## THE HANDBOOK OF

## BOARD GOVERNANCE

**SECOND EDITION** 

A COMPREHENSIVE GUIDE FOR PUBLIC, PRIVATE, AND NOT-FOR-PROFIT BOARD MEMBERS

RICHARD LEBLANC, Ph.D.

WILEY

## **Contents**

Fore	word by John F. Bankes	li
Pref	ace	liii
Abo	ut the Editor	Ivii
1	The Handbook of Board Governance: An Introduction and Overview Richard Leblanc	1
	Introduction	1
	Diversity of Authorship	2
	Improved Corporate Governance	2
	Part I: The Board's First Responsibility: The Right CEO	3
	Part II: The Board's Second Responsibility: The Right Board Chair	5
	Part III: Who Is at the Board Table? Board Composition, Dynamics, and Decision-Making	7
	Part IVA: Climate Governance	10
	Part IV B: Technology Governance	13
	Part IV C: Risk and Financial Governance	16
	Part IV D: Strategic Governance	23
	Part IVE: Human Capital and Compensation Governance	25
	Part IV F: Legal and Governance Responsibilities of Directors	29
	Part V: Shareholder Engagement and Board Accountability	31
	Part VI: Not-for-Profit Governance	34
	Part VII: Small and Medium Company Governance	36
	Part VIII: Global Corporate Governance	31
	Conclusion: Future of Board Governance and Unresolved Issues	41
	References	42
1	THE BOARD'S FIRST RESPONSIBILITY: THE RIGHT CEO	43
2	CEO Succession Planning Trends and Forecast Gary Larkin	45
	Recent Trends	46

xvi CONTENTS

	Crisis Management CEO Replacement	41
	Long-Term Planning and Mentorships	49
	Gender Diversity Planning	51
	Best Practices for CEO Succession Planning	53
	Anthem	54
	Chevron	54
	State Street Corp.	54
	Examples of CEO Succession Planning Disclosure	55
	AIG	55
	Arconic	56
	CSX Corp.	56
	Conclusion	56
	About the Author	51
	Notes	51
3	CEO Succession Planning	58
	David E Larcker and Brian Tayan	
	The Market for Chief Executive Officers	59
	CEO Turnover	62
	Incoming CEOs	66
	Models of Succession Planning	61
	External Candidate	67
	President and/or Chief Operating Officer	68
	Horse Race	68
	Inside-Outside Model	69
	Common Practices in Succession	69
	Board-Led Process	69
	Experienced Directors	70
	Skills-and-Experience Profile	70
	Rigorous Talent Development	70
	Active Participation of the CEO	71
	Conclusion	12
	About the Authors	13
	Notes	13
4	CEO Succession: Lessons from the Trenches for Directors Mark B. Nadler	77
	Introduction	11
	The Talent Disconnect	80
	The Reluctant Retiree	81
	The Absence of Human Resources	82

	Contents	xvii
	The Assessment Tool Obsession	83
	The Irrelevant Criteria	85
	The Culture Conundrum	87
	The Mysterious Talent Pool	89
	The Never-Ending Transition	90
	The Forever CEO	92
	The Persistent Myth: It's Just for the Big Guys	93
	Conclusion	95
	About the Author	96
	References	97
App	pendix 1 Model CEO Succession Planning Charter Richard Leblanc	98
	Introduction	98
	Ad Hoc CEO Succession Committee Terms of Reference	99
	Purpose	99
	Committee Mandate	99
	Committee Authority	102
	Committee Composition	103
	Committee Administration	103
App	pendix 2 Model CEO Position Description Richard Leblanc	105
	Introduction	105
	Chief Executive Officer Position Description	106
II	THE BOARD'S SECOND RESPONSIBILITY: THE RIGHT	
	BOARD CHAIR	111
5	The Nonexecutive Chairman: Toward a Shareholder Value	
	Maximization Role Henry D. Wolfe	113
	Key Responsibilities of a High-Performance, Nonexecutive Chairman	114
	Leadership	114
	Learn the Industry and Business	116
	Engage Regularly with the CEO and Other Management	117
	Set the Standards for the Value-Creation Process  Ensure Robust Engagement in Monitoring Value-Creation Plan	118
	Progress	120
	Implement Strict Management Accountability Standards	122

xviii CONTENTS

	Influence Management Incentive Programs	122
	Influence Director Selection	124
	Implement a Process of Continuous Improvement	125
	Time Commitment	125
	Characteristics, Experience, and Skills to Look for in a Chair	126
	Mindset	127
	Demonstrated Leadership	128
	Understanding of Value Creation, the Value-Creation Process, and	
	the Capital Markets	129
	Ability to View Things Holistically	131
	Ethic of Accepting Personal Responsibility	132
	Industry Experience	133
	No Desire for the CEO Role	134
	Communication with Shareholders	135
	Developing the Board Culture	136
	Engage Legal Counsel in Plan	137
	Regular Meetings with Shareholders	137
	Disclosure in Public Documents	138
	Addressing Concerns of Activist Shareholders	138
	Set the Policy and Tone Early On	141
	Meet with the Activist Investor	141
	Review the Activist's Points with Board and Management	142
	Schedule Second Meeting with Activist	143
	The Outcome	143
	Conclusion	144
	About the Author	145
	Notes	146
5	Great Boards Don't Exist Without Great Chairs	148
	Elizabeth Watson and Heather Kelsall	
	Introduction	148
	Unpacking the Modern Chair's Role	149
	Meetings	149
	Dynamics	152
	Stewardship	154
	Board Stewardship	154
	Organizational Stewardship	155
	Relationship Stewardship	157
	The Chair-CEO Relationship	157
	Finding and Developing Great Chairs	159
	Role of the Corporate Secretary	161

	Contents	xix
	Conclusion	161
	About the Authors	162
7	What's in a Name? The Lead Director Role at U.S. Public	
	Companies	164
	Richard Fields and Anthony Goodman	
	Introduction	164
	Part I: Where Did the Lead Director Role Come From?	165
	Part II: Who Are Today'v Lead Directors?	168
	Part III: What Responsibilities Do Lead Directors Have?	110
	Lead Director Job Descriptions	174
	Part IV: What Challenging Issues Demand the Most Attention	
	from Lead Directors?	177
	CEO Evaluation and Succession	177
	Major Transactions	178
	Shareholder Engagement	179
	Crisis Response	179
	Part V: What Behaviors and Key Relationships Set the Most	
	Successful Board Leaders Apart?	180
	Relationship with the CEO	182
	Relationship with the Board	183
	Relationship with New Directors	184
	Conclusion	185
	About the Authors	185
	Notes	186
App	endix 3 Model Board Chair Position Description	192
	Richard Leblanc	
	Introduction	192
	Board Chair Position Description	194
M	WHO IS AT THE BOARD TABLE? BOARD COMPOSITION, DYNAMICS,	
	AND DECISION-MAKING	197
8	Director Independence, Competency, and Behavior Richard Leblanc	199
	The Regulatory Focus on Director Independence May Occur at the	
	Expense of Industry Expertise	199
	Moving Beyond Director Independence	200

