# Staying International

## Discussing global governance with George Dallas, Policy Director at the International Corporate Governance Network (ICGN)

**Could you tell our readers a little bit about the role that ICGN plays with regards to corporate governance?**

ICGN is an investor-led membership organization which has over 700 members in around 45 countries worldwide. About two-thirds of our members are institutional investors. The remainder include the likes of issuers, service providers, academics and regulators.

Our mission is twofold. Firstly, we promote good corporate governance in the companies in which we invest. This is done primarily from an investor perspective, in which we are informed by our members.

On the other hand, our second mission can be seen as a reciprocal dimension of our first. It involves highlighting investor responsibilities. In other words, promoting investors to be good stewards with regards to their own investment practices.

We carry out these two missions through things like education, training and conferences. We also do quite a lot of policy work, which is my own personal domain. This involves responding to consultations, thought leadership pieces and engagement with regulators, typically to express our investor-led perspectives on relevant issues relating to corporate governance.

**Last year, ICGN noted a 'regulatory schizophrenia' between regulators and exchange operators, which are lowering corporate governance standards to entice companies to list, and investors which are pushing for better corporate governance standards. Could you expand on this?**

The schizophrenia that we are seeing relates specifically to an issue in some markets, where the barriers for dual-class structures are gradually being removed. This is creating some degree of competition between stock exchanges for listings, which in turn opens the door for these exchanges to introduce more issuer-friendly reforms.

Institutional investors tend not to be supportive of dual-stock shares if for no other reason than it allows controlling shareholders that fall short of a majority stake to override the concerns of other investors using their superior voting rights.

Our concern is that this can diminish accountability between companies and their investors. Also, to some extent, it results in investors becoming marginalized, as their say is curtailed by such structures.

The regulatory schizophrenia point is that on the one hand we are seeing regulators around the world trying to encourage stewardship codes as a way for investors to become more responsible in their own practices – something that we endorse fully.

On the other, however, we are seeing in these same markets more opportunities for issuer-friendly reforms, which in turn cut the legs off investors, or at the very least marginalize their voice.

In other words, investors are encouraged to be more active at the same time as their influence is being curtailed. It is this schizophrenia that we address when speaking with regulators and stock exchanges.

**In March this year, you said that ICGN was yet to form a position on companies adopting co-CEOs. Does ICGN now have a position on this topic?**

We have not formed an official position on this topic. The use of co-CEOs is something that does not happen all that much. If we were to form a position on the topic, it would be very situation specific, and a generic position may not be very meaningful.

Co-CEOs may work for a period of time as a stop-gap. However, we also recognize that there is the potential for co-CEOs to have strained relationships and for the chemistry not to work particularly well.

Therefore, this topic really does have to be observed on a case-by-case basis. Perhaps the onus should fall on the company and its board to explain why such an abnormal structure is its best option, and whether it will become a long-term arrangement. So, if we were to develop a policy on this topic, it would likely be fleshed out along these lines.

# “THE ISSUE IS WHETHER IT IS GOOD FOR THE COMPANY AS A WHOLE TO LOCK AN INDIVIDUAL INTO A POSITION OF CONTROL, AD INFINITUM.”

**You recently questioned Mark Zuckerberg’s combined role of chairman and chief executive at Facebook. What is ICGN’s position on combined CEO-chair roles, especially with regards to maturing tech companies?**

We have no problem with Mr Zuckerberg as an individual. On the contrary, the rise in Facebook’s share price over the years has outperformed the market, which illustrates that Mr Zuckerberg has probably done some very positive things.

Once again, our problem is with Facebook’s dual-class arrangement. The issue is whether it is good for the company as a whole to lock an individual into a position of control, ad infinitum.

There is an argument, particularly in a start-up-like environment like Silicon Valley, that you do not want the short-term pressures of the market overinfluencing a fledgling company in its early stages of development. So, it may be the case that having mechanisms in place to control for that may prove beneficial in the long-term.

Although many investors disagree, the argument follows that in a life-cycle of a company, there may be a stage in its development where perhaps a dual-class arrangement could make sense.

However, it also follows from this argument that a company’s fledgling stage eventually passes and its governance requirements may evolve. Although the leadership and governance structures of a company may be fitting for one stage of its life-cycle, there is scope for change when the company grows and matures.

For instance, with the example of Facebook, the company is hitting pretty rough waters now because some issues, such as the data privacy of its stakeholders and its users, have caused considerable damage to the company.

And so it is right that we question whether Mr Zuckerberg should necessarily be the best person to guide Facebook through its evolution indefinitely, particularly as the company matures. At some point in time, the company may reach a point in its own development where a leader with a different set of attributes to Mr Zuckerberg would be a better fit to take the reins.

Of course, Facebook’s dual-class structures can prevent that from happening. It is therefore our opinion that such structures should not become a permanent state of affairs.

On the point of combined CEO-chairs, we generally prefer a split role and that the chair should be independent. We understand that in many markets a combined role is still quite common.

