Stakeholders Take Center Stage: Director Views on Priorities and Society
We are Diligent Institute

Diligent Institute provides publicly available, industry-leading research on global board governance. Today’s increasingly dynamic world presents a dizzying array of economic opportunities and challenges. As companies navigate that environment, high-quality governance is more important than ever to ensure effective oversight, protect and create jobs, and positively impact the economy. The Institute equips board directors and corporate leadership teams at organisations around the globe with the information to make forward-looking decisions that leave a meaningful mark on the world.

Diligent Institute was founded in 2018 to offer a global perspective on the complex and disruptive board governance topics that directors and leadership teams are tackling today. The Institute serves as the global governance research arm of Diligent Corporation, the pioneer in modern governance. Diligent® empowers leaders to turn governance into a competitive advantage through unparalleled insight and highly secure, integrated Software-as-a-Service (SaaS) applications, helping organisations thrive and endure in today’s complex, global landscape.

The Diligent Institute is solely funded by the Diligent Corporation and functions as a think tank and research arm.
Executive Summary

New research from the Diligent Institute and the Rock Center for Corporate Governance at Stanford University finds that corporate directors are not as shareholder-centric as commonly believed and that companies do not put the needs of shareholders significantly above the needs of their employees or society at large. Instead, directors pay considerable attention to important stakeholders—particularly their workforce—and take the interests of these groups into account as part of their long-term business planning.

While directors are largely satisfied with their environmental, sustainability and governance (ESG) related efforts, they do not believe the outside world understands or appreciates the work they do.

Directors recognise that tensions exist between shareholder and stakeholder interests. That said, most believe their companies successfully balance this tension.

In general, directors reject the view that their companies have a short-term investment horizon for running their businesses.

Recently, more than 180 CEOs in the Business Roundtable amended the association’s Statement on the Purpose of a Corporation and for the first time embraced a commitment to address the interests of all stakeholders—not just shareholders.¹

In the winter of 2019, the Diligent Institute and the Rock Center for Corporate Governance at Stanford University surveyed nearly 200 directors of public and private corporations globally to better understand how they balance shareholder and stakeholder needs.²


² This study is a companion survey to one conducted of 200 CEOs and CFOs by Stanford Graduate School of Business and the Rock Center for Corporate Governance at Stanford University in the spring of 2019, available at: https://www.gsb.stanford.edu/faculty-research/publications/2019-survey-shareholder-versus-stakeholder-interests.
Key Findings

HIGHLIGHTS FROM THE RESEARCH INCLUDE:

- **Stakeholder interests are vitally important and directors believe they are being met.** Corporate directors overwhelmingly (89%) believe it is important or very important for their company to consider the interests of non-shareholder stakeholders (such as employees, local communities and the general public) as they pursue their business objectives. Almost all directors (92%) are satisfied with the job their company does to meet the interests of these stakeholders.

- **Shareholder primacy is not the rule.** Most directors (77%) do not believe that shareholder interests are significantly more important than stakeholder interests; only a quarter (23%) believe shareholder interests are significantly more important. By contrast, a third (32%) believe shareholder interests are only slightly more important, another third (36%) believe shareholder and stakeholder interests are equally important, and a small minority (10%) believe stakeholder interests are more important than shareholders.

- **The general public is missing the story - or the story isn’t being told well by companies.** Corporate directors do not believe they receive the recognition they deserve for their efforts. Only a slight majority (57%) believe their most important stakeholders accurately understand the job their company does to meet their interests. This lack of public recognition extends to other constituents as well. Just over half (56%) of directors believe their largest institutional investors understand what their company does to meet shareholder interests; 27 per cent do not. Furthermore, only 18 per cent of directors think the media accurately understands what their company does to meet stakeholder needs, while 58 per cent do not.

