OPINION
Viewpoint on Executive Compensation

Pursuit of an Enhanced Corporate Governance Model

– JOHN ELLERMAN

Background

Corporate governance, in its current application in the business community, refers to a framework of policies, rules, and practices that is overseen by a company's Board of Directors, for managing a company's relationships with its stakeholders. Stakeholders refers to a broad group, including all shareholders, customers, employees, suppliers, and the community.

Professor Gahan Subramanian of the Harvard College of Law states that corporate governance has only emerged as a serious field of study since the 1970's. Professor Subramanian claims that corporate governance "best practices" have been hampered for many reasons, including a patchwork system of formal rules and regulations, a disparate mix of public and private policy makers, and the lack of an accepted metric for measuring what constitutes successful corporate governance. [1] The tension between shareholders, political activists, corporate management, and Boards has heightened the debate over what constitutes proper corporate governance in recent years. Further, the emergence of proxy advisory firms, such as Institutional Shareholder Services (ISS) and Glass Lewis has brought increased scrutiny to the subject.

Professor Subramanian purports that today's corporate business environment finds Boards of Directors, activists, everyday shareholders, and governance rating agencies having a common focus. [2] These parties are concerned with creating "insulation from frivolous litigation", while at the same time providing for "meaningful exposure in the event of dereliction of duty in the boardroom". We purport that governance will continue to evolve beyond this still narrow view to support the increasingly dynamic nature of business.

Emerging Trends in Governance

In recent years, the role of the Board of Directors has greatly expanded. Development of a viable business strategy is no longer solely the responsibility of top management; Boards are expected to work closely with top management in strategy formulation. With major public relations problems occurring at several prominent U.S. companies, Boards have also determined it is necessary that they address the issues of talent management, supplier relations, organizational process, and corporate reporting policy. These matters have been added to the list of responsibilities that Boards are expected to share with management, as Boards have become more active and regularly engaged with top management.

Valuable research in corporate governance is occurring at the Institute for Excellence in Corporate Governance (the "Institute"), a forum at the University of Texas at Dallas (UT Dallas) Jindal School of Management. The Institute has emerged as a thought-leader in corporate governance through educational programs, providing a focus on public and private corporate governance policies and undertaking research to further develop best practices in governance execution. The Institute has been operational for 17 years.

At a recent conference, the Institute examined current trends in governance and attempted to answer the following questions:

- What issues should governance address?
- Who has the responsibility for governance?
- Is governance the sole responsibility of the Board of Directors?
- How much governance responsibility resides in the C-Suite?
- What responsibility for governance rests with company employees servicing multiple stakeholders at the farthest reaches of the organization's network? [3]

The Institute's thesis is that a new governance model needs to emerge, and as a key principle underlying the model, stakeholder relationships are critical to achieving successful outcomes. All of a company's strategic and operational activities and potential outcomes rest upon stakeholder relationships, which must be trusted relationships. In the emerging new model, everyone in the company should be responsible for governance if the organization is committed to engaging in developing trusted stakeholder engagements. [4]

The Institute has recently published a new model of governance called the Governance Capital Model. The Governance Capital Model is the tangible and intangible value of an organization's people, resources, processes, and culture available to achieve the organization's mission outcomes. The new model is comprised of three components, and it addresses (1) an organization's management disciplines; (2) mission, strategic, and execution outcomes associated with these disciplines; and (3) the governance dimensions used to steer the organization to success. The Institute's model is defined as follows:

> "Excellence in corporate governance is an environment where the organization has the people, resources, processes, and culture to enable a thoughtful, proactive focus on strategy, customers, operations, and risk, and thus maximize the opportunity for successful results for all stakeholder groups. Excellence in corporate governance is the combined responsibility of the owners, managers, and Board of the organization."

The Institute believes that governance capital is the impact currency of the future for corporate America. It can be used by all of an organization's governance leaders (Boards, top management, employees) to leverage assets and opportunities to achieve business success.

A Pay Governance Perspective

In today's fast-paced business environment, proper corporate governance is essential for a company to achieve success. Environmental, social and governance ("ESG") issues are gaining increased prominence in the boardroom as companies strive to meet shareholder expectations. More work needs to be performed in proper governance; further research such as that completed by the Institute will help U.S. companies to provide more comprehensive yet achievable governance activities. In our judgment, high on the to-do list must be an improved measurement scorecard for determining what constitutes proper corporate governance. A company's ability to achieve favorable financial results, while remaining in compliance with government rules and regulations, with high employee retention only scratches the surface of what constitutes a true measurement of excellent corporate governance.

General questions about this Viewpoint can be directed to John Ellerman at *john.ellerman@paygovernance.com*.

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[1] Guhan Subramanian, Harvard College of Law, Corporate Governance 2.0, Harvard Business Review, https://hbr.org/2015/03/corporate governance - 2- 0

[2] Ibid

[3] The Institute for Excellence in Corporate Governance, The Governance Capital Model, The University of Texas at Dallas, Jindal School of Management

[4] Ibid