# 2024 ANNUAL CONFERENCE

# THE POWER OF CORPORATE CULTURE

## FOSTERING INTEGRITY AND INNOVATION

PLUS

**2024 Wallenberg Lecture and Working Paper Prizes**

Conference Report
7- 8 October 2024

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It is a home for all those with an interest in corporate governance and stewardship.

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*Conference host*

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# *Executive Summary*

The 2024 ECGI Annual Conference, hosted in Brussels, convened distinguished experts in corporate governance, law, finance, and policy for two days of in-depth discussion on *"Fostering Integrity and Innovation: The Power of Corporate Culture."* Addressing how corporate culture impacts governance, performance, and societal outcomes, the event explored both the potential and limitations of governance reforms in fostering responsible and resilient corporations.

Through keynotes, a panel discussion, and a powerful lecture, participants discussed the challenges of embedding cultural values within governance structures. They explored how companies can align purpose with strategy, regulatory standards, and societal expectations to build resilience and trust. The conference concluded with a call for a governance approach that combines transparency, accountability, and a commitment to the public good, reflecting ECGI's ongoing dedication towards advancing a more responsible form of capitalism.

Day One Highlights included insightful opening remarks by **Herman Daems**, ECGI Chair, who emphasized the critical role of corporate culture as a complement to regulatory frameworks. In the opening keynote, **Francesco Vanni d'Archirafi,** Chair of Euroclear, discussed the strategic role of culture in guiding companies through global challenges, stressing that while governance structures create frameworks for accountability, it is corporate culture that imbues organizations with purpose, ethics, and resilience. He outlined Euroclear's approach to enhancing governance by clarifying purpose, adapting to workforce shifts, and adopting a holistic perspective on long-term stakeholder value.

The day also featured a dynamic panel discussion on the challenges and expectations of embedding corporate culture into governance and reporting, specifically focusing on the Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS). Panelists, including representatives from EFRAG and BlackRock, discussed the risks of "culture washing" and the need for qualitative assessments alongside quantitative metrics to truly understand and shape corporate behavior.

Day Two Highlights opened with the ECGI Working Paper Prize Session, where **Curtis Milhaupt**'s paper on "The Geopolitics of Controlling Shareholders" was awarded the ECGI Law Prize. Milhaupt's research sheds light on how controlling shareholders—especially state actors, family dynasties, and influential entrepreneurs—exert power with political and geopolitical ramifications, creating complex governance challenges. **Philip Bond** and **Doron Levit** received the ECGI Intesa Sanpaolo Finance Prize for their paper on "ESG: A Panacea for Market Power?", which analyzed the impact of ESG commitments on inter-firm competition and stakeholder welfare, demonstrating that while moderate ESG policies may foster positive outcomes, overly aggressive ESG agendas risk reducing competitiveness and harming stakeholders.

Day two concluded with the much-anticipated Wallenberg Lecture by Stanford Professor **Anat Admati**, who delivered a compelling critique titled "Whose Corporate Governance?" Admati challenged the audience to rethink corporate governance from a societal perspective, arguing that current frameworks often enable corporations, especially large financial institutions, to evade accountability. Through powerful examples, including the HSBC money laundering scandal and Purdue Pharma's role in the opioid crisis, Admati illustrated how weak regulatory enforcement, misaligned incentives, and limited liability enable corporations to prioritize profits at the expense of public welfare. She called for a holistic approach to governance, which includes external governance that sets and enforces laws governing corporations and their agents, internal governance pertaining to agency relations within the corporations, and the interaction between the external and internal governance mechanisms.

INTRODUCTION & KEYNOTE

# Corporate Culture

7 OCTOBER 2024

**In this session**

**Herman Daems**, Chair of the Board of ECGI, former Chair of the Board of BNP Paribas Fortis.
**Francesco Vanni d'Archirafi,** Chair of Euroclear Holding and Euroclear SA in Brussels.