- **Pressure to act is greater outside the U.S.** Companies domiciled outside the U.S. face greater pressure from external constituents to do more for stakeholders than U.S. companies. Over half (57%) of directors of APAC companies receive high or moderate pressure from advocacy groups. By comparison, only 30 per cent of U.S. directors say they receive high or moderate pressure from advocacy groups. The same holds true for pressure from investors. Sixty-four per cent of directors of APAC companies say they face pressure from their largest institutional investors to do more for stakeholders, while only 27 per cent of U.S. directors say this.
• Larry Fink has a more receptive audience abroad than in the U.S. In recent years BlackRock CEO, Larry Fink, has sent letters to the CEOs of BlackRock’s portfolio companies encouraging them to consider broad social interests as they pursue their business objectives. Directors of companies within and outside of the U.S. both report receiving this letter. Outside the U.S., directors are significantly more likely to agree with Larry Fink’s ideas than inside the U.S. For example, almost all (94%) of APAC directors agree with Mr. Fink that “Society is increasingly looking to companies, both public and private, to address pressing social and economic issues,” and 65 per cent say they are motivated by this statement to implement new initiatives address these issues. By contrast, only 81 per cent of U.S. directors agree with Mr. Fink’s statement, and only 48 per cent are motivated by it to start new initiatives. Similarly, more APAC directors (79%) than U.S. directors (67%) agree with Mr. Fink that companies face pressure to “maximize short-term returns at the expense of long-term growth”.

• Directors reject the idea that their companies are short-term oriented. Seventy-two per cent of respondents say their company predominantly considers an investment horizon of 3 or more years in managing the business. Twenty-five per cent of respondents adopt an investment horizon of 1 to 2 years. Practically none (4%) use an investment horizon of less than a year. Responses are similar for both U.S. and APAC directors.

• The environment is directors’ largest long-term worry. Forty-one per cent of directors say that environmental issues including climate change, pollution, waste, or recycling are the single most important ESG-related issue that has the power to negatively impact their business over the long term. Other issues that are a top concern for directors are increased taxes and regulations (19%), macroeconomic factors that influence trade and the economy (18%), and workforce-related issues including the availability of employees, unionisation, and regulation (14%). Responses are largely similar between U.S. and APAC directors.
Survey Results

Shareholder vs. Stakeholder Interests in Business

Generally speaking, how important is it that your company consider the interests of non-shareholder stakeholders (such as employees, local communities, the general public, etc.) as you pursue your business objectives?

Very Important: 62%
Important: 27%
Moderately important: 9%
Slightly important: 2%
Not important: 1%

“Broadly, my role as an independent board member [involves] strategic oversight and management accountability. In each of those cases, we have to take into account many impacted parties [not just shareholders].”
**Stakeholder Influence on Long-Range Plans**

In general, how important are stakeholder interests relative to shareholder interests in the long-term management of your company?

- Shareholder interests are significantly more important than stakeholder interests: 23%
- Shareholder interests are slightly more important than stakeholder interests: 32%
- Shareholder and stakeholder interests are equally important: 36%
- Stakeholder interests are slightly more important than shareholder interests: 4%
- Stakeholder interests are significantly more important than shareholder interests: 6%

“Our job as a board is to listen to the forces that are out there, but we have to stay true to the mission and vision of the company, the values of the company, and the strategy. If you keep your eye on those elements, then you can more mindfully balance the input from stakeholders.”

“You’re constantly juggling both shareholders and stakeholders. Sometimes [their interests are] competing, sometimes [they are] complementary.”

“I want to hear what [stakeholder] concerns are. I want to hear with equal weight, but I may not act with equal weight. Our job is to decide, take input from all kinds of sources, and make sense of it.”
**Stakeholder Influence on Daily Operations**

Which stakeholders play a key role in or are impacted by your company’s daily operations and long-term strategy?

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>87%</td>
</tr>
<tr>
<td>Local Communities</td>
<td>51%</td>
</tr>
<tr>
<td>Local Government</td>
<td>38%</td>
</tr>
<tr>
<td>Public at Large</td>
<td>38%</td>
</tr>
<tr>
<td>Other</td>
<td>24%</td>
</tr>
<tr>
<td>Trade Unions</td>
<td>14%</td>
</tr>
<tr>
<td>Non-Governmental Organisations (NGOs) and Advocacy Groups</td>
<td>14%</td>
</tr>
</tbody>
</table>

“If you’re not responding to the needs, wants, and interests of employees, I guarantee customers will suffer. They’ll respond in way that are negative to the business, and your investors will suffer. This is an ecosystem that is interrelated.”

“If you treat your employees terribly, have a lousy culture, and are not competitive in compensation, how are you ever going to achieve shareholder returns?”

The environment cannot speak itself, but there are NGOs and people who [speak on its behalf]. … We treat the environment as effectively represented by those people... and monitor the environment as a stakeholder in the same way.
Meeting Stakeholder Interests

How satisfied are you with the job your company does to meet the interests of these stakeholders?

