilead Sciences Inc., "Gilead Patient Assistance Programs" (2020). Accessed April 3, 2020. See www.gilead.com/purpose/medication-access/us-patient-access.

30. The content in this section is adapted with permission from David F. Larcker and Brian Tayan, "Loosey-Goosey Governance," Stanford Closer Look Series (October 2019). See www.gsb.stanford.edu/faculty-research/publications/loosey-goosey-governance.

31. Economists refer to this as an externality problem. An externality is the cost of a commercial activity that is not incorporated in the cost of goods or services provided and is borne by third parties. Externalities are generally redressed through taxation, lawsuits, or regulatory intervention.

32. Larry Fink (2018).

33. Martin Lipton, Steven A. Rosenblum, Sabastian V. Niles, Sara J. Lewis, and Kisho Watanabe, in collaboration with Michael Drexler, "The New Paradigm: A Roadmap for an Implicit Corporate Governance Partnership Between Corporations and Investors to Achieve Sustainable Long-Term Investment and Growth," World Economic Forum (September 2, 2016). Accessed October 24, 2019. See www.shareholderforum.com/access/Library/20181214_WLRK-Thoughts.pdf.

34. David J. Denis, “Is Managerial Myopia a Persistent Governance Problem?” *Journal of Applied Corporate Finance* 31 (Summer 2019):74–80.

35. Ioannis Ioannou and George Serafeim, “Corporate Sustainability: A Strategy?” *Social Science Research Network* (January 1, 2019); Harvard Business School Accounting & Management Unit Working Paper No. 19-065. Accessed March 31, 2020. See https://ssrn.com/abstract=3312191.

36. Michael C. Jensen, “Value Maximization, Stakeholder Theory, and the Corporate Objective Function,” *Business Ethics Quarterly* 12 (2002): 235–256.

37. Vikas Mehrotra and Randall Morck, “Governance and Stakeholders,” *Social Science Research Network* (June 2017). NBER Working Paper No. w23460. Accessed August 28, 2017. See https://ssrn.com/abstract=2980548.

38. Lucian A. Bebchuk and Roberto Tallarita, “The Illusory Promise of Stakeholder Governance,” *Social Science Research Network* (February 26, 2020). Accessed April 3, 2020. See https://ssrn.com/abstract=3544978.

39. PricewaterhouseCoopers LLC, “PwC’s 2019 Annual Corporate Directors Survey” (2019). Accessed October 10, 2019. See www.pwc.com/us/en/services/governance-insights-center/library/annual-corporate-directors-survey.html.

40. The remainder believe ESG-related initiatives have little financial impact one way or the other.

41. David F. Larcker, Brian Tayan, Vinay Trivedi, and Owen Wurzbacher, “2019 Survey on Shareholder versus Stakeholder Interests,” Rock Center for Corporate Governance at Stanford University, Stanford CGRI Survey Series (July 2019). See www.gsb.stanford.edu/sites/gsb/files/publication-pdf/survey-shareholder-versus-stakeholder-interests-2019.pdf. Also see David F. Larcker, Brian Tayan, Vinay Trivedi, and Owen Wurzbacher, “Stakeholders and Shareholders: Are Executives Really ‘Penny Wise and Pound Foolish’ about ESG?” Stanford Closer Look Series (July 2019). See www.gsb.stanford.edu/faculty-research/publications/stakeholders-shareholders-are-executives-really-penny-wise-pound.

42. Ibid.

43. Elroy Dimson, Oğuzhan Karakaş, and Li Xi, “Active Ownership,” *Review of Financial Studies* 28 (December 2015): 3225–3268.

44. Ernst & Young, “Reporting Climate Change Risk,” EYGM Limited (2017). Accessed April 6, 2020. See www.ey.com/Publication/vwLUAssets/ey-at-reporting-climate-change-risk-2017/$FILE/ey-reporting-climate-change-risk.pdf.