XX CONTENTS

	Regulatory Emphasis on Director Independence	201
	Independence of Mind	201
	How Boards (and CEOs) Circumvent Director Independence	204
	Examples of Management Capture	204
	Best Practices to Strengthen Director Independence	206
	Boards Should Collectively Decide: How Much Compromising	
	of Director Independence Is Acceptable?	201
	The Systematic Graying of Independent Directors and Boards	207
	Conflict-Free, Independent Advisors	208
	Director Competency	209
	Director Competency Defined	209
	"CEO" Is Not a Competency	209
	"Experience" Is Not Synonymous with Competency	211
	The Director Competency Matrix	211
	Validation of Director Competency	211
	When Director Competency Is Outdated or Is Not Reflective	
	of the Strategy	213
	Board Diversity Matrix	213
	Targets	213
	Director Behavior	215
	Assessing Important Director Behaviors	215
	Director Behavior and Board Dynamics	219
	Assessing Overall Director Effectiveness	222
	Addressing Regulatory and Investor Renewal Efforts: What Boards Should Be Doing	222
	Resistance by Boards to Demonstrate Director Selection Based	
	on Competency, and Director Tenure Based on Performance	223
	Director Prerogative Being Challenged	224
	Independent Governance Reviews to Stimulate Renewal	226
	Self-Reviews of the Board Constitute a Conflict of Interest,	
	as Does Management Facilitation	226
	Conclusion	221
	About the Author	228
	Notes	229
	References	231
9	Board Behaviors: How Women Directors Influence	
	Decision Outcomes	233
	Dr. Mary Halton	
	Introduction	233
	Background and Context	234
	-	

	Contents	xxi
	Preparation	235
	Independent Judgment	236
	Constructive Challenge	231
	Contribution	239
	Different Perspectives	240
	Engagement Style	241
	Risk Awareness	243
	Impacts on Decision-Making	245
	Discussion and Debate	245
	Consideration of Risk	247
	Disrupting Groupthink	247
	Conclusion	248
	About the Author	249
	Note	249
	References	250
10	The State of Gender Diversity in Boardrooms Dr. Nancy Gianni Herbert	253
	Introduction	253
	Gender Diversity	254
	Professional and Social Capital	255
	How Social Capital Can Be Represented on Boards	251
	Social and Regulatory Effects on Gender Parity in Boardrooms	259
	The Paradigm Shift	261
	Perpetuating the Myth	262
	Demystifying the Conundrum	262
	The Solution Is Not Representation, but Equality	263
	The Challenges of Diversity	263
	Conclusion	265
	About the Author	265
	Note	266
	References	266
11	Every Seat Matters Annie Tobias and Lina Pallotta	269
	Introduction	269
	The Power and Limitations of a Skills-Based Matrix	269
	The 2VArchetype Framework	212
	Populating the 2VArchetype Framework	213
	The Archetypes	214
	Upper-Right Quadrant Archetypes—High Value/High Voice	274
	Lower-Right Quadrant Archetypes—High Value/Low Voice	275

xxii CONTENTS

	Lower-Left Quadrant Archetypes—Low Value/Low Voice	276
	Upper-Left Quadrant Archetypes—High Voice/Low Value	277
	Using the 2VArchetype Framework	278
	Conclusion	280
	About the Authors	281
12	The Art of Asking Questions as a Director J. Lyn McDonell	283
	Introduction	283
	Why Questions (Really) Matter	284
	What Dampens Questions?	285
	The Purpose of Questions	286
	When to Ask Questions	288
	How to Ask Questions	292
	Getting Answers	296
	Conclusion	291
	About the Author	298
	Notes	299
	References	300
13	Board Succession, Evaluation, and Recruitment:	
	A Global Perspective	<i>301</i>
	Jakob Stengel	
	Introduction	301
	Who Has the Right to Nominate and Elect the Board?	302
	Basic Board Structure and Independence	304
	Board Succession Management	307
	Building a Fit-for-Purpose Board	308
	The Hot Topic of Diversity on Boards	310
	Board Evaluation	312
	Board Recruitment	316
	Vetting of Board Candidates	316
	Board Candidates' Own Due Diligence	317
	Conclusion	311
	About the Author	318
App	pendix 4 Model Individual Director Position Description Richard Leblanc	319
	Introduction	319
	Individual Director Position Description	320

	Contents	xxiii
App	oendix 5 Model Conflict of Interest Policy for Directors  Richard Leblanc	323
	Introduction	323
	Conflict of Interest Policy and Sign-Off for Directors	324
	Application of This Conflict of Interest Policy	324
	Monitoring and Enforcement of This Conflict of Interest Policy	327
	Compliance with This Conflict of Interest Policy	328
	Directorial Certificate of Compliance with This Conflict of Interest Policy (Certificate)	331
IV	THE WORK OF THE BOARD	333
A.	CLIMATE GOVERNANCE	333
14	Climate Change and Directors' Duties: Closing the Gap Between Legal Obligation and Enforcement Practice Ellie Mulholland, Sarah Barker, Cynthia Williams, and Robert G. Eccles	335
	Introduction	335
	Why Climate Change Is a Core Corporate Governance Issue	331
	Climate Change as a Foreseeable—and Often Material—Financial Risk	337
	Climate Change as a Financial Stability and Efficient	
	Markets Issue	338
	Task Force on Climate-Related Financial Disclosures	339
	Shareholder Resolutions, Voting, and Engagement on	
	Climate Change	340
	The Sustainable Development Goals Are Driving the Value-Creation	
	Story of Climate Change	341
	Incorporating Climate Change into The Board's Role on	2.42
	Governance, Strategy, Risk Management Oversight, and Disclosure	342
	Climate Change and Directors' Duties in Key Common Law	2.44
	Jurisdictions	344
	From Ethical "Corporate Social Responsibility" to Financial  Risk and Return	344
	Duties of Trust and Loyalty	346
	Duties of Competence and Attentiveness	347
	Enforcement of Directors' Duties	349
	Director Liability for Misleading or Inadequate Disclosures Relating	- • •
	to Climate Change	350
	Enforcement of Disclosure Obligations	351
	D&OInsurance	351

**xxiv** CONTENTS

	Materiality of the Risk of Personal Liability	352
	The Enforcement Gap: Could Climate Change Be the Exception?	353
	Practical Tools for Climate Governance and Disclosure	355
	Conclusion	356
	About the Authors	351
	Notes	360
15	Board Oversight and Climate Change: What Directors	
	Need to Know	369
	Patricia A. Koval	
	Introduction	370
	Incorporating Climate Change into the Overall Board Governance	
	Framework	312
	Understanding the Dynamic of Climate Risk, Climate Opportunity,	
	and Financial Impact	314
	Climate Change-Related Risks	375
	Litigation Risk—A Special Category	378
	Climate Change-Related Opportunities	381
	Understanding the Tools to Evaluate Climate Change-Related	
	Risks and Opportunities	3 82
	What the Board Needs to Know About Risk and Opportunities Analyses	383
	What the Board Needs to Know About Climate-Related Risk	
	Management and Strategic Planning	385
	What the Board Needs to Know About Climate Change-Related	
	Disclosure	381
	Closing Comments	392
	About the Author	392
	Notes	393
16	Responsible Boards for a Sustainable Future Dr. Yilmaz Argiiden	398
	Introduction	398
	Role of the Board of Directors	401
	Emerging Standards of Sustainability	404
	UN Global Compact	406
	OECD Guidelines for Multinational Enterprises	408
	Principles for Responsible Investment	409
	Global Reporting Initiative	409
	International Integrated Reporting Council	410