<table>
<thead>
<tr>
<th>Satisfaction Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Satisfied</td>
<td>47%</td>
</tr>
<tr>
<td>Somewhat Satisfied</td>
<td>45%</td>
</tr>
<tr>
<td>Neither Satisfied nor Dissatisfied</td>
<td>5%</td>
</tr>
<tr>
<td>Somewhat Dissatisfied</td>
<td>3%</td>
</tr>
<tr>
<td>Very Dissatisfied</td>
<td>0%</td>
</tr>
</tbody>
</table>

“The idea of being a good corporate citizen has been in place [in our company] for a long time.”
## Financial Impact of Stakeholder Interests

What is the financial impact to your company of meeting the interests of these stakeholders? (Respondents requested to select one answer for the short-term impact and one answer for the long-term impact.)

<table>
<thead>
<tr>
<th>SHORT-TERM IMPACT</th>
<th>HIGH OR MODERATE COST</th>
<th>LITTLE OR NO COST OR BENEFIT</th>
<th>HIGH OR MODERATE BENEFIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>High or moderate cost</td>
<td>37%</td>
<td>4%</td>
<td>12%</td>
</tr>
<tr>
<td>Little or no cost or benefit</td>
<td>5%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>High or moderate benefit</td>
<td>0%</td>
<td>0%</td>
<td>28%</td>
</tr>
</tbody>
</table>

Survey Results
Understanding Stakeholder Interests

Do you believe these stakeholders accurately understand the job your company does to meet their interests?

- Yes: 57%
- No: 43%

Do you believe the media accurately understands the job your company does to meet the interests of these stakeholders?

- Yes: 18%
- No: 58%
- I Don’t Know: 24%

“I think the media has overplayed this obsession with shareholders.”

“If we do our job communicating with our stakeholders... a more well-rounded perspective will emerge.”
**Pressure from Advocacy Groups**

How much pressure does your company receive from advocacy groups to do more to meet the interests of these stakeholders?

<table>
<thead>
<tr>
<th>Level</th>
<th>United States</th>
<th>Non-U.S. Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>5%</td>
<td>19%</td>
</tr>
<tr>
<td>Moderate</td>
<td>26%</td>
<td>38%</td>
</tr>
<tr>
<td>Low</td>
<td>43%</td>
<td>37%</td>
</tr>
<tr>
<td>None</td>
<td>27%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Survey Results
Pressure from Advocacy Groups

Do you believe that your largest institutional shareholders really care about the interests of these stakeholders?

- 60% YES
- 23% NO
- 17% I DON’T KNOW

Do you believe that your largest institutional shareholders accurately understand the job your company does to meet the interests of these stakeholders?

- 56% YES
- 27% NO
- 16% I DON’T KNOW
Alignment of Shareholder and Stakeholder Interests

Do your largest institutional shareholders believe that a conflict exists between their own interests and the interests of these stakeholders (i.e., do they believe that meeting the needs of these stakeholders comes at the cost of lower shareholder value)?

- **YES**: 21%
- **NO**: 52%
- **I DON'T KNOW**: 28%
Pressure to Focus on Stakeholder Interests

How much pressure does your company receive from your largest institutional shareholders to meet the interests of stakeholders as you develop your long-term strategy?

<table>
<thead>
<tr>
<th>Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>8%</td>
</tr>
<tr>
<td>Moderate</td>
<td>33%</td>
</tr>
<tr>
<td>Low</td>
<td>36%</td>
</tr>
<tr>
<td>None</td>
<td>23%</td>
</tr>
</tbody>
</table>

“Pressure from institutional shareholders is valid. They represent a big piece of ownership. ... Still, they are not as close to the business as the management team and the board. So while their perspective is important, they shouldn’t drive a decision that otherwise wouldn’t be reached by management and the board.”

“The board is not under obligation to do what [shareholders] ask, but they are under obligation to listen, and they have the obligation to communicate. This is more of a two-way street than ever before.”
## BlackRock’s Impact

Approximately what percent of your company’s publicly traded shares are owned by BlackRock?

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>41%</td>
</tr>
<tr>
<td>Less Than 1%</td>
<td>9%</td>
</tr>
<tr>
<td>1% to 5%</td>
<td>17%</td>
</tr>
<tr>
<td>6% to 10%</td>
<td>7%</td>
</tr>
<tr>
<td>More Than 10%</td>
<td>2%</td>
</tr>
<tr>
<td>I Don't Know</td>
<td>24%</td>
</tr>
</tbody>
</table>
Larry Fink’s Impact

In January 2019, BlackRock CEO, Larry Fink, sent a letter to all companies that BlackRock invests in, encouraging them to consider broad societal interests as they pursue their business objectives. Did your company receive this letter?