45. National Association of Corporate Directors, “Fall 2019: ESG Disclosure in Proxy Statements Report,” Insights (November 13, 2019). Accessed April 6, 2020. See www.nacdonline.org/.

46. Ernst & Young, “How and Why Human Capital Disclosures Are Evolving,” EY Center for Board Matters. Accessed April 6, 2020. See https://assets.ey.com/content/dam/ey-sites/ey-com/en_us/topics/cbm/ey-how-and-why-human-capital-disclosures-are-evolving.pdf.

47. International Business Machines Corporation, Form DEF 14A, filed with the Securities and Exchange Commission March 9, 2020.

48. The Clorox Company, Form DEF 14A, filed with the Securities and Exchange Commission October 2, 2019.

49. Vermillion Energy, Form 6K, filed with the Securities and Exchange Commission March 24, 2020.

50. David F. Larcker and Brian Tayan, "Diversity in the C-Suite: The Dismal State of Diversity Among Fortune 100 Senior Executives," Stanford Closer Look Series (April 2020). See www.gsb.stanford.edu/faculty-research/publications/diversity-c-suite. Also see Microsoft Inc., Form DEF 14A, filed with the Securities and Exchange Commission October 16, 2019.

51. Sustainability Accounting Standards Board, "SASB Materiality Map®" (2018). Accessed April 6, 2020. See https://materiality.sasb.org/.

52. Sustainability Accounting Standards Board, "Commercial Banks: Sustainability Accounting Standard," Financial Sector (October 2018). Accessed April 6, 2020. See sasb.org.

53. Sustainability Accounting Standards Board, Casinos and Gaming," Sustainability Accounting Standard," Services Sector (October 2018). Accessed April 6, 2020. See sasb.org.

54. Tom Riesenberg and Alan Beller, "Sustainability Accounting Standards and SEC Filings," Harvard Law School Forum on Corporate Governance (June 5, 2019). Accessed April 6, 2020. See https://corpgov.law.harvard.edu/2019/06/05/sustainability-accounting-standards-and-sec-filings/.

55. Jill M. D'Aquila, "The Current State of Sustainability Reporting: Work in Progress," *The CPA Journal*, New York State Society of Certified Public Accountants (July 2018). Accessed April 6, 2020. See www.cpajournal.com/2018/07/30/the-current-state-of-sustainability-reporting/.

56. The Portal for Sustainability Reporting, "Investors, Corporates, and ESG: Bridging the Gap," as sourced from PwC (October 27, 2016). Accessed April 6, 2020. See www.sustainability-reports.com/investors-corporates-and-esg-bridging-the-gap/.

57. Hans Bonde Christensen, Luzi Hail, and Christian Leuz, "Adoption of CSR and Sustainability Reporting Standards: Economic Analysis and Review," *Social Science Research Network* (July 27, 2019), European Corporate Governance Institute - Finance Working Paper No. 623/2019. See https://ssrn.com/abstract=3427748.

58. Bloomberg L.P., "Bloomberg Gender-Equality Index" (2019). Accessed January 23, 2019. See www.bloomberg.com/gei/key-findings.

59. 3BL Association, "3BL Media's 100 Best Corporate Citizens" (2020). Accessed April 7, 2020. See www.3blassociation.com/100-best-corporate-citizens; also see 3BL Media, "100 Best Corporate Citizens 2018," *Corporate Responsibility Magazine* (Summer 2018). Accessed April 7, 2020. See www.3blassociation.com/insights/2018-100-best-corporate-citizens.

60. Ethisphere Institute, "Ethisphere Announces the 2020 World's Most Ethical Companies," (February 25, 2020). Accessed April 7, 2020. See www.worldsmostethicalcompanies.com/?__hstc=222959556.d46da1734d11a04e3bc7de43eeb44ba3.1588368855719.1588368855719.1588368855719.1&__hssc=222959556.1.1588368855719&__hsfp=2317744967. Also see Ethisphere Institute, "Ethisphere Announces 132 World's Most Ethical Companies® for 2020," (2020). Accessed April 7, 2020. See www.worldsmostethicalcompanies.com/#methodology.