**Introduction and Opening Keynote**

The 2024 ECGI Annual Conference opened with remarks from **Herman Daems**, ECGI Chair, setting a reflective and forward-looking tone. His introduction positioned corporate culture as a foundational yet often overlooked element of effective governance. While governance frameworks and regulations are essential to maintain accountability, Daems emphasized that they cannot alone dictate corporate behavior. Instead, he suggested that the unique, intangible qualities embedded in corporate culture—values, beliefs, and norms—serve as powerful influences on decision-making. By highlighting this interplay between governance structures and cultural forces, Daems emphasized that an organization's ethos, when championed by the board, can guide corporate behavior toward long-term goals, even amid short-term pressures.

Daems' comments laid the groundwork for the opening keynote by **Francesco Vanni d'Archirafi**, Chair of Euroclear, whose experience spans decades in finance and governance. D'Archirafi's address echoed Daems' sentiment, yet with a strategic focus on the practical role of culture in navigating the uncertainties faced by businesses today.

In a world of rapid technological advancements, heightened regulatory scrutiny, and increased demands for sustainability, he suggested that corporate culture is not merely a reflection of governance but a critical driver of it.

D'Archirafi's perspective was clear: governance structures form a framework for decisions, but culture—"the organization's soul"—imbues these decisions with a sense of purpose and direction. This deeper alignment between governance and culture, he argued, equips companies to prioritize resilience, ethical integrity, and stakeholder trust in turbulent times.

D'Archirafi shared how Euroclear operationalizes this approach, offering practical insights on purpose and stakeholder alignment. He discussed how Euroclear's purpose of fostering "safety, efficiency, and connections to financial markets for sustainable growth" serves as a north star for decision-making, keeping the organization's focus on long-term stakeholder outcomes over immediate shareholder returns. In terms of culture, he highlighted Euroclear's commitment to client-centricity,

> We must take behavior within organizations into account if we want to steer risk-taking behavior in banks and companies toward wealth-enhancing strategies.
>
> ~ Herman Daems

emphasizing horizontal structures and leadership that foster collaboration and transparency. These changes were strategic, with Euroclear actively engaging its board in redefining governance structures and executive roles to support a more integrated cultural and strategic alignment.

The keynote also explored the intersections of technology and talent, a growing focus area as companies grapple with digital transformation. D’Archirafi explained Euroclear’s approach to modernizing its talent strategy, which involves re-evaluating workforce needs in light of emerging technologies such as AI and blockchain. By emphasizing talent acquisition and adaptation to evolving roles, Euroclear’s strategy seeks to support both its operational goals and its cultural vision. D’Archirafi’s discussion provided an example of a practical, forward-looking approach to addressing how technology impacts both culture and governance, serving as an adaptable model for organizations in other sectors.

The address was not without a reflection on the challenges that lie ahead. D’Archirafi acknowledged the high expectations placed on corporations to address global issues such as climate change, social inequity, and corporate responsibility, which increasingly fall under the umbrella of governance and cultural responsibility. He referenced the European Corporate Sustainability Reporting Directive (CSRD) as a framework Euroclear is actively preparing to meet, despite the added demands it places on transparency and accountability in non-financial areas. Euroclear’s approach to compliance with this directive is not merely to meet regulatory standards but to align reporting practices with the company’s strategic values, recognizing that transparent governance is as much about building stakeholder trust as it is about meeting legal obligations.

In his concluding remarks, D’Archirafi left the audience with a broader call to action, inviting leaders and boards to consider how their organizations’ cultures align with governance frameworks to drive long-term success. He argued that embedding a culture of integrity within governance structures is crucial, as it helps guide corporate decisions through unpredictable environments while building trust with stakeholders. Governance, he suggested, should go beyond a set of formal structures to become a dynamic force that supports ethical, value-driven decisions, thus creating a framework where integrity and accountability are embedded across all levels of the organization.

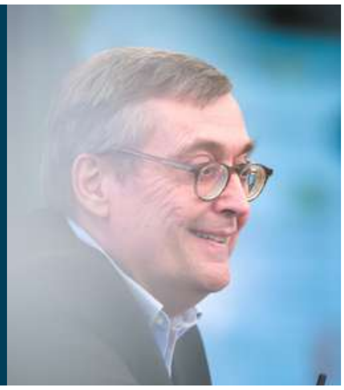
Both Daems and d’Archirafi’s reflections invite ongoing discussions about the roles of corporate governance and culture in today’s business landscape. Their insights highlight a fundamental shift: effective governance is increasingly seen not only as a means of ensuring compliance but also as a tool for embedding ethical and sustainable practices into the core of an organization. Together, they made a compelling case for the fusion of governance and culture as the foundation of corporate resilience, setting an aspirational tone for the conference and, by extension, the broader field of corporate governance.