Yes
22%

No
36%

I Don’t Know
43%

[If yes] Do you agree with these ideas expressed by Mr. Fink?

Strongly Agree
19%

Agree
64%

Neither Agree Nor Disagree
12%

Disagree
5%

Strongly Disagree
0%
Larry Fink’s Impact - CONTINUED

[If yes] Did the board discuss the ideas in this letter?

Yes
64%

No
31%

I Don’t Know
5%

[If yes] To what extent did this letter motivate your company to evaluate or implement new initiatives to address one or more societal interests or more societal interests?

To a Great Extent
2%

To a Moderate Extent
26%

To a Slight Extent
33%

Not at All
38%
Social Issues and Corporate Strategy

In the letter, Larry Fink writes that: “Society is increasingly looking to companies, both public and private, to address pressing social and economic issues. These issues range from protecting the environment to retirement to gender and racial inequality, among others.” Do you agree with this statement?

Survey Results

<table>
<thead>
<tr>
<th>Agreement Level</th>
<th>United States</th>
<th>Non-U.S. Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>34%</td>
<td>43%</td>
</tr>
<tr>
<td>Agree</td>
<td>52%</td>
<td>51%</td>
</tr>
<tr>
<td>Neither Agree nor Disagree</td>
<td>7%</td>
<td>4%</td>
</tr>
<tr>
<td>Disagree</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>3%</td>
<td>1%</td>
</tr>
</tbody>
</table>
Corporate Obligations

Do you agree that your company has an obligation to address these issues?

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>29%</td>
</tr>
<tr>
<td>Agree</td>
<td>49%</td>
</tr>
<tr>
<td>Neither Agree nor Disagree</td>
<td>16%</td>
</tr>
<tr>
<td>Disagree</td>
<td>4%</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>1%</td>
</tr>
</tbody>
</table>
Corporate Obligations

To what extent does this statement motivate you to evaluate or implement new initiatives to address a specific social or economic issue?

<table>
<thead>
<tr>
<th>Extent</th>
<th>United States</th>
<th>Non-U.S. Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>To a Great Extent</td>
<td>12%</td>
<td>33%</td>
</tr>
<tr>
<td>To a Moderate Extent</td>
<td>36%</td>
<td>32%</td>
</tr>
<tr>
<td>To a Slight Extent</td>
<td>26%</td>
<td>25%</td>
</tr>
<tr>
<td>Not at All</td>
<td>26%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Stakeholders Take Center Stage: Director Views on Priorities and Society
What Incentives Drive Strategy?

In his letter, Larry Fink also writes that: “Companies must navigate the complexities of a late-cycle financial environment including increased volatility which can create incentives to maximize short-term returns at the expense of long-term growth.” Do you agree with this statement?

<table>
<thead>
<tr>
<th></th>
<th>United States</th>
<th>Non-U.S. Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>21%</td>
<td>22%</td>
</tr>
<tr>
<td>Agree</td>
<td>46%</td>
<td>57%</td>
</tr>
<tr>
<td>Neither Agree nor Disagree</td>
<td>13%</td>
<td>5%</td>
</tr>
<tr>
<td>Disagree</td>
<td>18%</td>
<td>13%</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>
Incentives for Short-term vs. Long-term Growth

Do you agree that your company faces incentives to maximize short-term returns at the expense of long-term returns?

<table>
<thead>
<tr>
<th>Agreement Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>6%</td>
</tr>
<tr>
<td>Agree</td>
<td>34%</td>
</tr>
<tr>
<td>Neither Agree nor Disagree</td>
<td>21%</td>
</tr>
<tr>
<td>Disagree</td>
<td>26%</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>12%</td>
</tr>
</tbody>
</table>
Investment Horizon

In your best estimation, what investment horizon does your senior management team predominantly consider in managing the company?

1 Quarter
1%

2 Quarters
1%

3 Quarters
2%

1 Year
13%

2 Years
12%

3 Years
33%

More Than 3 Years
39%

Investment horizon varies a lot by company, depending on where they are on the maturity curve, market influences, what the competitive landscape looks like. There may be times that a company rightfully should focused on the short term, but in general, they should be more focused on the long term.

Investing in business takes a few years to pay off. Anything strategic ... [requires] a three to four-year horizon.

We are a company where quarters are important, but ... we are focused on how we drive long-term results while maintaining short-term success.

Shareholder return is not meaningfully measured quarter by quarter by quarter.

