

Exploring Tomorrow's Big Ideas in the Boardroom

Bertram Scholarships help four researchers expand our governance knowledge

What are the hallmarks of “anti-fragility” – the traits that enable some organizations to not only manage through unpredictable events, but to prosper from unanticipated change?

Why are publicly listed Canadian firms’ market-to-book ratios typically below those of similarly sized U.S. firms in the same industries? Is there something boards can do about this “Canada discount” puzzle?

What are the best practices for ensuring that officers and board members do not take part in decisions in which they have private interests?

And how does governance play a role in the development of corporate social responsibility incentives for executives?

The four winners of this year’s Bertram Scholarships, awarded by the Canadian Foundation for Governance Research, will explore and report on these issues, adding to a growing body of engaging, leading-edge research accessible to Canadian directors through the foundation’s website (www.cfgr.ca).

“Today, more than ever, the governance of corporations, Crown agencies, and non-profit organizations is of critical concern to Canadians. Research is a vital step in ensuring that new knowledge on governance is created and evidence-based recommendations are put into effective practice,” the organization said in announcing the 2017 Bertram scholars. The award is named in honour of Robert Bertram, the legendary former chief investment officer of the Ontario Teachers’ Pension Plan.

The four PhD students each received \$15,000 to support their work. Here's a look at their projects:

ANTI-FRAGILITY

Thomas Boisvert St-Arnaud,

a doctoral candidate in business administration at University of Sherbrooke, is researching anti-fragility as a response to unpredictability.

"Organizations are living in ever-more-complex and opaque environments. Shocks and surprises happen increasingly frequently, and the unpredictability of these shocks may put organizations in peril," he writes. Yet, some organizations have developed the capacity "to extract benefit from disorder. ... My objective is to develop general principles of anti-fragile design allowing for systemic, non-predictive governance. Anti-fragile organizations are able to use the unpredictability of organizational environments to their advantage."

ETHICAL DECISION-MAKING

Duff Conacher, a PhD student and adjunct professor at the University of Ottawa's faculty of law, aims to develop "a best-practice model system of rules and enforcement measures for ensuring that officers and board members do not take part in decisions in which they have a private interest."

When officers and board members are exposed as having taken part in decisions that redirected resources toward their own interests, it undermines trust and wastes their organizations' money, he argues. Whether they're involved with publicly traded companies, private corporations, public sector organizations or not-for-profits, officers and board members are required by law to disclose conflicts of interest and recuse themselves from participating in decisions that affect their private interests.

"However, the definition of what is a 'conflict of interest' varies."

His research will look at best practices in the definition of conflict of interest, best practices in disclosure and recusal rules, and best practices in enforcement.

CORPORATE SOCIAL RESPONSIBILITY

Leanne Keddie, a PhD candidate in accountancy at Concordia University, is researching the use and effectiveness of corporate social responsibility (CSR) incentives in executive compensation packages.

While other non-financial incentives, based on such measures as customer satisfaction, have grown in popularity since the 1990s, "one recent change is the rise of corporate social responsibility incentives in executive pay packages where targets relating to social and environmental objectives are being included," she writes. "For example, 20 percent of Royal Dutch Shell's 2016 bonuses were tied to sustainable development goals."

While some research has begun in this area, much remains to be explored: Why do organizations adopt CSR incentives? How does corporate governance play a role? What are the effects of CSR incentive adoption, including how do different weightings and types of incentives affect both CSR and financial performance?

"Over all, we all benefit from understanding why CSR incentives are offered, how corporate governance plays a role and what effect these incentives have from both a corporate and societal perspective."

WHY ARE CANADIAN FIRMS' SHARES DISCOUNTED?

James Shou, a PhD candidate in finance at the University of Alberta's School of Business, is exploring why Canadian-listed firms' market-to-book ratios are 10 percent or more below those of similarly sized U.S. firms.

Discounts are noted in other valuation measures as well, he writes. "Given the close similarity and integration of the two economies, this is an intriguing anomaly dubbed the Canada discount puzzle."

Previous work confirms the existence of a Canada discount, but the causes remain unclear. "My further work should help isolate the causes," he writes, and would provide information to help directors address the situation.

"Correcting these problems would increase Canadian share prices, thereby increasing investors' portfolio values and, by increasing IPO valuations, make Canadian stock markets better places for entrepreneurs to list."

Recognizing the importance of research in helping directors be more effective, the Institute of Corporate Directors established the Canadian Foundation for Governance Research in 2009. Through its administration of the Bertram Scholarships, the foundation provides funds to encourage fundamental research on corporate governance issues, enhance Canada's corporate governance research capacity and ensure effective dissemination of new ideas.

To date, the Bertram Scholarships have provided \$240,000 in grants to 16 doctoral students from universities across the country. ■