



Corporate Sustainability Due Diligence

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Who are the directors in the EU proposal?

- “directors...favour the short-term maximization of shareholder’s value”
 - Ernst and Young Study on director’s duties and sustainable corporate governance

- BUT...A substantial body of literature argues that directors do NOT maximize shareholder value

Who are the directors in the EU proposal?

- “In addition, when fulfilling their duty to act in the best interest of the company, directors must take into account the human rights, climate change and the environmental consequences of their decisions, including in the long term.”
 - Proposal Factsheet https://ec.europa.eu/commission/presscorner/detail/en/fs_22_1147
- BUT....what about my own research with Amir Licht on how directors balance the interests of shareholders and stakeholders?



Shareholderism-index

- Identify situations of conflict between shareholders and stakeholders using seminal court cases involving shareholder-stakeholder conflicts
- Confront directors with vignettes derived from these cases—ask them how they would decide (without revealing the case)
 - Consumers - *Ford v. Dodge* (1919)
 - Employees - *Parke v. Daily News* (1962)
 - Creditors - *BCE v. 1976 Debentureholders* (2008)
 - Community - *Shlensky v. Wrigley* (1968)

 - Corporate philosophy (Tetlock, 2000)



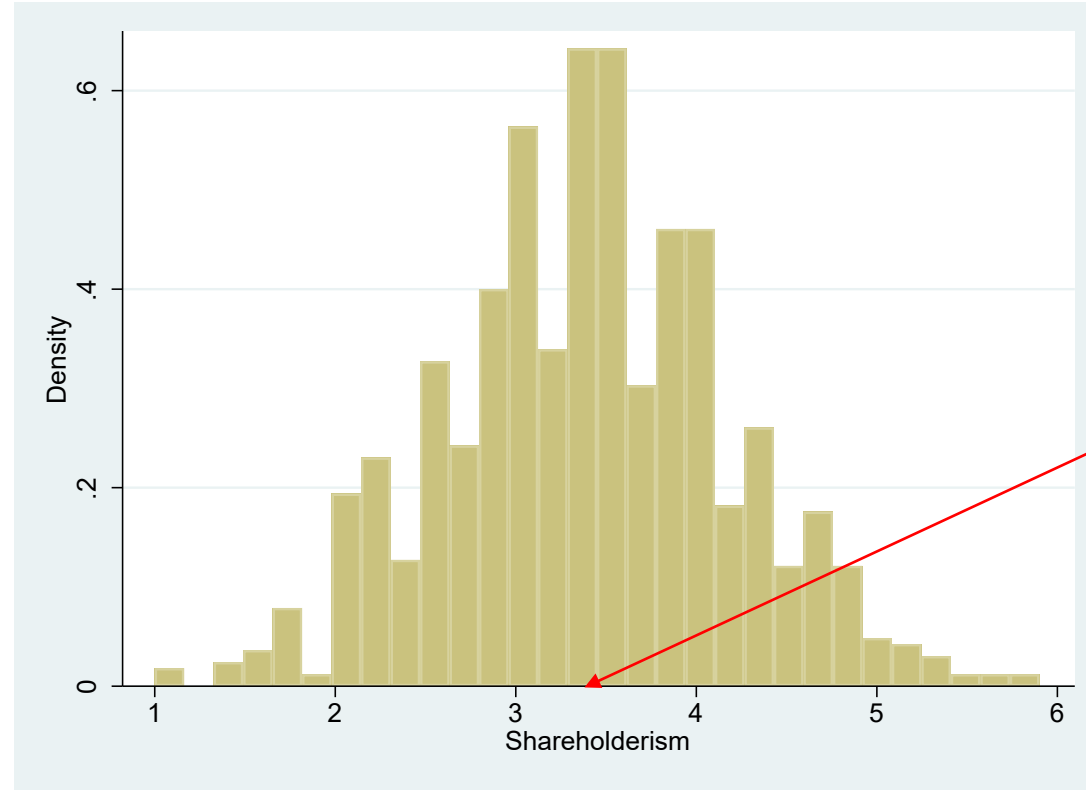
Measuring shareholderism

- Survey of directors of listed firms in Sweden in 2006 (Adams, Licht and Sagiv, 2011)
- Survey of directors of listed firms across countries in 2011 (Licht and Adams, 2021)

Benchmark:

- Survey of Oxford MBA students in 2022
- Survey of Oxford MBA students in 2021

“Shareholderism”



Mean: 3.4

Pro-stakeholder

Pro-shareholder

1,010 director respondents in 23 countries, data from 2011

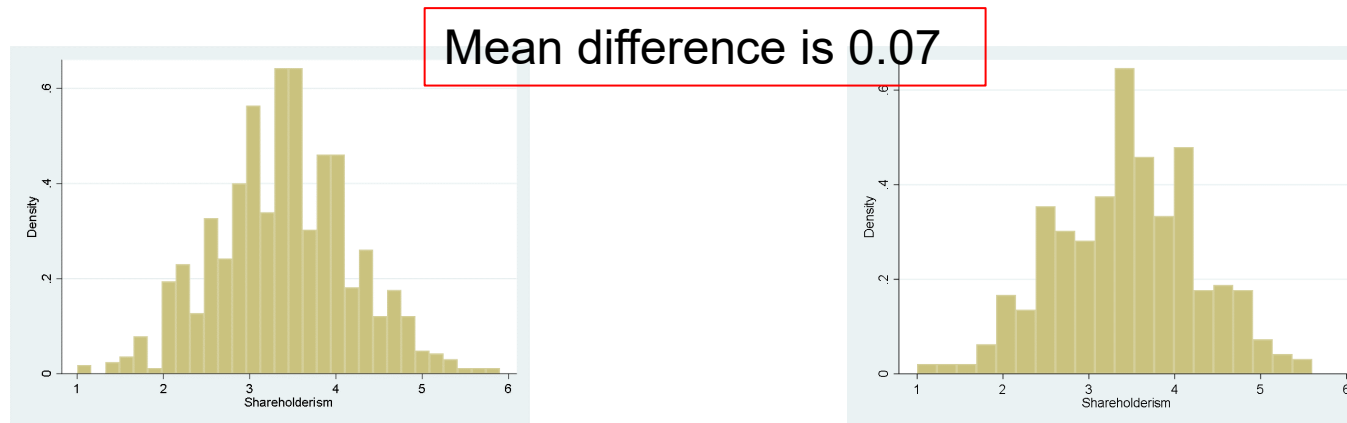


Compare directors and Oxford MBA students

- 226 Oxford student respondents in 2022
- The mean difference between directors and students is -0.08
- The difference is not statistically significant at conventional levels
- The magnitude is also not economically significant: the mean difference is 10.4% of the standard deviation of shareholderism
- Similar results using Oxford MBA students in 2021

But...

- ... isn't it better to do something, like changing the law, rather than nothing?
 - We show the law does *not* seem to be relevant for explaining variation in shareholderism across countries



Full sample of directors

US directors



What matters? Values and culture

- Directors with more “other-regarding” values and directors in more “other-regarding” cultures (harmony, egalitarianism) favor stakeholders
- Directors with more “entrepreneurial” values (power, achievement, self-direction) and directors in more “entrepreneurial” cultures (hierarchy, mastery) favor shareholders
- Similar results with Oxford students



Thoughts

- Ongoing frustration with casual attitude towards research in policy-sphere
- My research with Amir Licht suggests that who directors are is more important than what the rules are
- If the proposals lead directors to be more informed, their decision-making can improve
- But the proposals will influence who becomes a director
- If they attract the wrong type of director, the proposals may not achieve their objectives