Contents	XXV
Contents	XXV

	International Organization for Standardization's Social	
	Responsibility Standards	411
	Equator Principles	412
	Responsible Boards	413
	1. Crafting the Sustainability Vision	414
	Defining Sustainability Responsibilities with a Comprehensive Scope	414
	Materiality and Risk Management	415
	Stakeholder Engagement	416
	2. Building Sustainable Boards	418
	Ensuring a Board with Appropriate Skills	418
	Board Processes to Support Sustainability Responsibilities	420
	Information Quality Determines the Decision Quality	422
	3. Integrating Sustainability into the Organization	423
	Leadership and Culture	42 3
	Deployment and Learning	424
	Transparency and Reporting	425
	Conclusion	425
	Appendix	426
	About the Author	430
	Notes	431
17	Corporate Governance to Advance Business and Society Alice Komgold	434
17		<b>434</b>
17	Alice Komgold Introduction	
17	Alice Komgold	434
17	Alice Komgold Introduction Two Sustainability Narratives	434 435
17	Alice Komgold  Introduction Two Sustainability Narratives Chocolate Is Bittersweet Climate: From COP21 to COP24	434 435 435
17	Alice Komgold Introduction Two Sustainability Narratives Chocolate Is Bittersweet	434 435 435 437
17	Alice Komgold  Introduction Two Sustainability Narratives Chocolate Is Bittersweet Climate: From COP21 to COP24 The United Nations Sustainable Development Goals (SDGs) Boards Build Shareholder Value	434 435 435 437 440
17	Alice Komgold  Introduction Two Sustainability Narratives Chocolate Is Bittersweet Climate: From COP21 to COP24 The United Nations Sustainable Development Goals (SDGs) Boards Build Shareholder Value Investors Connect Social Responsibility with Profits	434 435 435 437 440 441
17	Alice Komgold  Introduction Two Sustainability Narratives Chocolate Is Bittersweet Climate: From COP21 to COP24 The United Nations Sustainable Development Goals (SDGs) Boards Build Shareholder Value	434 435 435 437 440 441 442
17	Alice Komgold  Introduction Two Sustainability Narratives Chocolate Is Bittersweet Climate: From COP21 to COP24 The United Nations Sustainable Development Goals (SDGs) Boards Build Shareholder Value Investors Connect Social Responsibility with Profits Looking to the Long Term Building a Qualified Board	434 435 435 437 440 441 442 443
17	Alice Komgold  Introduction  Two Sustainability Narratives Chocolate Is Bittersweet Climate: From COP21 to COP24  The United Nations Sustainable Development Goals (SDGs)  Boards Build Shareholder Value Investors Connect Social Responsibility with Profits Looking to the Long Term Building a Qualified Board Focusing the Board on Social Responsibility and Innovation	434 435 435 437 440 441 442 443 443
17	Alice Komgold  Introduction Two Sustainability Narratives Chocolate Is Bittersweet Climate: From COP21 to COP24 The United Nations Sustainable Development Goals (SDGs) Boards Build Shareholder Value Investors Connect Social Responsibility with Profits Looking to the Long Term Building a Qualified Board	434 435 437 440 441 442 443 443
17	Alice Komgold  Introduction  Two Sustainability Narratives Chocolate Is Bittersweet Climate: From COP21 to COP24  The United Nations Sustainable Development Goals (SDGs)  Boards Build Shareholder Value Investors Connect Social Responsibility with Profits Looking to the Long Term Building a Qualified Board Focusing the Board on Social Responsibility and Innovation Tying Executive Compensation to Sustainability	434 435 437 440 441 442 443 443 446 447
17	Introduction Two Sustainability Narratives Chocolate Is Bittersweet Climate: From COP21 to COP24 The United Nations Sustainable Development Goals (SDGs) Boards Build Shareholder Value Investors Connect Social Responsibility with Profits Looking to the Long Term Building a Qualified Board Focusing the Board on Social Responsibility and Innovation Tying Executive Compensation to Sustainability Global Challenges Present Opportunities for Businesses	434 435 437 440 441 442 443 443 446 447
17	Introduction Two Sustainability Narratives Chocolate Is Bittersweet Climate: From COP21 to COP24 The United Nations Sustainable Development Goals (SDGs) Boards Build Shareholder Value Investors Connect Social Responsibility with Profits Looking to the Long Term Building a Qualified Board Focusing the Board on Social Responsibility and Innovation Tying Executive Compensation to Sustainability Global Challenges Present Opportunities for Businesses Poverty and Economic Development	434 435 437 440 441 442 443 443 446 447 447 448 449
17	Introduction Two Sustainability Narratives Chocolate Is Bittersweet Climate: From COP21 to COP24 The United Nations Sustainable Development Goals (SDGs) Boards Build Shareholder Value Investors Connect Social Responsibility with Profits Looking to the Long Term Building a Qualified Board Focusing the Board on Social Responsibility and Innovation Tying Executive Compensation to Sustainability Global Challenges Present Opportunities for Businesses Poverty and Economic Development Ecosystems Loss and Food Security	434 435 437 440 441 442 443 443 446 447 447 448 449 451
17	Introduction Two Sustainability Narratives Chocolate Is Bittersweet Climate: From COP21 to COP24 The United Nations Sustainable Development Goals (SDGs) Boards Build Shareholder Value Investors Connect Social Responsibility with Profits Looking to the Long Term Building a Qualified Board Focusing the Board on Social Responsibility and Innovation Tying Executive Compensation to Sustainability Global Challenges Present Opportunities for Businesses Poverty and Economic Development Ecosystems Loss and Food Security Education and Workforce Development	434 435 437 440 441 442 443 443 446 447 447 448

xxvi CONTENTS

	Unilever's Board of Directors	457
	Society Holds Businesses Accountable	459
	Boards Must Build a Better World	460
	About the Author	460
	References	461
В.	TECHNOLOGY GOVERNANCE	467
18	Technology and the Corporate Board 2020 and Beyond	469
	Dr. Gary L. Evans	
	Introduction	469
	History	470
	Exponential Thinking	471
	Emerging Technologies	475
	Artificial Intelligence	478
	Blockchain	480
	Cloud	480
	5G	482
	Internet of Things	483
	Quantum Computing	483
	Cybercrime	483
	Other Technologies	485
	Business Models and Disruptive Technology	486
	Conclusion	486
	About the Author	487
	References	488
19	Responsive Governance in a Digital World: The Need to	
	Up-Skill	492
	Dr. Elizabeth Valentine, Dr. Steven De Haes, and Dr. Anantjoshi	
	Introduction	492
	Digital Transformation	493
	What Is Digital Transformation?	493
	The Need for Speed Is Being Driven by Your Customers and	
	Stakeholders	494
	What Is Enterprise Technology Governance?	496
	Disruptors Are Innovative and Agile; They Can Come from	400
	Unexpected Places	499
	Traditional Versus "Agile" Governance Why IT Governance Canability Is Necessary Across the Roard	500 502
	Why IT Governance Capability Is Necessary Across the Board How Bad Is the Board ETG Capability Problem?	502 502

Contents	xxvii
----------	-------

	A Skill Shortage at the Top	503
	Case Study: How Agfa-Gevaert Increased Their Board	
	IT Governance Capability	504
	Benefits of Boards Building Information and Technology Leadership	
	Capability	506
	Winners and Losers	507
	The Case of Target USA, December 2013	508
	Seven Areas of ETG Risk Boards Need to Know About	509
	Three Barriers to Effective Board-Level ETG	513
	Rapid Risk Response Is an Emerging Form of Agile Governance	513
	Board ETG Accountabilities and New Competencies	517
	Five Practical Steps to Start Transforming Your Board	519
	Take the First Steps Toward Digital Transformation	520
	Evaluate the Digital Capability of Your Executive Team	520
	Establish a Digital Vision for the Organization	520
	Review Board Governance Structures and Processes	521
	Consider Your Board's Agility	521
	Conclusion	<i>521</i>
	About the Authors	522
	Notes	523
	References	524
20	The Impact of Blockchain Technology for Corporate	
	Governance	526
	Jack J. Bensimon	0_0
	Executive Summary	526
	Glossary of Terms	521
	Introduction: Blockchain Enhancements in Corporate Governance	530
	Smart Contracts	531
	Distributed Ledger Technology (DLT)	532
	Digital Asset Enhancements	532
	Institutional Imperatives in Digital Currency	533
	What Role Will DAOs (Decentralized Autonomous	
	Organizations) Serve in Corporate Governance?	534
	Facebook's Proposed Libra Coin: The DAO in Practice	535
	What Role Does Board Governance Serve in a Digital Currency	527
	Environment?	537
	The Role of DASIs and Their Potential Impact in Corporate	<b>53</b> 0
	Governance Jurisdictional Considerations for STO Launch	538 538
	Julisticuoliai Colistacianolis 101 510 Laulicii	228