To be honest, according to empirical studies the verdict is mixed on combined CEO-chair positions. There is no clear indication from the research, at least that I am aware of, that dividing the CEO and chair positions has any effect on firm value or economic performance. That said, we still believe it is healthier for boards that companies have independent chairs separate from the CEO.

**The ICGN Global Governance Principles document provides general corporate governance guidelines for companies worldwide. Do you see any merit in creating other, more nuanced documents for markets that differ from many international norms, i.e. Japan, Germany, etc.?**

Our niche in the corporate governance ecosystem is the development of broad principles with global traction. We do this in a way that can hopefully provide a positive frame of reference for other jurisdictions.

Therefore, we are not going to try to compete with, say, the Tokyo stock exchange by developing our own Japanese corporate governance codes. They already have one. We may comment on the standards of corporate governance codes at the national level when we have consultations. However, it tends to fall to individual market institutions to provide the first frame of guidance at the domestic level.

That said, our global principles are one of the points of reference that these institutions tend to look to when they are updating their corporate governance codes.

Also, if we move away from our international focus and start to look into the nuances of individual jurisdictions, we may stray from our core mission as a body that is attempting to formulate broad principles constitutive of a global framework. Certainly, I do not believe this shift would be well received by our audience.

**Given that the quantum and standards of executive pay differ internationally, how does the ICGN promote worldwide standards on this topic?**

# “NEW TECHNOLOGICAL DIMENSIONS, SUCH AS SOCIAL MEDIA, ARE CHANGING HOW A COMPANY INTERACTS WITH SOCIETY, WHICH IN TURN IS TRANSFORMING THE AGENDA OF BOARDROOMS.”

You are absolutely right that executive pay differs enormously in various markets globally. Indeed, it has possibly become more complicated, convoluted and in many ways distorted in more developed markets than say in emerging markets.

This is even more the case in widely-held companies. Controlled companies generally have a better handle on executive pay, as the controlling owner generally decides it. Increasingly though it is also the case that companies are competing internationally, and therefore are looking on a global basis for the pay standards of peers.

Our own approach to executive pay is very much principles-based. Again, we are not digging deep into the details of specific jurisdictions. We simply try to develop a common-sense approach to questions like: What is a good process?; What is a good pay structure?; What is the best way to align the interests of executives and shareholders?; etc. We also try to outline where the potential areas of abuse might be.

However, when applied to specific markets, given the global nature of our executive pay framework, our principles probably need to be looked at in hand with the prevailing local standards. That said, as local standards are developing, our own standards are there as a resource and a reference point that might provide us with some degree of consistency when it comes to how we look at pay matters.

What does ICGN think about the increasing integration of ESG topics into investment processes?

The integration of ESG topics into investment processes is important, and it is something that is continuing to evolve from what had been a bit of a fringe several years back, to increasingly the mainstream. Its gradual integration represents the new ways in which companies interact with broader society.

It also suggests areas of potential risk for the company that are increasingly coming to the fore. Companies and boards today must deal with a broader parameter of issues and risks than in the past.

New issues that boards must confront include having a climate change policy, being aware of human rights issues and having an appreciation of the problems of bribery and corruption and how to address them. These issues are certainly important socially, but also if a company gets these issues wrong, considerable value can be destroyed.

ICGN’s Global Stewardship Principles is our second core policy document after our Global Governance Principles. In the document, one of the seven stewardship principles relates specifically to the importance of integrating ESG into investment processes, as a dimension of risk, opportunity and as an indicator of management quality.

We at ICGN are very much focused on sustainable value creation for investors, and ESG topics are increasingly part of that process. New technological dimensions, such as social media, are changing how a company interacts with society, which in turn is transforming the agenda of boardrooms.

If the ICGN were able to introduce one corporate reform worldwide, what would it be?

In a global context, as you can appreciate, having a single reform is not really feasible. The way ICGN approaches global reform is to articulate policy priorities annually, together with an outline of what we plan to do about them. Over the past several years we have developed a policy priorities statement, which is featured prominently on our website.

The statement is made up of five broad priorities, which is the best that we can do to summarize the many issues facing ICGN. These are in turn broken down into sub-components. They are as follows: Promoting long-term investment perspectives and sustainable value creation; Making successful investor stewardship a reality; Building effective boards amidst the changing boundaries of governance; Protecting minority shareholder rights; and Seeking transparency through robust reporting, audit and metrics.

Many of these priorities we have already briefly touched on in this interview. The one we have not is the last priority relating to transparency and disclosure. This priority reflects our traditional focus not only on audit and accounting quality, but also on the weaving of financial information together into a narrative account of how a company is performing.

An example of this is the use of integrated reporting to illustrate how financial and non-financial issues are related to one another. ESG and broader strategic issues can be addressed within this narrative in order to allow investors to discern the key metrics by which company management is evaluated.

Thank you George