> The governance of governance, or ‘**meta governance,**’ ensures that the governance structures are not static but dynamic, capable of evolving with the company's needs and the external environment.
>
> ~ Francesco Vanni d'Archirafi

CORPORATE CULTURE

# Insights from banking

7 OCTOBER 2024



## In this session

**Mathias Dewatripont**, Professor of Economics at Université libre de Bruxelles (ULB), former Executive Director and Vice Governor of the National Bank of Belgium (NBB) and ECGI Fellow.

Through his lens as an economist and regulator, Professor **Mathias Dewatripont** provided an insightful briefing at the 2024 ECGI Annual Conference, exploring the intersections of corporate culture, banking regulation, and governance. Dewatripont emphasized the dual role of banking: as a critical yet inherently risky component of the economy.

He began by recounting his foundational work with Jean Tirole, which conceptualized the governance of firms, particularly banks, through the lens of incomplete contract theory. This theory underscored the unique challenges in banking, where the typical creditor-shareholder dynamic is distorted due to the reliance on insured depositors as debt holders, necessitating a robust framework of regulation, supervision, and resolution (RSR).

He traced the evolution of banking regulation from Basel I to Basel III, highlighting its attempts to replicate traditional creditor control mechanisms to mitigate risks such as "gambling for resurrection." Despite these advancements, Dewatripont acknowledged persistent issues, such as banks' high leverage ratios, particularly in Europe, where the gap between leverage and capital ratios has grown due to reliance on internal risk models. He called for consistency in aligning banks' professed sustainability goals with their risk management practices, emphasizing the role of regulatory reforms.

The presentation delved into governance and culture, particularly the impact of shareholder-oriented incentives on risk-taking behaviors. Dewatripont criticized the prevalent compensation structures in banking, which often prioritize shareholder value over firm or societal value. He cited the European Banking Authority's data on high earners to illustrate the disparity in remuneration between retail and investment banking, arguing that this misalignment undermines efforts toward fostering a sustainable and responsible banking culture.

Drawing parallels with the Corporate Sustainability Reporting Directive (CSRD), Dewatripont noted that banking regulation, despite its narrower scope, offers lessons for broader ESG ambitions. He stressed the need for simplicity and harmonization in regulatory frameworks to avoid excessive complexity, advocating for systemic incentives like carbon taxes and clean energy subsidies to align corporate and societal objectives.

The discussion extended to alternative corporate structures, such as benefit corporations, to mitigate the inherent conflicts in shareholder-driven governance. Dewatripont acknowledged the challenges in balancing accountability and societal impact, urging a focus on practical reforms like aligning tax and regulatory systems with societal goals before overhauling corporate structures. He concluded with a call for translating broad ESG and cultural objectives into actionable and measurable indicators, emphasizing the importance of clarity and focus in fostering effective governance and sustainable practices.

Dewatripont’s presentation offered a nuanced analysis of how corporate culture, governance, and regulatory frameworks intersect in banking and beyond, advocating for coherent incentives, practical reforms, and cultural consistency to navigate the challenges of modern corporate governance.

POLICY KEYNOTE

# *Does corporate culture matter?*

7 OCTOBER 2024

## In this session

**Saskia Slomp,** CEO, European Financial Reporting Advisory Group (EFRAG)

**Saskia Slomp**, CEO of EFRAG (European Financial Reporting Advisory Group), delivered a keynote address titled *Does Corporate Culture Matter?* in which she explored EFRAG's evolving role, the development of European Sustainability Reporting Standards (ESRS), and the importance of corporate culture within this framework.

She began by tracing EFRAG's history, noting its initial focus on financial reporting, including endorsing IFRS for the European Commission. Since 2018, however, EFRAG has expanded its mission to include sustainability reporting, reflecting the European Commission's Action Plan on Sustainable Finance. This evolution underscores EFRAG's dual mission to integrate financial and sustainability reporting, ensuring businesses provide a holistic picture of their performance.