61. Fortune Media IP Limited, "The 100 Best Workplaces for Diversity: Methodology" (2019). Accessed April 7, 2020. See https://fortune.com/best-workplaces-for-diversity/#methodology.

62. FTSE Russell 2020, "ESG Ratings" (2020). Accessed April 7, 2020. See www.ftserussell.com/data/sustainability-and-esg-data/esg-ratings.

63. HIP Investor Inc., "HIP Investor Impact Ratings & Portal" (2020). Accessed April 7, 2020. See https://hipinvestor.com/hip-impact-ratings/.

64. MSCI Inc., "MSCI ESG Ratings" (2019). Accessed April 7, 2020. See www.msci.com/documents/1296102/15233886/MSCI-ESG-Ratings-Brochure-cbr-en.pdf/7fb1ae78-6825-63cd-5b84-f4a411171d34.

65. Sustainalytics, "ESG Ratings & Research" (2020). Accessed April 7, 2020. See www.sustainalytics.com/esg-ratings/.

66. Truvalue Labs, "ESG Data," (2020). Accessed April 7, 2020. See www.truvaluelabs.com/.

67. James Mackintosh, "Streetwise: Social, Environmental Investment Scores Diverge," *Wall Street Journal* (September 18, 2018): B.1.

68. Loosey-Goosey Governance (2019).

69. Karl V. Lins, Henri Servaes, and Ane Tamayo, "Social Capital, Trust, and Firm Performance: The Value of Corporate Social Responsibility during the Financial Crisis," *Journal of Finance* 72 (2017): 1785–1824.

70. Xin Deng, Jun-koo Kang, and Buen Sin Low, "Corporate social responsibility and stakeholder value maximization: Evidence from mergers," *Journal of Financial Economics* 110 (October 2013): 87–109.

71. Allen Ferrell, Hao Liang, and Luc Renneboog, "Socially Responsible Firms," *Journal of Financial Economics* 122 (2016): 585–606.

72. Joshua D. Margolis, Hillary Anger Elfenbein, and James P. Walsh, "Does It Pay to Be Good… And Does It Matter? A Meta-Analysis of the Relationship between Corporate Social and Financial Performance," *Social Science Research Network* (March 1, 2009). Accessed February 25, 2019. See https://ssrn.com/abstract=1866371.

73. Bruno Gerard, "ESG and Socially Responsible Investment: A Critical Review," *Social Science Research Network* (December 28, 2018). Accessed February 25, 2019. See https://ssrn.com/abstract=3309650.

74. Glass Lewis, "Sustainability Metrics in U.S. Executive Compensation" (2018). Accessed April 8, 2020. See https://www.glasslewis.com.

75. Connor Doyle, "Performance Metrics: Accelerating the Stakeholder Model," Equilar Inc. (November 4, 2019). Accessed April 9, 2020. See https://www.equilar.com/blogs/430-accelerating-the-stakeholder-model.html.

76. The Clorox Company, Form DEF 14A, filed with the Securities and Exchange Commission October 2, 2019.

77. Alcoa Corporation, Form DEF 14A, filed with the Securities and Exchange Commission March 19, 2020.

78. Walmart Inc, Form DEF 14A, filed with the Securities and Exchange Commission April 23, 2020.

79. Edwin Chan, "Apple's Cook Joins Tech CEOs in Blasting Indiana Religious Freedom Law," *Reuters* (March 27, 2015).

80. Andrew Ross Sorkin, "Citi's Bold Action on Guns Maps a Course for Wall St.," *New York Times* (Late Edition, March 27, 2018): B.1.

81. Annie Lowry, "Hold the Cheese: What happens when You Raise the Minimum Wage in a Down Economy?" *New York Times* (December 22, 2013): SM14.

