Long Term Value Creation

Chris Gentle,
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Panelists

Greg Medcraft
Director for Financial and Enterprise Affairs
OECD
Greg Medcraft was appointed Director of the OECD's Directorate for Financial and Enterprise Affairs in November 2017, where he leads the Organisation's work on markets policy and business conduct.
Mr Medcraft began his professional life at accounting firm KPMG, before moving t…Full Bio

Chris Gentle (Moderator)
Director of Insights
The Conference Board
Dr. Chris Gentle is an advisor to The Conference Board and teaches at London Business School and Hult International Business School. He is also NED at Reach South and Chair of the Finance Committee.
Chris has over 20 years international experience in strategy consulting working at b…Full Bio

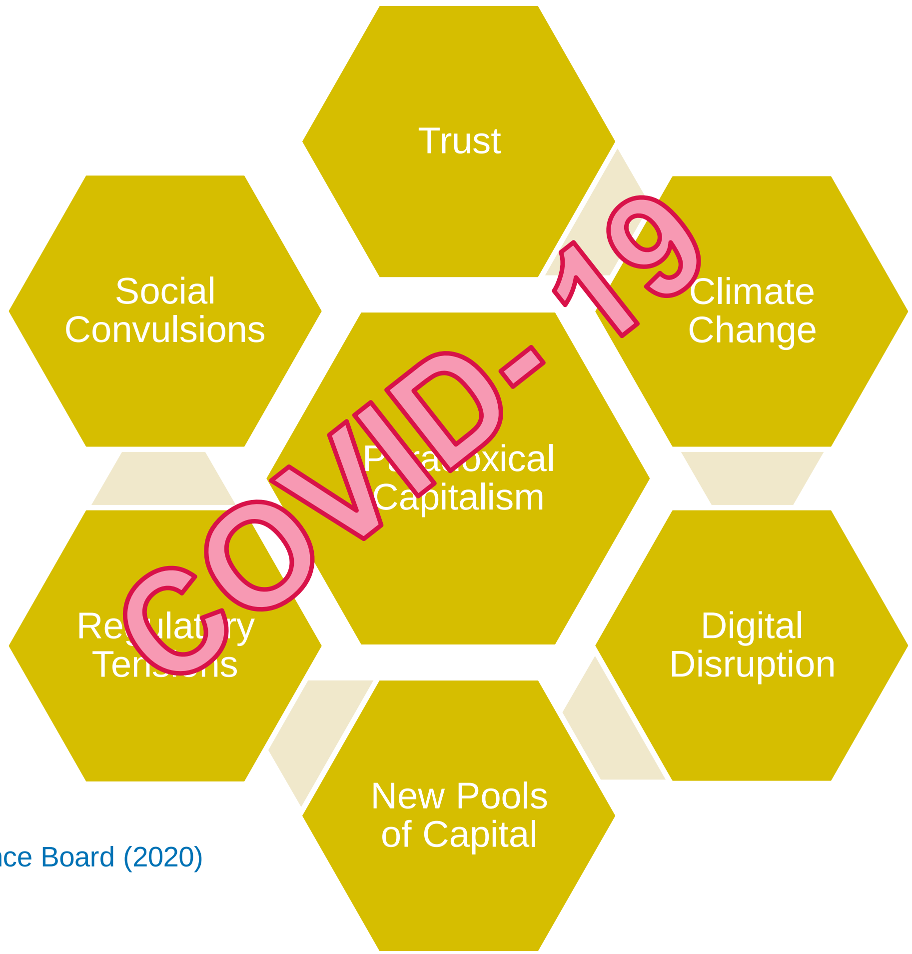
Figure 1
European Corporate Governance

	United States	United Kingdom	Germany	Netherlands	Switzerland