Slomp outlined the ESRS, which operationalize the Corporate Sustainability Reporting Directive (CSRD). These standards are mandatory and directly enforceable across EU member states through delegated acts, bypassing national adaptation. A phased implementation begins in 2024, applying first to companies already subject to the Non-Financial Reporting Directive (NFRD), with SMEs following in later years. A distinguishing feature of ESRS is its incorporation of double materiality, requiring disclosures on both financial materiality (how sustainability issues affect the company) and impact materiality (how the company impacts society and the environment). ESRS also aligns sustainability disclosures with financial reporting timelines, supporting integrated corporate reporting.

Notably, companies must provide mandatory limited assurance on sustainability disclosures, transitioning to reasonable assurance over time.

Slomp emphasized the significance of corporate culture, explicitly recognized in the CSRD. Companies are required to disclose policies and practices related to corporate ethics, anti-corruption, and anti-bribery, linking cultural aspects to governance and operational integrity. She highlighted how culture can either support or undermine corporate strategies, reinforcing the need for governance frameworks that integrate ethical and cultural considerations.

EFRAG's ongoing work includes the development of sector-specific standards for high-impact industries such as oil and gas, mining, and agriculture. Additionally, EFRAG is creating standards tailored to SMEs, including a voluntary framework aimed at reducing reporting burdens by consolidating multiple questionnaires into a unified system. Slomp also discussed EFRAG's efforts to provide implementation support through guidance documents, Q&A platforms, and collaborative studies. To promote alignment with global standards and reduce redundant reporting, EFRAG is working closely with organizations like the ISSB, GRI, and ISO.

Despite its progress, EFRAG operates within political and operational constraints. For example, while political discussions, such as those initiated by Ursula von der Leyen, call for reduced reporting obligations, EFRAG continues to work under the existing CSRD framework. Slomp stressed that sector-specific standards are designed to streamline, not increase, reporting requirements, addressing misunderstandings about their purpose.

In closing, Slomp reiterated that corporate culture plays a critical role in achieving sustainability goals. By embedding ethical practices and cultural values into corporate governance, companies can align their strategies with broader societal expectations. EFRAG's work demonstrates how culture, sustainability, and governance intersect, shaping the regulatory landscape and driving long-term value creation. This integrated approach positions EFRAG as a key player in advancing responsible business practices in Europe and beyond.

> Business ethics and corporate culture, the management and the quality of the relationships with customers and suppliers, and activities of the undertaking related to exerting its political influence, including lobbying activities, are all things that are to be disclosed.
>
> ~ Saskia Slomp


PANEL

# Business Conduct

7 OCTOBER 2024


## In this session

**Marleen Och**, Researcher, KU Leuven and ECGI (Moderator)
**Laetitia Boucquey,** Government Affairs and Public Policy, BlackRock
**Fredré Ferreira,** Governance Lead, EFRAG
**Kristof Macours,** Group General Counsel and Company Secretary, Euroclear

The 2024 ECGI Annual Conference featured a stimulating panel on corporate governance and business conduct, moderated by **Marleen Och**. The panel, which included experts from EFRAG, BlackRock, and Euroclear, focused on the evolving role of corporate culture in governance, particularly within the context of the European Sustainability Reporting Standards (ESRS) and Corporate Sustainability Reporting Directive (CSRD). This discussion shed light on both the opportunities and challenges in embedding culture into governance frameworks, while also grappling with the practicalities of defining, measuring, and maintaining an ethical corporate culture.

### Defining and Reporting Corporate Culture

One of the central themes was the difficulty of defining and measuring corporate culture, particularly when integrating it into standardized reporting frameworks like the ESRS. **Fredré Ferreira** of EFRAG shared her initial hesitation around including culture as a reportable element in the ESRS, noting that culture can be nebulous and difficult to quantify. Yet, the CSRD mandate ultimately compelled EFRAG to address corporate culture as an essential component of business conduct. Ferreira's reflections illustrated a key tension in modern governance: the desire to hold companies accountable for their ethical and cultural frameworks while also recognizing the inherent challenges in creating measurable, comparable standards for something as intangible as culture.