82. Liz Hoffman, “Blankfein Assails Immigrant Curbs,” *Wall Street Journal* (January 31, 2017).

83. Brian Eckhouse and Mark Chediak, “NRG Backs Carbon Tax Amid Effort to Sell Clean-Energy Operations,” *Bloomberg* (October 25, 2017).

84. Taylor Telford, “A Tech Billionaire Donated $30 Million to Try to Solve San Francisco’s Homelessness Problem,” *Washington Post online* (May 2, 2019).

85. Lisa Baertlein and Bill Rigby, “Starbucks Brews Up Backlash with Debate on U.S. Race relations,” *Reuters* News (March 18, 2015).

86. David F. Larcker, Stephen A. Miles, Brian Tayan, and Kim Wright-Violich, “The Double-Edged Sword of CEO Activism,” Stanford Closer Look Series (November 2018). See www.gsb.stanford.edu/faculty-research/publications/double-edged-sword-ceo-activism.

87. David F. Larcker and Brian Tayan,”2018 CEO Activism Survey,” Stanford Survey Series (October 2018). See www.gsb.stanford.edu/faculty-research/publications/2018-ceo-activism-survey.

88. Aaron K. Chatterji and Michael W. Toffel, “Assessing the Impact of CEO Activism,” *Social Science Research Network* (October 2018). Accessed March 19, 2019. See https://ssrn.com/abstract=2742209.

89. They cite Patagonia, the outdoor apparel company, as an example of a values-oriented company because it associates itself with conservation and environmental issues. They contrast this example with Footlocker, which does not associate itself with particular issues. See Daniel Korschun, Anubhav Aggarwal, Hoori Rafieian, and Scott Swain, “Taking a Stand: Consumer Response When Companies Get (or Don’t Get) Involved,” *Social Science Research Network* (July 2016). Accessed July 19, 2017. See https://ssrn.com/abstract=2806476.

Index

B

C

D

E

H

I

Q

R

U

X–Y

Z

THE DEFINITIVE GUIDE TO HIGH-PERFORMANCE CORPORATE GOVERNANCE

Fully updated for the latest research, trends, and regulations, ***Corporate Governance Matters, Third Edition,*** offers comprehensive and objective information for everyone seeking to improve corporate governance—from directors to institutional investors to policymakers and researchers.

To help you design highly effective governance, David Larcker and Brian Tayan thoroughly examine current options, reviewing what is and isn't known about their impact on organizational performance. Throughout, they take a strictly empirical and non-ideological approach that reflects rigorous statistical and research analysis and real-life examples. They address issues ranging from board structure, processes, operations, and functional responsibilities to institutional investors, outside stakeholders, and alternative forms of governance.

New discussions of:

- Environmental, Social, and Governance (ESG) activity and ratings
- Stakeholder interests
- CEO activism
- CEO misbehavior
- Cybersecurity risks

Extensively revised coverage of:

- Executive compensation
- Leadership and succession planning
- Director recruitment, evaluation, turnover, and more

Additional resources are available at The Corporate Governance Research Initiative, Stanford Graduate School of Business: www.gsb.stanford.edu/cgri-research.

DAVID LARCKER is James Irvin Miller Professor of Accounting at Stanford Graduate School of Business (Emeritus); Director of the Corporate Governance Research Initiative; Senior Faculty, Arthur and Toni Rembe Rock Center for Corporate Governance; and trustee of the Wells Fargo Funds. His research focuses on executive compensation, corporate governance, and managerial accounting.

BRIAN TAYAN, member of the Corporate Governance Research Initiative at Stanford Graduate School of Business, has published studies on boards of directors, succession planning, executive compensation, financial accounting, and shareholder relations. He holds an MBA from Stanford Graduate School of Business and a BA from Princeton University.

ISBN-13: 978-0-13-666002-6
ISBN-10: 0-13-666002-9

9 780136 660026 56999

Pearson

Cover design: Chuti Prasertsith
Cover photograph: inter reality/Shutterstock
Category: Corporate Governance/Business

$69.99 US