We are very much a long-term sustainable company. [We have] a brand that’s been going well for [many] years. Our duty is to make sure it continues to go well.
Most Pressing Issues

What is the single most important environmental or societal issue that has the power to negatively impact the performance of your company over the long-term? [unprompted]

- Workforce issues including availability, unionization, diversity, engagement or regulations that influence, restrict or require these (14%)
- Environmental issues including climate change, pollution, waste, or recycling (41%)
- Wage inequality or social unrest (3%)
- Broad economic factors including national or macroeconomic factors, tariffs, trade wars, or personal spending (18%)
- Social issues or political pressures that lead to increased regulation or taxes (19%)
- Environmental regulations or rules that require a reduction in fossil fuels (0%)
- Healthcare issues including pricing, access, or public health (1%)
- Geopolitical factors or war (5%)
### Critical Issues Driving Performance

What is the single most important environmental or societal issue that has the power to positively impact the performance of your company over the long-term? [unprompted]

<table>
<thead>
<tr>
<th>Issue</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efforts that improve the availability of workforce, including diversity, immigration or that improve employee education or engagement</td>
<td>22%</td>
</tr>
<tr>
<td>Efforts that improve economic results for large portions of the population</td>
<td>29%</td>
</tr>
<tr>
<td>Environment issues including efforts to improve environmental conditions or sustainability</td>
<td>30%</td>
</tr>
<tr>
<td>Efforts that successfully address widespread social issues</td>
<td>7%</td>
</tr>
<tr>
<td>Reduction in regulations or taxes, or changes to regulations that promote competition</td>
<td>6%</td>
</tr>
<tr>
<td>Efforts to improve access to or the cost of healthcare</td>
<td>2%</td>
</tr>
<tr>
<td>Geopolitical factors</td>
<td>4%</td>
</tr>
</tbody>
</table>
### Respondent Information

**WHAT IS YOUR TITLE? (SELECT ALL THAT APPLY)**
- Chairman of the board: 11%
- Chairman and CEO: 2%
- Lead independent director: 10%
- Outside board member: 47%
- Inside board member: 9%
- General counsel: 6%
- Management, not a board member: 11%
- Other: 4%

**WHAT IS YOUR GENDER?**
- Male: 73%
- Female: 27%

**WHAT IS YOUR AGE?**
- Average: 59%

**WHAT IS YOUR COMPANY’S REVENUE?**
- < $1 billion: 53%
- $1 billion to $10 billion: 34%
- $10 billion to $25 billion: 8%
- > $25 billion: 5%

**WHERE IS YOUR COMPANY DOMICILED?**
- United States: 45%
- Africa: 8%
- North America (outside the U.S.): 13%
- South and Central America: 1%
- Asia Pacific: 5%
- Australia or New Zealand: 15%
- Europe: 7%
- Middle East: 1%
- Other, please specify: 5%

**IF NON US WHERE IS YOUR COMPANY PRIMARILY LISTED?**
- Africa: 13%
- North America (outside the U.S.): 19%
- South and Central America: 0%
- Asia Pacific: 13%
- Australia or New Zealand: 34%
- Europe: 13%
- Middle East: 0%
- Other, please specify: 9%

**HOW CONCENTRATED IS THE OWNERSHIP OF YOUR COMPANY?**
- Ownership is widely dispersed (no single party has effective voting control): 55%
- An investment group has a significant minority or majority voting interest: 19%
- A family or individual has a significant minority or majority voting interest: 15%
- Other, please specify: 11%
WHAT INDUSTRY IS YOUR COMPANY IN?

- Business services: 3%
- Chemicals: 6%
- Commercial banking: 4%
- Commodities: 2%
- Communications: 18%
- Computer services: 3%
- Electronics: 15%
- Energy: 3%
- Financial services: 5%
- Food and tobacco: 5%
- Healthcare: 3%
- Industrial and transportation equipment: 3%
- Insurance: 1%
- Other manufacturing: 2%
- Other services: 3%
- Retail trade: 1%
- Technology: 3%
- Transportation: 0%
- Utilities: 1%
- Wholesale trade: 4%
- Other: 16%
About the Authors

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The Corporate Governance Research Initiative at Stanford Graduate School of Business focuses on research to advance the intellectual understanding of corporate governance, both domestically and abroad. By collaborating with academics and practitioners from the public and private sectors, we seek to generate insights into critical issues and bridge the gap between theory and practice. Our research covers a broad range of topics that include executive compensation, board governance, CEO succession, and proxy voting.

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