**Kristof Macours** from Euroclear added depth by sharing Euroclear's approach, which includes a "culture compass" designed to guide internal behaviors toward ethical and sustainable goals. Macours emphasized the importance of going beyond mere statistical indicators like board diversity or whistleblower cases. He argued that corporate culture must be assessed qualitatively, observing how decisions are made and how values are applied across the organization. His remarks reflected a belief that culture is fundamentally about lived experiences and daily practices—elements that resist standardization but are essential to meaningful governance.

### The Investor Perspective on Culture and Long-Term Value

**Laetitia Boucquey** of BlackRock provided insights from an investor's perspective, highlighting how BlackRock engages with companies on cultural issues without prescribing specific practices. Instead, BlackRock focuses on understanding how boards monitor, foster, and assess culture. Boucquey emphasized that strong corporate culture is closely tied to long-term value, as seen in cases like Microsoft, where investor pressure led to a transformative cultural overhaul that subsequently boosted the company's performance. Her comments illustrated that BlackRock believes corporate culture is vital to performance and that a strong, well-aligned culture impacts employee engagement, productivity, and execution of the company's strategy.

Boucquey's perspective raised an important point about investor engagement: while BlackRock encourages companies to prioritize culture, they stop short of dictating how this should be done. This hands-off approach reflects the nuanced role of investors in today's governance landscape Boucquey's remarks suggested that while investors can push for change, they ultimately depend on corporate boards to lead internal cultural alignment, making board oversight and accountability central to the discussion on culture and governance.

> Companies can elaborate on how they establish, develop, promote, and evaluate their corporate culture.
>
> ~ Fredré Ferreira

**Challenges of "Culture Washing" and the Risk of Superficial Compliance**

The panel also addressed the concept of "culture washing"—where companies may portray an idealized version of their culture without actual commitment or follow-through. Macours cautioned that with increasing emphasis on culture in ESG reporting, some companies might adopt superficial practices that look good on paper but do not reflect genuine ethical commitment. This echoed Ferreira's earlier point about the limitations of culture as a reportable metric. Ferreira suggested that while indicators like diversity and whistleblower cases can offer some insights, they are incomplete and often fail to capture the nuanced reality of a company's culture. Both panelists pointed to the need for deeper, context-driven interpretations of culture to avoid "checking the box" approaches.

This conversation highlighted a key challenge for regulators and stakeholders alike: ensuring that reporting standards foster authentic cultural engagement rather than mere compliance. The risk of culture washing reinforces the importance of qualitative assessments, as well as the need for transparency and honesty in corporate disclosures. By encouraging companies to provide a more honest, self-reflective view of their culture, standards like the ESRS may help mitigate the risks of superficial reporting.

**Navigating Double Materiality and Global Reporting Challenges**

A critical aspect of the discussion was the global divergence in sustainability reporting, particularly around the concept of double materiality. Ferreira acknowledged that while double materiality—reporting both on financial impacts and the organization's societal impact—is central to EU standards, it remains contentious in jurisdictions like the U.S., where impact materiality is less emphasized. Boucquey noted that BlackRock advocates for global reporting consistency to reduce complexity for multinational companies and increase comparability, but also recognized the difficulty of achieving alignment given varying regional approaches.

The discussion revealed the complexities companies face in trying to meet multiple, sometimes conflicting, reporting requirements across jurisdictions. Ferreira suggested that while double materiality remains central to the CSRD and ESRS, flexibility and collaboration with international frameworks like ISSB and GRI will be crucial for easing the burden on companies. This conversation underlined the importance of interoperability, as companies operating globally need a cohesive framework to navigate the complexities of international compliance without compromising the integrity of their reporting.

**Political Dynamics and Resource Challenges**

Panelists also discussed the political context of the CSRD and the challenges of implementing robust reporting standards amid concerns over regulatory burden. Ferreira and Macours shared examples of companies hiring numerous staff dedicated solely to ESG compliance, highlighting the

> Corporate culture is in the procedures, in the written rules, but even more in the unwritten rules. It's what you do when nobody's watching.
>
> ~ Kristof Macours

intensive resource demands that accompany standards like the ESRS. This demand for resources has fueled political debate around the CSRD, with some stakeholders advocating for reduced reporting obligations.