xxviii CONTENTS

Voting Rights and "Smart Contracts"": Compliance Automation	539
What Role Will Smart Contracts Serve in Corporate Governance?	540
How Smart Are Smart Contracts?	541
What Are the Main Benefits of Smart Contracts?	541
What Are Some Legal Limitations of Smart Contracts?	542
Extending Security Token Protocols with Voting Rights While	
Shoring Up Efficiencies	542
Voting Systems as a Blockchain Use Case	544
Digital Currency: Securities Regulatory Implications	545
The Extraterritorial Reach of the SEC	545
SEC Howey as a Litmus Test	545
Regulatory Arbitrage with STOs	546
Implications of Regulatory Arbitrage for Digital Currency Issuers	547
Security Token Issuances: Board Considerations	549
Board Inquiries of Management About Blockchain	551
Impact of Digital Currency: Key Lessons Learned	552
Conclusion: Governance Efficiency and Effectiveness	554
About the Author	554
Notes	555
References	555
Do Eliant At Valorities Do Cosa Timboril Localina France	
Dr. Elizabeth Valentine, Dr. Greg Timbrell, Lachlan Feeney, and Dr. John Puttick	
	556
and Dr. John Puttick Introduction	556 557
and Dr. John Puttick Introduction What Is Blockchain and Why Is It Important?	557
and Dr. John Puttick Introduction What Is Blockchain and Why Is It Important? Why Is Knowledge of Blockchain Important to Boards?	
and Dr. John Puttick  Introduction  What Is Blockchain and Why Is It Important?  Why Is Knowledge of Blockchain Important to Boards?  The Elements of the Blockchain Technology	557 559 559
and Dr. John Puttick Introduction What Is Blockchain and Why Is It Important? Why Is Knowledge of Blockchain Important to Boards?	557 559 559 560
and Dr. John Puttick  Introduction  What Is Blockchain and Why Is It Important?  Why Is Knowledge of Blockchain Important to Boards?  The Elements of the Blockchain Technology  Blockchain and Distributed Systems	557 559 559
and Dr. John Puttick  Introduction  What Is Blockchain and Why Is It Important?  Why Is Knowledge of Blockchain Important to Boards?  The Elements of the Blockchain Technology  Blockchain and Distributed Systems  What Is a Smart Contract?	557 559 559 560 560
and Dr. John Puttick  Introduction  What Is Blockchain and Why Is It Important?  Why Is Knowledge of Blockchain Important to Boards?  The Elements of the Blockchain Technology  Blockchain and Distributed Systems  What Is a Smart Contract?  How Blockchain Uses Smart Contracts	557 559 559 560 560
and Dr. John Puttick  Introduction  What Is Blockchain and Why Is It Important?  Why Is Knowledge of Blockchain Important to Boards?  The Elements of the Blockchain Technology  Blockchain and Distributed Systems  What Is a Smart Contract?  How Blockchain Uses Smart Contracts  How Smart Contracts Will Revolutionize the WayWe	557 559 559 560 560
and Dr. John Puttick  Introduction  What Is Blockchain and Why Is It Important?  Why Is Knowledge of Blockchain Important to Boards?  The Elements of the Blockchain Technology  Blockchain and Distributed Systems  What Is a Smart Contract?  How Blockchain Uses Smart Contracts  How Smart Contracts Will Revolutionize the WayWe  Do Business	557 559 559 560 560 560
and Dr. John Puttick  Introduction  What Is Blockchain and Why Is It Important?  Why Is Knowledge of Blockchain Important to Boards?  The Elements of the Blockchain Technology  Blockchain and Distributed Systems  What Is a Smart Contract?  How Blockchain Uses Smart Contracts  How Smart Contracts Will Revolutionize the WayWe  Do Business  An Example of How It Works—Purchasing Theater Tickets	557 559 559 560 560 561 561
and Dr. John Puttick  Introduction  What Is Blockchain and Why Is It Important?  Why Is Knowledge of Blockchain Important to Boards?  The Elements of the Blockchain Technology  Blockchain and Distributed Systems  What Is a Smart Contract?  How Blockchain Uses Smart Contracts  How Smart Contracts Will Revolutionize the WayWe  Do Business  An Example of How It Works—Purchasing Theater Tickets  How Is Security Created and What About Hackers?	557 559 559 560 560 561 561 563
Introduction What Is Blockchain and Why Is It Important? Why Is Knowledge of Blockchain Important to Boards? The Elements of the Blockchain Technology Blockchain and Distributed Systems What Is a Smart Contract? How Blockchain Uses Smart Contracts How Smart Contracts Will Revolutionize the WayWe Do Business An Example of How It Works—Purchasing Theater Tickets How Is Security Created and What About Hackers? Industry Disruption, Impacts, and Considerations for Boards	557 559 559 560 560 561 561 563 564
Introduction What Is Blockchain and Why Is It Important? Why Is Knowledge of Blockchain Important to Boards? The Elements of the Blockchain Technology Blockchain and Distributed Systems What Is a Smart Contract? How Blockchain Uses Smart Contracts How Smart Contracts Will Revolutionize the WayWe Do Business An Example of How It Works—Purchasing Theater Tickets How Is Security Created and What About Hackers? Industry Disruption, Impacts, and Considerations for Boards Banking and Payments	557 559 559 560 560 561 561 563 564 564
Introduction What Is Blockchain and Why Is It Important? Why Is Knowledge of Blockchain Important to Boards? The Elements of the Blockchain Technology Blockchain and Distributed Systems What Is a Smart Contract? How Blockchain Uses Smart Contracts How Smart Contracts Will Revolutionize the WayWe Do Business An Example of How It Works—Purchasing Theater Tickets How Is Security Created and What About Hackers? Industry Disruption, Impacts, and Considerations for Boards Banking and Payments Impacts for Banking and Payments	557 559 559 560 560 561 561 563 564 564
Introduction What Is Blockchain and Why Is It Important? Why Is Knowledge of Blockchain Important to Boards? The Elements of the Blockchain Technology Blockchain and Distributed Systems What Is a Smart Contract? How Blockchain Uses Smart Contracts How Smart Contracts Will Revolutionize the WayWe Do Business An Example of How It Works—Purchasing Theater Tickets How Is Security Created and What About Hackers? Industry Disruption, Impacts, and Considerations for Boards Banking and Payments Impacts for Banking and Payments Considerations for Boards	557 559 559 560 560 561 561 563 564 564 564

	Contents	xxix
	Real Estate Industry	566
	Impacts for Real Estate	566
	Considerations for Boards	566
	Legal	566
	Impacts for the Legal Profession	566
	Considerations for Boards	567
	Healthcare	567
	Impacts for the Healthcare Sector	567
	Considerations for Boards	567
	Government and Politics	568
	Impacts for Governments and Politics	568
	Considerations for Politicians and Government Agencies	568
	Education	569
	Impacts for the Education Sector	569
	Considerations for Boards	569
	Energy	569
	Impacts for the Energy Sector	569
	Considerations for Boards	570
	Supply-Chain and Logistics Management	570
	Impacts for Supply-Chain and Logistics Management	570
	Considerations for Boards	571
	Summary	571
	PrimaryMarkets: A Finance Industry Case Study	511
	Business Profile	571
	Industry Background and Business Challenge	572
	The Solution	572
	Implementation	573
	Results	574
	Conclusion	514
	About the Authors	515
	Notes	516
	References	516
22	Reflections of a Board Chair on the Christchurch Massacre:	
	Governing Social Media	<i>578</i>
	Drew Stein	
	Introduction	518
	The Impact of Social Media on Corporate Governance	580
	Boards and Companies Are Not Immune	581