Goals of Corporate Governance	Shareholder model	Shareholder model	Stakeholder model	Shareholder model	Shareholder model
Board Structure	One-tiered	One-tiered	Two-tiered	Two-tiered	One-tiered
Mandatory	Required by SOX	Comply or explain	Required by law	Comply or explain	No
CEO/ Chair Duality	Permitted	Not Permitted	Prohibited	Not Permitted	Permitted
Appointment of Independent Auditor	Independent Audit Committee	Independent Audit Committee	Supervisory Board	Shareholders through the Audit Committee	Shareholders elect
Required Disclosure	Limited in 10K, details in Proxy Statements	In Annual Report, less than U.S. requires	In Annual Report	In Annual Report	In Annual Report
Independence Achieved	Committee Structure	Committee Structure	Board Structure	Board Structure	Shareholder Autonomy

Comparison of Corporate Governance Models in the US and European Countries

Source: The Corporate Board (2013)

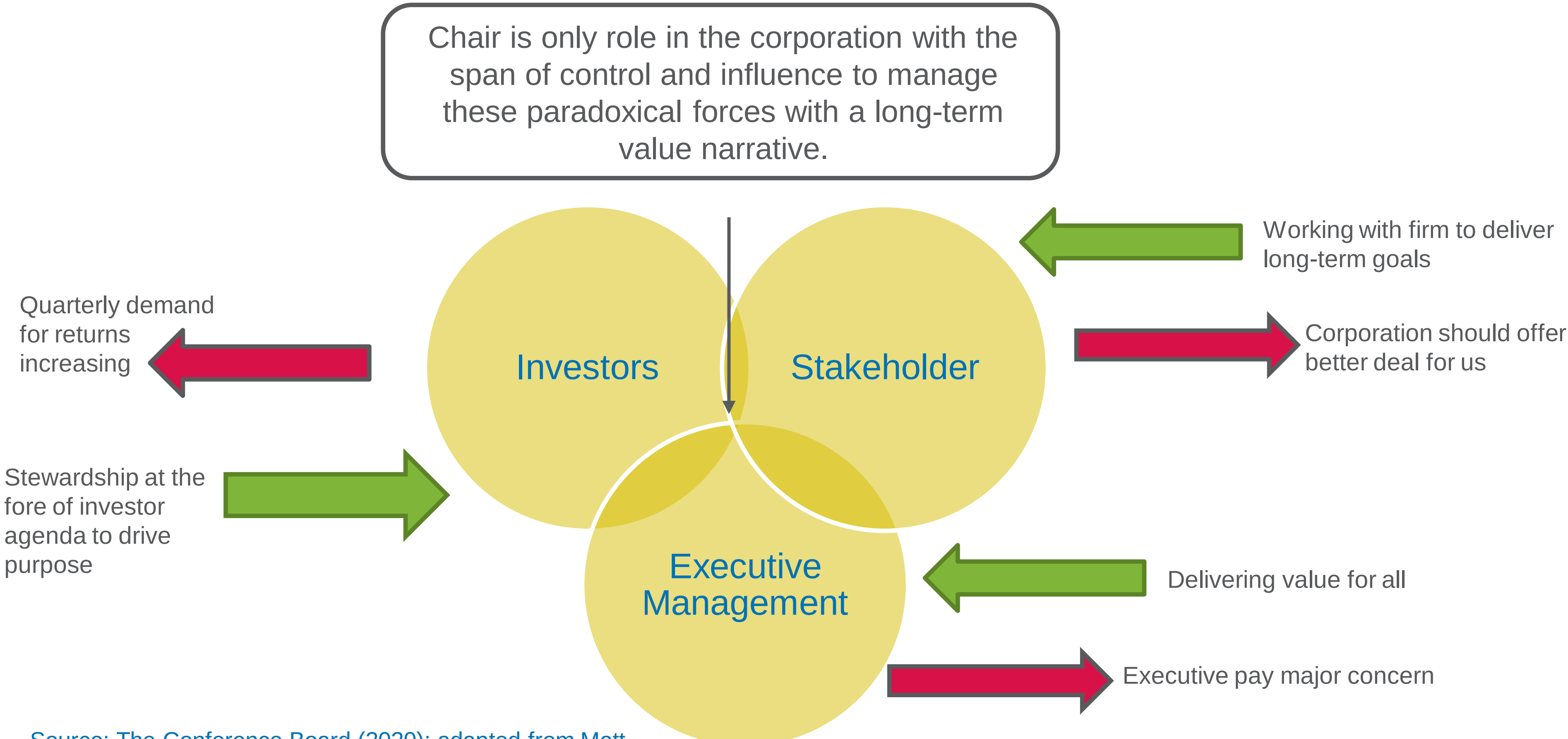
Figure 2
Six Forces Driving Paradoxical Capitalism