The panel's reflections on this topic illustrated a broader issue in corporate governance: the balancing act between rigorous standards that drive accountability and the practical limitations companies face in meeting these standards. While Slomp and Ferreira both emphasized the importance of transparency, they also acknowledged the need for political pragmatism in the face of rising compliance costs.

> The reporting requirements for large unlisted companies are now closely aligned with those for listed companies. This change is due to the increasing similarity of their stakeholders. It's a game changer"
>
> ~ Kristof Macours

**Reporting as a Catalyst for Cultural Transformation**

One of the panel's most optimistic themes was the potential for reporting requirements to drive real cultural change within organizations. Macours and Ferreira both noted that by mandating disclosures on culture and business conduct, regulations like the CSRD can prompt companies to examine their internal practices and align them with ethical and sustainable standards.

Ferreira shared that the process of reporting on culture encourages internal benchmarking, helping companies identify areas for improvement and fostering an environment of continuous cultural evolution. This insight resonated as a powerful example of how governance standards can serve as more than compliance tools—they can be catalysts for genuine transformation. By setting high standards and requiring companies to reflect on their cultural practices, reporting frameworks can drive companies toward greater alignment with societal expectations, helping them build more resilient and ethically grounded organizations.

The panel on corporate governance and business conduct provided a nuanced exploration of the role of culture in today's governance landscape. While panelists agreed on the importance of embedding culture into governance, they were equally candid about the challenges this entails—from the risk of culture washing to the complexities of global reporting standards.

Ultimately, the discussion highlighted that while regulatory frameworks like the CSRD and ESRS are crucial, meaningful cultural transformation requires a commitment that goes beyond compliance. For culture to truly matter, companies must adopt governance practices that encourage transparency, consistency, and long-term thinking at every level.

The message from the session was clear: as corporate governance evolves, so too must our understanding of culture, not as a peripheral consideration but as a central pillar of ethical and resilient business conduct. Through continuous dialogue, qualitative assessments, and a commitment to both transparency and accountability, companies can create cultures that are not only ethical but also aligned with the broader public interest.

> Corporate culture goes hand in hand with corporate strategy, with purpose, and financial resilience. We want to make sure that we understand how the board oversees all of those components.
>
> ~ Laetitia Boucquey

2024 WALLENBERG LECTURE

# *Whose Corporate Governance?*

8 OCTOBER 2024

**In this session**

**Anat R. Admati,** the George G.C. Parker Professor of Finance and Economics at Stanford University Graduate School of Business, Faculty Director of the Corporations and Society Initiative (CASI) and for the Program on Capitalism and Democracy (CAD), in collaboration with the Center for Democracy, Development and the Rule of Law (CDDRL) at the Freeman Spogli Institute for International Studies (FSI). Co-author of "The Bankers' New Clothes: What's Wrong with Banking and What to Do about It" (Princeton University Press, 2013) and ECGI Fellow.

On Day 2 of the conference, **Anat Admati**'s much anticipated Wallenberg Lecture, "*Whose Corporate Governance?*", offered a deeply critical and thought-provoking examination of corporate governance and its relationship with societal welfare. Drawing on her extensive experience with corporate accountability, particularly in the financial sector, Admati's lecture challenged conventional perspectives on governance. She argued that current structures often enable corporations, particularly large financial institutions, to evade accountability and externalize societal harms while prioritizing profits and shareholder returns. Her talk highlighted the urgent need for viewing societal corporate governance as a combination of external governance, which sets and enforces laws conferring both rights and duties for corporations and their agents, and the standard internal rules that are mostly the domain of corporate law. The overall governance challenge goes beyond economic outcomes and is fundamentally about basic justice and fairness.

**Governance Failures in the Financial Sector**

Admati began by highlighting systemic failures in the financial sector, where regulatory loopholes, high leverage, and complex corporate structures allow banks and large corporations to shift downside risks to others, exploit subsidies and evade responsibility. Through examples like HSBC's involvement in money laundering and Wells Fargo's unauthorized accounts scandal, Admati illustrated how current governance frameworks fall short in curbing reckless and unethical corporate behavior.