582

The Meaning of Governance

XXX CONTENTS

	Governance Document	582
	Social Media Attacks	583
	A Product Attack	5 84
	A Service Attack	584
	A Marketplace Behavior Attack	585
	A Personal Attack on a Senior Staff Member or Director	586
	An Attack on the Board as a Collective	587
	Conclusion	588
	Appendixes	589
	About the Author	593
<i>C</i> .	RISK AND FINANCIAL GOVERNANCE	595
23	Financial Literacy and Audit Committees: A Primer for	
	Directors and Audit Committee Members	<i>597</i>
	Jason Masters	
	Editor's Note	597
	The Board and Audit Committee's Financial Literacy and Oversight	
	of Financial Reporting and External Audit	600
	Audit Committee Oversight of Internal Audit	605
	Audit Committee Oversight of Risk Management	609
	Audit Committee Oversight of Business Conduct, Ethics, and	
	Whistleblowing	613
	Audit Committee Oversight of Technology and Cybersecurity	618
	Conclusion	622
	About the Author	622
	Notes	623
24	Corporate Governance in an Age of Populism	624
	John Zinkin	- <b>-</b> .
	Introduction	624
	A Populist Replay of the 1930s?	625
	Disaffection with the Current Economic Order	62 5
	Dealing with Symptoms Rather Than Causes	627
	The Wrong Neo-liberal Responses	628
	Populism Is Not the Answer	630
	Preventing a Political Tragedy of the Commons?	631 632
	1. Focusing on Reputation 2. Tracting People as Assets Pathor Than Costs	632 634
	2. Treating People as Assets Rather Than Costs 3. Rethinking Processes	636
	Conclusion	638
	Conclusion	050

	Contents	xxxi
	About the Author	639
	Notes	640
25	A Call to Action for Geopolitical Governance Sean West and Rohitesh Dhawan	641
	Introduction	641
	Twenty-First-Century Political Risk	642
	Politics Is More Manageable Now Than Ever	645
	Politics Is a Board Imperative	646
	A New Approach	648
	Anchor	649
	Analyze	650
	Assess	650
	Adjust	651
	Conclusion: The First Step to Geopolitical Governance	653
	About the Authors	653
26	Governing Boards, Risk Management, and Deliberative	
	Thinking Michael Useem	655
	The Risks of Governance Risks	658
	Engaging the Board in Risk Governance Oversight	660
	Bringing Deliberative Thinking into the Boardroom	665
	A Director's Risk Roadmap	661
	About the Author	668
	Notes	669
	References	669
27	Lawyers' Advice to Directors on Overseeing Executive Pay Howard Levitt and Allyson Lee	672
	Introduction	612
	The Overarching Principle of the Fiduciary Duty	613
	The Approval of a Compensation Committee Isn k Necessarily Enough	616
	If It Looks Too Good to Be True, a Court Is Probably Going to	
	Feel the Same Way	611
	Don't Stop Being Scrupulously Honest Just Because a Contract Is	
	Signed	619
	If Your Company May Have an Executive Who Breached Their	
	Duty, Contemplate Asking a Court to Set It Aside	680
	Conclusions and Lessons from the Law	683

xxxii CONTENTS

	About the Authors	684
	Notes	685
28	Accountant's Advice to Company Directors: Directors'	
	Obligations to Detect Top-10 Frauds	<b>687</b>
	Dr. L. S. (Al) Rosen	
	Background	681
	Fraud #1: Absent Board Independence	688
	Fraud #2: Hiring "Rubber-stamp" Consultants	690
	Fraud #3: Over-Ranked Financial Specialists	691
	Fraud #4: Incentive Programs Gone Awry	692
	Fraud #5: Weak Financial Controls	694
	Fraud #6: Non-Arm's-Length/Self-Dealing	696
	Fraud #7: Ponzi Schemes	691
	Fraud #8: "Cooked Books"	698
	Fraud #9: IFRS	100
	Fraud #10: Corporate Reorganizations	101
	About the Author	102
29	Ten Tell-Tale Signs of Possible Fraud: A Director's Primer	704
	James Hunter	
	Introduction	104
	The Chief Executive Officer (CEO) Is a Narcissist	105
	The CEO Takes a Keen Interest in Basic Accounting Entries	105
	The Company's Operation Represents One Person's Vision	106
	The Corporate Organization Chart Does Not Reflect Reality	101
	The Board Does Not Understand All Aspects of the Business	101
	The Minute Books Are Not Up to Date	108
	The Audit Committee Is Inactive	108
	Senior People Have a Flamboyant Lifestyle	109
	Noncore or Unusual Business Activities Generate High Revenue	110
	The Corporation Is Not a Securities and Exchange	
	Commission (SEC) Registrant	111
	Conclusion	111
	About the Author	112
30	100 Questions Directors Should Ask When Assessing the	
	Effectiveness of Risk Systems	713
	F. Edward "Ted" Price	
	Introduction	113
	The Challenge	114

	Contents	xxxiii
	Key Elements of Effective Risk Governance	714
	How Do Directors Assess Whether Risk Systems Are Working	
	Effectively?	714
	I. Is the Board Doing Its Part in Managing Risk?	715
	II. Can the Board Rely on Control Functions?	715
	III. Does the Culture Support Risk Management or Risk Taking?	716
	IV. Is the Risk Culture Sustainable?	717
	About the Author	718
81	Risk Oversight for Directors: A Practical Guide Stephen J. Mallory	719
	Introduction	719
	The Mechanics of ERM	721
	The Five ERM Elements	724
	The Four ERM Fundamentals	725
	Board Risk Oversight	727
	Conclusion	732
	About the Author	733
	Acknowledgments	733
	Appendix: Gap Study—Risk Oversight for Directors:	
	A Practical Guide	733
	Notes	737
32	Risk Governance: Leading Practice and Demographic	
	Impacts	<i>739</i>
	Ingrid Robinson	
	Introduction	739
	What Is Enterprise Risk Management and Risk Governance?	740
	Corporate Governance Regulations: Risk Governance Expectations	741
	A Risk Governance Approach	744
	Risk Governance Structure	744
	How Should the Board Organize Itself to Oversee Risk?	744
	What Should the Charter of the Board Include Regarding Risk Oversight?	747
	What Skills Should Directors Possess to Fulfill the Board Risk Oversight Charter?	
	Emerging Role of the CRO	747 748
	Policy	750
	Assurance	753
	Risk Governance Framework Implementation	754
	AISK Governance Framework Implementation	154

**XXXIV** CONTENTS

	Demographic Influencers of Effective Risk Governance	154
	Conclusion	156
	About the Author	151
	Notes	151
D.	STRATEGIC GOVERNANCE	759
33	Agile Governance	761
	Scott Koerwer and Joseph Perfetti	
	Introduction	161
	Change Is No Longer Linear; Now It Is Exponential	762
	The Business Ecosystem Has Gone from Complicated to Complex	763
	From Chess to Poker	764
	Four Principles of Agile Boards and a Toolbox	165
	Purpose Is Timeless and the Board Guards It	765
	Continuous Reinvention: Adapt or Die	767
	Skill Building and Acquisition	771
	The Human System	773
	The Organizational System	773
	The Market System	774
	Risk Management	775
	Be Prepared to Act Before 100 Percent of the Information Is Known	776
	Don't Surrender to Groupthink	777
	And Toolbox—The Agile Dashboard	118
	Measuring Speed	779
	Interaction Time and Pivot	180
	Conclusion	181
	About the Authors	182
	Notes	184
34	The Three Dilemmas for Creating a Long-Term Board Ariel Fromer Babcock, Robert G. Eccles, and Sarah Keohane Williamson	786
	Chapter Summary	186
	Introduction: Making the Case for Why Boards Should Care	
	About Being Long-Term	181
	The Dilemma of a Time-Constrained Board	189
	The Dilemma of Using Stock Ownership as a Means of Aligning	
	Interests	191
	Shareholder Engagement: The Dilemma of How and	1/1
	When Directors Should Engage	194
	THE DIFFERENCE DIFFERENCE	エノヤ