Source: The Conference Board (2020)

Figure 3
Chair at the Heart of Long-Term Value Creation

Paradoxical capitalism driving tensions in the Corporate Governance Model



Source: The Conference Board (2020); adapted from Matt Levine. Bloomberg 2019.

Figure 4
The Four New Faces of the Chair?

Source: The Conference Board (2020)

CORPORATE GOVERNANCE AND LONG-TERM VALUE

IN THE AGE OF COVID-19

Greg Medcraft
Director, Directorate for Financial and Enterprise Affairs,OECD

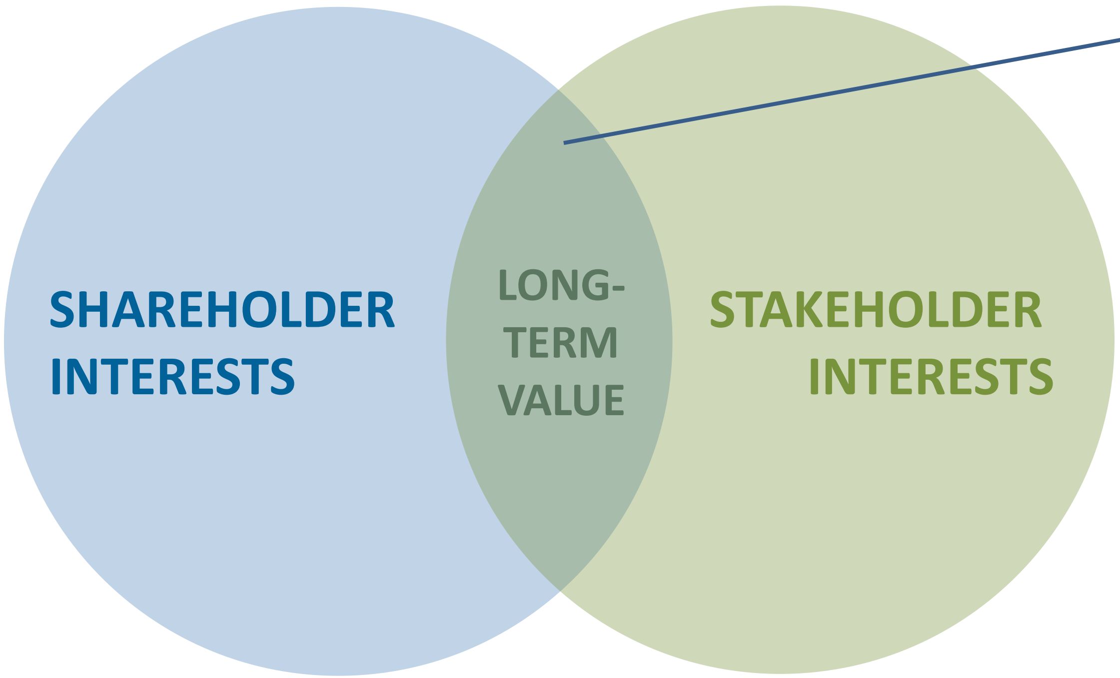
BETTER POLICIES FOR BETTER LIVES

CORPORATE GOVERNANCE AND LONG-TERM VALUE

1. The tensions in corporate governance models
2. Drivers of long-term value: trust and ESG
3. Priorities to support long-term value creation

1. TENSIONS IN CORPORATE GOVERNANCE MODELS

STAKEHOLDER CAPITALISM vs SHAREHOLDER PRIMACY?