> The forces of capitalism today have undermined, overwhelmed, and corrupted governments in democracies, thereby harming our democracy.
>
> ~ Anat Admati

Her insights into compensation structures shed light on one of the underlying incentives driving this behavior. Admati argued that short-term bonuses and performance incentives are structured to reward executives for risky behavior that "front loads" measured gains without accountability for potential losses down the line, which shareholders and others will bear. This misalignment of incentives, she suggested, entrenches a culture of risk within financial institutions, as documented by many books on the subject. Her critique called for a realignment of compensation structures, proposing that executive rewards should reflect long-term impacts, possibly by being deferred substantially to foster a culture of more sustainable decision-making within financial organizations.

**Corporate Personhood and Limited Liability**

A key aspect of Admati's observations centered on the legal concept of corporate personhood and limited liability. Corporate law allows corporations to operate with significant freedoms but limits the liability of executives and shareholders that may arise from corporate actions.

> Governance is always about power, information, and incentives
>
> ~ Anat Admati

This legal framework encourages innovations and enables beneficial risk taking, but it also can give rise to misconduct and harmful behaviors with too little accountability. Companies enjoy many legal rights but do not always fulfil the accompanying responsibilities. Citing cases such as Purdue Pharma's role in the opioid crisis and Volkswagen's emissions scandal, she demonstrated how limited liability, combined with the difficulty, or unwillingness of authorities to hold individuals accountable for corporate misconduct and harm enables corporations and their managers to find harmful actions profitable. Detection of misconduct, and any legal consequences, often take many years, and the typical result is settlements where fines are often too small to create deterrence and are viewed as "cost of doing business."

Common approaches to law enforcement as it applies to corporations relies significantly on voluntary compliance program and on internal investigations, often managed by law firms and shared with legal authorities, that help corporations lower their own fine, shield high level executives, and, if authorities demand it (such as by the US Department of Justice) in order to receive "cooperation credits," corporations  attribute blame to lower-level employees. This system, she suggested, perpetuates systemic issues and presents a superficial appearance of accountability while failing to address root problems within corporate culture and governance.

> Governments have less power in the law than shareholders do, and other people have even less.
>
> ~ Anat Admati

**The Role of Regulatory Arbitrage and Global Standards**

Admati also examined the challenges of regulatory arbitrage, ways to take advantage of any loopholes or vagueness in the rule, which can spill into outright wrongdoing or crime. She pointed to the European Cum-ex tax fraud scandal, where many bankd across Europe defrauded their governments and effectively robbed European governments of many billions in taxpayer money. (The current estimate is a total of €150 across a number of governments, including €36 in Germany alone.) Transnational money laundering illustrated the difficulties of enforcing accountability in a global economy where corporations operate across multiple legal systems and may develop symbiotic relations with a home nation. For example, UK authorities pressured US authorities to avoid imposing harsh penalties on HSBC for laundering many billions of illegal drug-related money.

> Current approaches to external and internal governance often backfire if misconduct is profitable for the corporation.
>
> ~ Anat Admati

In her call for more robust external governance, Admati acknowledged the political complexities that often hinder international coordination. Nonetheless, she argued that developing effective frameworks for corporate accountability, and collaborating globally on rules and enforcement is essential. If cross-border collaboration is challenging, governments can still individually focus on their own tools and capacities to protect the public.

**The Power of Corporate Influence and "Beautiful Lies"**

A striking element of Admati's lecture was her analysis of how corporations leverage public relations and lobbying to shape public discourse, obscure the issues and distort the rules. She introduced the concept of "beautiful lies"— carefully crafted narratives corporations use to present an ethical and responsible image while often engaging in practices that contradict their public commitments. For instance, corporations may issue ambitious environmental pledges or espouse commitments to social justice, but without substantive changes to their operations or practices. This approach to "culture washing," Admati argued, undermines the credibility of corporate social responsibility efforts and perpetuates pretentions rather than meaningful change.

> The 'systemic risk' trump card is the ultimate of capitalism: the privatization of gains, the socialization of losses.
>
> ~ Anat Admati

Admati further pointed out that corporate lobbying powerfully shapes legislation, allowing corporations to influence policies in ways that protect their interests. This influence often exploits lack of familiarity with the issues, which can be wilful if policymakers find it convenient to collaborate and avoid challenging corporations and their leaders. In the bargain, the public may well lose without even realizing it. Her critique called for stronger checks on corporate lobbying and a regulatory environment that prioritizes transparency and public welfare over private interests and relies more on competent and unconflicted experts who can communicate effectively and educate the public so it can demand better from policymakers as well as corporations.