	Contents	XXXV
	Solutions for Long-Term Boards	799
	Time Spent on Strategy	799
	Directors as Owners	802
	Shareholder Engagement	804
	Conclusion	806
	About the Authors	808
	Notes	810
35	Strategic Blindspots in the Boardroom Estelle Metayer	815
	Competitive Blindspots	816
	Misjudging Your Industry Boundaries	816
	Underestimating Competitors and Their Capabilities	817
	Lack of Foresight to Spot Trends	819
	Antidotes to Competitive Blindspots	820
	Mitigation Strategies from Best Practices to Avoid Competitive	
	Blindspots	820
	Anchoring Blindspots	822
	Anchoring to the Past	82 3
	Limited Frame of Reference	824
	Antidotes to Anchoring Blindspots	825
	Mitigation Strategies from Best Practices to Avoid Anchoring	
	Blindspots	825
	Organizational Blindspots	827
	Unchallenged Assumptions	827
	Corporate Taboos	828
	Bias Against Dissent	829
	Antidotes to Organizational Blindspots	829
	Mitigation Strategies from Best Practices to Avoid Organizational	
	Blindspots	830
	New Boardroom Blindspots for the Next Five Years	831
	Emerging Technologies	831
	The IT Abyss	832
	Risks of Fraud, Scams, and Security Breaches	832
	Redefining What Work and Talent Will Mean in the Future	833
	The Longevity Economy	833
	Understanding Asia, Africa, and India	834
	Future Job Competencies of Workers	834
	Conclusion: Steps Corporate Directors Should Now Take as	
	a Profession	835
	About the Author	831
	References	837

xxxvi CONTENTS

E.	HUMAN CAPITAL AND COMPENSATION GOVERNANCE	839
36	Winter Is Coming: The Approaching Human Capital Management Storm	841
	Solange Charas and Michael Young	041
	Introduction	841
	The Link Between Human Capital and Firm Financial Performance	842
	The New Reality of Enhanced Information Disclosure	844
	Economic and Decision-Quality Rationales for Including Human Capital Metrics as a Governance Issue	846
	Other Theories About Information Impact on Decision-Making	848
	Human Capital Metrics: Using "Big Data" Approaches	849
	Conclusion	855
	About the Authors	856
	Notes	858
<i>37</i>	The Effective Compensation Committee	861
	Steven Hall and Steven Hall Jr.	
	Introduction	861
	Keys to an Effective Compensation Committee	862
	Role of the Committee	862
	Knowledgeable and Informed Committee Members	863
	Role of the Compensation Committee Chair	865
	Effective Committee Meetings	865
	Outside Advisors	867
	Relationship with Management	869
	Compensation Committee Charter	869
	Compensation Philosophy	870
	Aligning Pay with Performance	870
	Provide Fair and Competitive Pay Opportunities	871
	Provide a Mix of Pay Elements Consistent with the Strategic	
	Objectives of the Organization	871
	A Balanced Program That Mitigates Risk	872
	De Minimis Use of Benefits and Perquisites	872
	Compensation Committee Calendar	812
	Recurring Events	874
	Executive Compensation: Program Design	874
	Executive Compensation: Pay Levels	876
	Performance: Establish, Monitor, Certify	876
	Shareholder Outreach and Proxy Disclosure	877
	Other Items	878
	Committee Housekeeping	878

Contents	xxxvii
Aligning Pay to Performance: Best Practices	879
Choosing the Right Compensation Vehicles	879
Choosing the Right Performance Metrics	880
Absolute Versus Relative Performance Metrics	880
Use of Individual Performance Metrics	881
Establishing the Right Performance Targets	882
Use of Discretion	882
Succession Planning and Talent Development	883
Say on Pay and Shareholder Engagement	884
Eliminating the Irritants	884
Communicating Compensation Decisions	884
Serving as Public Ambassadors of the Pay Program	885
Navigating Shareholder Advisory Firms	886
Conclusion	887
About the Authors	887
Notes	888
<b>Compensation Governance and Performance-Based</b>	
<b>Executive Compensation</b>	889
Paul Gryglewicz	
Introduction	889
Typical Responsibilities Found Within the Charter of the Compensation	
Committee	889
Compensation Governance Background	891
Compensation Governance Process	891
Establish Compensation Philosophy and Peer Group Governance Steps to Validate and Define the Compensation	891
Philosophy	892
Review Executive Compensation	894
Assess the Business Impact Before Making Final Approvals	895
Report the Process and Compensation Results to the Executives and	
Shareholders via the Annual Proxy	895
Performance-Based Executive Compensation	896
Governance Process to Review and Design the Annual Bonus	897
Governance Process to Review and Design the Long-Term Incentive	
Plans	897
Types of Long-Term Incentives	898
Long-Term Cash	899
Stock Options/Share Appreciation Rights	899
Restricted Share Units (RSUs)	900
Performance Share Units (PSUs)	901
Deferred Share Units (DSUs)	901

xxxviii CONTENTS

	Governance Process to Design Performance-Based Incentives	902
	Final Thoughts	904
	About the Author	905
39	Measuring and Improving Pay for Performance: Board	
	Oversight of Executive Pay	906
	Stephen F. O'Byrne	
	The Three Basic Objectives of Executive Pay	907
	A Brief History of Executive Pay	907
	Why Percent of Pay at Risk Is Not a Meaningful Measure of Incentive Strength	909
	Measuring the Three Basic Objectives of Executive Pay	910
	The Design Implications of the Measurement Analysis: Perfect Pay	
	Plans	915
	Benchmarking Pay for Performance	919
	Executive Pay Has a Big Impact on Shareholder Wealth	920
	Directors Need to Ensure That They Themselves Have Strong	
	Incentives to Increase Shareholder Value	923
	Institutional Investors Don't Do a Good Job on Say on Pay	924
	ISS Doesn'r Do a Good Job for Institutional Investors	925
	Conclusion	926
	About the Author	927
	Notes	928
	References	929
<b>40</b>	Designing Performance for Long-Term Value: Aligning	
	<b>Business Strategy, Management Structure, and Incentive</b>	
	Design	930
	Mark Van Clieaf	
	Defining Performance and Missing Metrics	932
	What About Earnings per Share (EPS) as a Performance Metric?	935
	Connecting Current and Future Value to Total Shareholder Return	936
	Aligning Management Structure with Innovation and Future Value	941
	Current Value, Future Value, and Rethinking Long-Term Incentive	
	Design	944
	Explaining Performance and Pay for Performance	946
	Conclusion	948
	Glossary	949
	About the Author	951
	Notes	952

