Expanding the Frontier of Governance Research

New studies explore risk, sustainability and influences on CEO compensation

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THE GOVERNANCE OF CORPORATIONS, Crown agencies, and non-profit organizations is of critical concern to Canadians. For directors on the front lines, there is a growing desire to utilize leading practice and understand new ideas. Research, and its dissemination, play an important role in developing these new ideas and putting them into practice.

Recognizing the importance of research to help directors be more effective, in 2009 the Institute of Corporate Directors established the Canadian Foundation for Governance Research (CFGR). The CFGR administers the Robert Bertram Doctoral Research Awards, providing funds to encourage new fundamental research on corporate-governance issues, expand Canada's governance-research capacity, and ensure effective dissemination of new ideas. The goal of the CFGR is to act as a catalyst for idea creation and an incubator of new knowledge, supporting young researchers across Canada as they think, test, and study issues important to corporate governance and board effectiveness.

Support from the CFGR is helping to develop the next generation of researchers and governance thinkers. It is fostering the development of our most promising students while exposing them to experienced directors, through mentoring and networking. To date, through the Bertram Awards, the CFGR has provided over $120,000 in grants to eight doctoral students from universities across the country. These funds – of up to $15,000 per student – allow these scholars to undertake research they would not normally be able to accomplish, by funding such things as purchasing data and traveling to conduct interviews.

Research findings from the 2011 Bertram Award recipients were released at the second annual Robert Bertram Doctoral Research Awards Dinner in Toronto this past fall. Their findings are summarized below; full reports are available at http://www.cfgr.ca/research-reports

The deadline for the 4th annual call for research proposals is May 22, 2013. Details are available at www.cfgr.ca/researchgrants/how-to-apply.php..

Articulating Acceptable Risk for Organizations: Toward a Better Risk Appetite Framework

Christopher Eaton, PhD candidate in Risk Management, *Haskayne School of Business, University of Calgary*

Risk governance, risk oversight, and acceptable risk are emerging as critical issues for boards and senior management teams. Yet not all organizations are ready, willing, or able to articulate what constitutes acceptable risk. Eaton's research explores how boards and senior management should articulate acceptable risk for the organizations they serve through the formal expression of an organization's risk appetite framework (RAF). Eaton suggests that a structured approach that focuses first on the organization's values and objectives should help deliver a sound and useful RAF.

A Fiduciary Duty to Future Generations? Corporate Governance and Sustainable Development

Gail Henderson, Assistant Professor, *Faculty of Law, University of Alberta*

This research focuses on corporate environmental sustainability and the interests of future generations in the natural environment. Arguing that boards have a duty to minimize their organizations' environmental impacts, Henderson says the corporate-governance framework must change to ensure that directors take environmental factors into account in their decision-making. To assess the current pressures on companies to adopt more sustainable policies, Henderson analyzed the environmental concerns, investment policies and voting activities of Canada's six largest public-sector pension funds. She found some evidence that investors are capable of monitoring corporations' environmental track records, but concludes that the "responsible investing" movement is insufficient to achieve "strong sustainability."

Does Independent Advice to the Board Affect CEO Compensation?

Hamed Mahmudi, Assistant Professor *Price College of Business at the University of Oklahoma, (PhD recipient, University of Toronto).*

With executive compensation continuing to be a critical issue facing directors, this research investigates the role that external consultants play in the board's determination of CEO compensation. Mahmudi examines whether the Pay-Performance Sensitivity (PPS) and the Relative Performance Evaluation (RPE) components of a CEO's contract increase with the degree of independence from management of the compensation consultant. This study establishes four key results related to compensation consultants. First, hiring a consultant tends to increase the PPS and RPE components of a CEO's pay. These effects are stronger when the consultant is "independent" (i.e., providing advice only to the board, not to other parts of the company). Second, when boards act on the advice of an independent firm, the result tends to be "significantly" lower CEO pay. Third, independent consultants charge higher consulting fees than non-independent firms. Fourth, the more influential the CEO, the less likely the board is to hire an independent consultant.

Upcoming Research

2012 grant recipients whose research reports will be released in Fall 2013:

- Bassam Farah of Western University, who is researching relationships between different subsidiary-level and parent-level governance variables, and the effect on subsidiary performance;
- Sylvie Harbour of Université Laval, who is researching the interaction between directors, senior management and chief audit executives in the determination of internal audit's role; and
- Carol Liao of The University of British Columbia, who is researching director duties, stakeholder interests, and emerging hybrid corporate governance models for companies trying to concurrently pursue economic and social mandates.