Expanding alignment between shareholder and stakeholder interests means focusing on **long-term value creation**

Key drivers:

1) Trust in Business
2) ESG risk management

TRUST IN BUSINESS

" Controlling for value chain structure, economic and financial factors, the overwhelming finding is that a company's capacity to **generate trust and loyalty** with its workforce, customers and society has a highly-significant positive effect on companies' return on equity and return on assets. "

OECD Business and Finance Outlook 2017, pp.93

The social license to operate is at the core of trust. Failing to meet it risks reputational damage with real impacts on performance.

Social media and the 24-hour news cycle give stakeholders power to hold companies to account and mobilise when they fall short.

COVID-19 AND THE SOCIAL LICENSE


Business
Apr 4th 2020 edition ›
The Economist
Great white night
Governments are once again splurging to keep big companies afloat

The New York Times
Virus Surge Brings Calls for Trump to Invoke Defense Production Act

Stakeholder expectations have never been higher.

Taxpayer support

Tax relief, subsidised loans and guarantees, state equity injections, etc.

Pandemic response

vaccine research, PPE production, remote working, govt. payroll support programmes.

Cost can be enormous in failing to adapt to the shifting social licence to operate – e.g. banks after the global financial crisis.

2. DRIVERS OF LONG-TERM VALUE CREATION
ESG RISK MANAGEMENT

Material ESG risks exist: impact on finances, operations, reputation, or viewed as important to shareholders making investment or voting decisions – and so make up part of the board's execution of fiduciary duties.

- Boards new types of data, information channels, analytical tools, expertise, and internal policies and practices tailored to assessing ESG risks.

Challenges in current ESG practices:

- ESG disclosures and reporting frameworks can be irrelevant or inconsistent.
- ESG scoring can be opaque, with subjective elements.
- Link to materiality can be difficult to articulate, with wide variations between ESG and financial performance.

BUILDING TRUST FROM THE BOARD

The social license to operate moves much faster than legislation or regulation. Priorities for boards to keep up:

1. Complement legal obligations with a defined social licence to operate.
2. Focus on culture – tone form the top, chair as culture champion.
3. Close the gap between best practice and actual practice. Implement international standards:
    - The G20/OECD Principles of Corporate Governance
    - The OECD Guidelines for Multinational Enterprises and related guidance.
    - The OECD Convention on Combating Bribery of Foreign Public Officials .

ADAPTING GOVERNANCE TO ESG

1. **Tailor risk management** to ESG risks – considering board structure, composition and procedures.
2. **Develop board capacity** and understanding on on ESG risks and the associated standards, frameworks, metrics and tools – engagement with management and subject matter experts
3. **Reporting and disclosure frameworks** in line with relevant best practice – voluntary or as part of mandates, e.g.
   - OECD Due Diligence Guidance for Responsible Business Conduct,
   - GRI Sustainability Reporting Standards
   - United Nations Global Compact.

POLICY PRIORITIES FOR BETTER ESG PRACTICES

Some shortcomings in ESG data, scoring and reporting must be addressed at the market level – governments have a clear role in:

- Forging agreement on a **common taxonomy and definitions**.
- Building **consensus on appropriate metrics** in disclosure and ratings.
- Lifting **transparency of ratings methodologies**.
- Aligning **international practice and guidance**, to standardise data and disclosure
- Better understanding of the **link between ESG, materiality and performance.**

OECD RESOURCES

Business and Finance Outlook 2020: Sustainable and Resilience Finance
(Release 29 September 2020) – Launch Registration

G20/OECD Principles for Corporate Governance

OECD Guidelines for Multinational Enterprises

OECD Sustainable and Resilient Finance Initiative

OECD Trust in Business Initiative