Contents	xxxix
Contents	XXXIX

1	Mind the Gap: How Human Resources Can Become More Integral to the Corporate Boardroom Agenda Jay A. Conger and Edward E. Lawler III	e 953
	What Contributes to the HR Knowledge Gap in Corporate	
	Boardrooms?	955
	How Can Boards Effectively Address the HR Knowledge Gap? Ensure the Presence of the CHRO and/or a Director with	957
	HR Expertise at Every Board Meeting	957
	Establish a Human Capital Management Scorecard	957
	Educate the Board	958
	Establish a Human Capital Board Committee	958
	Develop Boardroom Presence in the CHRO	959
	Capacity Development	959
	Conclusion	962
	About the Authors	962
	References	963
	LEGAL AND GOVERNANCE RESPONSIBILITIES OF DIRECTORS	967
?	Board Risk and Responsibility Under Regulatory and Criminal Law Norm Keith	969
	Board Governance, Regulatory and Criminal Law	969
	Leadership Failure and the Westray Mine Disaster	971
	Moral Panic and Political Policy Proclivity	973
	Legal Differences Between Regulatory and Criminal Law	974
	"Due Diligence" or "Do Diligence"" in Risk Governance	976
	Directors' Personal Risk and Due Diligence	977
	No DPAs for Directors	979
	Indemnity and Insurance for Directors	980
	The Charter and Legal Risk Management	981
	International Directions in Directors' Legal Liability	983
	About the Author	984
	Notes	985
	References	986
•	Riding Between Cars: The Position of the Corporate	
	Secretary Douglas K. Chia	987
	Introduction	987
	Legal Origins	988

xl CONTENTS

	Duties, Powers, and Responsibilities	988
	Narrative Descriptions by Experts	990
	Expansion of the Role	991
	Best Practices	992
	Shareholder Engagement	993
	Say on Pay	995
	Investor Relations	995
	Straddling	997
	Future of the Role	1000
	About the Author	1001
	Notes	1002
44	Ensuring Good Governance and Business Success in	
	International Subsidiaries Thomas C. Sears	1004
	Align the Purpose of the Subsidiary and Its Board to the Parent Align the Processes of the Subsidiary with the Needs for Good	1007
	Governance	1009
	Align the Leadership of the Subsidiary with the Needs of the Board	1010
	Identify the Operating Needs of the Parent: The "Non-negotiables"	1011
	Clarify and Align the Needs of the Subsidiary with the Parent	
	Organization	1012
	Making It Work—The Glue That Binds: "Trans-Cultural Conduits"	1016
	Conclusion	1019
	About the Author	1019
	References	1020
V	SHAREHOLDER ENGAGEMENT AND BOARD ACCOUNTABILITY	1021
45	The Rise of Investor Stewardship Stephen Davis	1023
	Introduction	1023
	Investor Responses	1027
	What Is Driving Stewardship?	1030
	Attitudes Among Millennial Savers	1030
	Social Media and Reputation	1032
	Demographic Imperatives	1033
	The New Watchdogs	1033
	What Does Stewardship Look Like?	1035

	Contents	xli
	Reporting Stewardship	1038
	What Does the Rise of Stewardship Mean for Companies,?	1039
	The Future of Stewardship	1042
	About the Author	1043
	Notes	1044
	Reference	1048
46	Director/Shareholder Meetings Stephen Erlichman	1049
	Introduction	1049
	Why Engage	1049
	Director/Shareholder Engagement in Various Jurisdictions	1051
	The Canadian Coalition for Good Governance's Board Engagement	1054
	Program	1056
	Helping Boards to Communicate Better	1056
	How CCGG's Board Engagements Are Carried Out	1056
	Effectiveness of CCGG's Board Engagement Program	1058
	Thoughts on Carrying Out Director/Shareholder Engagements  Who Is Initiating?	1058 1059
	Who Is Initiating?	1059
	Why? Who Is Attending?	1059
	When?	1061
	How?	1061
	Where and How Long?	1061
	Preparation	1061
	Record and Follow-Up	1063
	Conclusion	1063
	About the Author	1064
	Notes	1065
47	Dual-Class Share Firms in Developed Market Economies Anita I. Anand	1066
	Introduction	1066
	What Are Dual-Class Shares (DCSs)?	1068
	Theoretical Background	1070
	Agency Theory	1070
	Principal Cost Theory	1071
	Private Ordering	1072
	Summary	1073
	Controversial Aspects of DCSs	1073
	Reform Suggestions	1075

xlii CONTENTS

	Fixed-Term Sunset Clause with Mandatory Vote	1076
	Disclosure of Shareholder Voting	1078
	Buyout Protections	1078
	Conclusion	1079
	About the Author	1080
	Notes	1080
48	For Directors: The Long-Term Relationship Between	
	Directors, Companies, and Institutional Investors	1088
	Carol Nolan Drake	
	Background	1088
	Why Are Institutional Investors Important?	1089
	Long-Term Ownership by Institutional Investors: Should Directors	
	Care?	1090
	What Are the Keys to Engagement? What Triggers Advanced	
	Engagement? Which Issues Are of Utmost Importance?	1091
	Overcoming Impediments and Realizing Benefits Through	
	Engagement	1093
	How Do Institutional Investors Evaluate Governance and Select	
	Engagement Strategies, Including Quiet Diplomacy?	1095
	How Do Institutional Investors Evaluate Directors Through Proxy Voting?	1096
	What Will Be the Next Major Governance Focus for Investors and Directors?	1098
	Candid Advice for Board Members	1100
	Suggestions for Directors, Investors, and Boards to Improve Their	
	Governance	1102
	Conclusion	1106
	Acknowledgments	1106
	About the Author	1106
	Notes	1107
	Useful Citations and Reference Materials	1110
49	Proxy Scorecards Will Empower Investors James McRitchie	1111
	Executive Summary	1111
	Externalities and "Forced Capitalists"	1112
	Main Street Investors Should Have a Say	1113
	Knowing How Funds Vote	1114

	Contents	xliii
	Organizing Around Common Values	1115
	Real-Time Proxy Voting Disclosure	1116
	Giant Funds Clash to Determine American Values	1118
	Broader Shareholder Base Needed to Reflect American Values	1120
	About the Author	1121
	Notes	1122
VI	NOT-FOR-PROFIT GOVERNANCE	1127
50	Charitable and Not-for-Profit Organization Governance Donald J. Bourgeois	1129
	Introduction	1129
	Legal Options for Charitable and Not-for-Profit Organizations	1130
	Underlying Role of Directors	1131
	What Are Charitable and Not-for-Profit Organizations?	1132
	Role of Charitable and Not-for-Profit Organizations: Effect on	
	Role of Directors	1135
	Tools of Effective Boards	1138
	Conclusion	1142
	About the Author	1143
	Notes	1143
<i>51</i>	The Best of Boards, the Worst of Boards: The	
	Not-for-Profit Experience Adam Quinton	1145
	Introduction	1145
	The Best of Boards	1147
	1. Values and Culture	1148
	2. Composition	1148
	3. Structure	1149
	4. Processes	1150
	5. High-Performing Individuals	1154
	The Worst of Boards	1157
	Characteristics of Underperforming Boards	1157
	Additional Shortcomings of Underperforming Boards	1158
	Individuals on Underperforming Boards	1161
	Additional Resources and Acknowledgments	1163
	About the Author	1163
	Notes	1163

## CONTENTS

Fundraising Best Practices for Not-for-Profit Boards of	
Directors	1164
Stephanie Cory	
Introduction	1164
The Board Member's Role as an Ambassador	1165
A Culture of Philanthropy	1166
Board Giving	1167
The Board's Role in Fundraising Oversight	1168
The Development Committee's Role	1169
Individual Board Members' Roles in Fundraising	1172
Identification	1172
Cultivation	1173
Solicitation	1175
Stewardship	1176
Staff's Role in Fundraising	1176
About the Author	1177
SMALL AND MEDIUM COMPANY GOVERNANCE	1179
Governance of Small and Medium-Sized Entities	1181
Jo Iwasaki	
Introduction	1181
What Are SMEs?	1181
Governance Codes and Standards for SMEs	1182
Governance Standards and Codes Applicable to All Types of	
Organizations, Including SMEs	1183
Governance Standards and Codes Developed for Non-Listed	
Companies	1185
Governance Material Specific to SMEs	1189
What Does Governance Mean to SMEs?	1190
Governance as Direction Setting and Leadership	1191
Governance as Transparency and Engagement	1192
Conclusion: Is Governance Relevant for SMEs?	1193
About the Author	1194
Notes	1194
Private Versus Public Company Governance: Top-13  Overtions for Board Members to Consider	1107
Questions for Board Members to Consider  Carol Nolan Drake and Sally J. Curley	1197
Introduction	1197
Final Remarks	1214

Contents	xlv

	Acknowledgments	1215
	About the Authors	1216
	Notes	1217
	Other Resources	1218
55	Cannabis Governance: Advice for Current and Prospective	
	Directors in This Emerging Industry Steve Chan	1220
	Introduction	1220
	In These Early Days, There Are More Stocks Than There Are	
	Companies	1221
	Getting Underneath the Canopy	1222
	Be Realistic About What Governance Is in This Space	1223
	Board and Management Need to Keep Each Other Focused	1223
	Setting Pay in This Space	1224
	The Board and Overseeing the Capital Expenditure Budget	1225
	Challenge Management on Big Bets by Looking to the	1224
	Informal Market	1226
	Mergers, Acquisitions, and Consolidation Present Unique	100
	Challenges for Cannabis Boards	1226
	About the Author	1221
Mil	GLOBAL CORPORATE GOVERNANCE	1229
56	Cross-Border Corporate Governance Hari Panday	1231
	Historical Perspectives	1231
	Social, Cultural, and Legacy Issues	1232
	Emergence of the "Emerging Economies"	1233
	Common Governance Themes Crisscrossing International Borders	1234
	The Ecosystem	1234
	Governance Issues When Entry Strategy Is M&A, a JV, or Other	
	Form of Ownership	1234
	Fast-Tracking Rising Investor and Consumer Protection	1235
	Investor Protection	1235
	Consumer Protection	1236
	Corporate Governance: Examining Approaches Taken by Australia,	1001
	India, Singapore, the United Kingdom, and the United States	1231
	Corporate Governance Norms in the Countries Selected	1237

xlvi CONTENTS

	Primary Sources of Law, Regulation, and Practices	1239
	Australia	1239
	India	1239
	Singapore	1241
	United Kingdom	1242
	United States	1243
	Institutions Responsible for Governance Rules, Enforcement,	
	and Practices	1245
	Australia	1245
	India	1245
	Singapore	1246
	United Kingdom	1246
	United States	1247
	Dealing with Shareholder Empowerment	1247
	Australia	1248
	India	1248
	Singapore	1249
	United Kingdom	1249
	United States	1250
	Disproportionate Voting Rights	1251
	Australia	1251
	India	1251
	Singapore	1251
	United Kingdom	1252
	United States	1252
	Emerging Governance Issues for Multinationals	1253
	Shift Away from LIBOR	1253
	Cybersecurity (or Insecurity) and Privacy Laws	1253
	Open Banking	1254
	Anti-Bribery and Corruption	1254
	Anti-Money Laundering and Antiterrorist Financing Laws	1255
	Overseas Tax Evasion	1255
	Environment, Social, and Governance (ESG)	1256
	About the Author	1257
	Notes	1257
<i>57</i>	Corporate Governance in Asia-Pacific	1260
	John Zinkin	
	Introduction	1260
	The Rise of Asia-Pacific	1260
	Capital Markets in Asia-Pacific	1263

Contents x1	lvii
-------------	------

	The Components of an Ideal Corporate Governance Ecosystem and Ho	w
	Countries Compare	1267
	Effective Regulatory Discipline	1269
	Good Public Governance	1272
	Freedom of the Press	1275
	Professional Boards	1275
	Professional Intermediaries/Educated Investors	1279
	Professional Auditors	1280
	Conclusions	1281
	About the Author	1282
	Notes	1283
58	<b>Boards of Directors of Chinese Companies</b>	1287
	David H. Zhu, Wei'An Li, and Yaowei Zhang	
	Introduction	1287
	Establishment and Development of the Chinese Board of Directors	
	System	1288
	Key to Board Governance: Inclusiveness and Independence	1288
	Introduction of the Board of Directors System in China	1290
	Structure and Operation of the Board of Directors	
	of Chinese Listed Companies	1292
	Board Governance of State-Owned Enterprises	1296
	Transformation from an Administrative to an Economic	
	Model of Governance	1296
	Different Types of State-Owned Firms in China	1297
	Board Governance Reform of Corporations Funded Solely	
	by the State	1298
	Major Initiatives for the Boards of Directors of Corporations	
	Funded Solely by the State	1300
	Governance of the Board of Directors of Private Enterprises	1302
	Dual Identity of Family Members in Private Enterprises	1302
	The Relationship Governance Model of Private Enterprises	1303
	Succession at Private Enterprises	1304
	The Evaluation of the Boards of Directors of Chinese Listed	
	Companies	1305
	Nankai Corporate Governance Evaluation System	1305
	Evaluation of Chinese Listed Companies' Board Governance	1307
	Overall Board Governance of Listed Companies in 2018	1307
	Trends in Board Governance of Chinese Listed Firms,	
	2004-2018	1308
	Main Conclusions	1309

xlviii CONTENTS

	Conclusions	1311
	About the Authors	1312
	References	1314
59	The Russian Corporate Governance Story  Alexander A. Filatov	1316
	Learning to Fly: Russian Corporate Governance Origins Set the Controls for the Heart of the Wealth: Regulators,	1316
	Shareholders' Activists, Directors' NGOs The Dark Side of the Boom: Attempting to Refine Governance	1319
	in SOEs	1322
	Sberbank's Bold Analysts' Riot: Comfortably Numb?	1328
	The Final Cut: Conclusions and Recommendations	1329
	About the Author	1331
60	CARICOM (Caribbean Community) Governance Ronaele Dathorne-Bayrd	1333
	Introduction	1333
	Landscape	1335
	Current Regional Initiatives	1335
	Local Context and Circumstances	1336
	Governance Challenges	1337
	Developing Best Practices	1337
	Challenges to a Caribbean-Wide Corporate Governance	
	Framework	1338
	Goals	1339
	A Caribbean Governance Code	1340
	Local Context Crucial Conclusion	13 40
		1341
	About the Author Notes	1341 1341
61	King IV: Taking Corporate Governance to the Next Level Parmi Natesan and Dr. Prieur Du Plessis	1343
	A Focus on Outcomes Within an Ethical Context	1343
	New Foundational Elements of King IV	1344
	Bang IV and Ethical Consciousness and Leadership	1344
	King IVFocuses on Conduct	1347
	King IVPromotes an Outcomes-Based View	1347
	The Apply-and-Explain" Regime	1349

Contents	xlix
Broad Applicability of King IV	1350
Greater Clarity Is Obtained	1351
Proportionality Is an Important Concept	1351
Specific Content Shifts in King IV	1353
Integrated Reporting	1353
Balancing Composition of Governing Bodies with Independence	1354
Delegation to Management	1354
Delegation to Committees	1354
Corporate Governance Services to the Governing Body	1355
Performance Evaluations of the Governing Body	1355
Social and Ethics Committees	1355
Risk and Opportunity	1350
Technology and Innovation	1350
Compliance	1357
Remuneration	1357
Assurance and Internal Audit	1358
Auditor and Audit Requirements	1358
Tax	1359
Shareholder Activism	1359
Dispute Resolution	1360
Conclusion	1360
About the Authors	1360
Notes	1362

1363

Index