**Toward a Holistic Governance Framework**

Admati's lecture was a powerful call to rethink governance frameworks to account for corporations' impact on society and consider all available tools, particularly strengthening external governance mechanisms. She advocated for multi-layered reforms, including appropriate oversight, revised liability laws that limit the ability of corporations to shield themselves and their leaders, and greater transparency in corporate operations. Her proposal for a "governance of governance" framework suggested that society must demand that governments and their decisionmakers act in the public interest, starting with elected officials and including regulators. A holistic approach in which governments set and enforce effective laws would help align corporation and their decisionmakers with public interest goals. The aim is for a system where accountability is embedded at every level—from internal culture to external regulatory frameworks.

One of her most compelling arguments was the need for stronger external governance that doesn't solely rely on internal board oversight or shareholder activism. While internal governance is geared towards aligning incentives within the firm, Admati emphasized that unless corporations are properly accountable to society, the internal alignment can actually exacerbate societal harm as corporations will find it in their interest to compensate managers to commit profitable misconduct even if it cause harm, and then insulate them from consequences. Any governance framework that relies entirely on internal governance to achieve society's goals is bound to come significantly short unless external rules compel corporations to internalize the external costs they impose on society, thus making misconduct less attractive.

Admati's Wallenberg Lecture was a clarion call for a fundamental reassessment of corporate governance, urging attention, rather than ignorance of external governance as it interacts with internal governance mechanisms. By addressing the limitations of current frameworks that is based almost entirely on internal governance Admati's insights challenged the audience to think beyond the standard narrow approach. Effective governance must integrate ethical, legal, and regulatory dimensions to ensure that corporations contribute positively to society and it respects and welcomes the proper role of external constraints to help corporations serve society and avoid profiting at the public expense.

WORKING PAPER PRIZES

# *ESG: A Panacea for Market Power?*

**8 OCTOBER 2024**


## In this session

**Philip Bond,** Edward E. Carlson Distinguished Professor in the Finance and Business Economics department at the University of Washington
**Marco Boscolo,** Head of European Regulatory & Growth Policies at Intesa Sanpaolo.

Awarding the ECGI Finance Prize, **Marco Boscolo**, representing Intesa Sanpaolo, emphasized the central role that sustainable governance plays in the banking sector. He highlighted how effective governance structures are not only instrumental in managing risk but also in building and maintaining trust with stakeholders. Boscolo noted Intesa Sanpaolo's proactive approach to ESG, with 60% of board meetings dedicated to ESG topics and regular updates from the bank's ESG control room.

Reflecting on Bond and Levit's research, he described Intesa Sanpaolo as a "purposeful firm" that embraces ESG policies to maximize total stakeholder value, rather than focusing solely on profitability. Boscolo's remarks illustrated the importance of aligning corporate purpose with governance practices in the financial industry, reinforcing the broader conference theme of integrating ethical and sustainable values into governance frameworks.

**Philip Bond** presented his co-authored paper which won the 2024 Intesa Sanpaolo Finance Prize. The paper examines the economic implications of ESG commitments, particularly how these commitments influence market power. The findings challenge the assumption that all ESG policies are inherently beneficial, revealing that overly aggressive ESG practices may harm market competitiveness and reduce total industry welfare.

Bond presented the idea of a moderate vs. aggressive ESG approach: moderate ESG commitments, he argued, induce adopting firms to compete harder, benefiting workers and customers as well as the firm itself. However, aggressive ESG strategies—such as paying significantly above-market wages, or delivering above-market environmental and privacy standards to customers—turn the adopting firm into a weaker competitor, ultimately hurting workers and customers.

Bond and Levit's concept of an "ESG cycle" further illustrates the interplay between moderate and aggressive ESG policies.They argue that profit-maximizing firms have strong incentives to outdo their competitors' ESG policies if such policies are moderate; but similarly strong incentives to abandon ESG if competitors adopt aggressive ESG policies. Unfortunately, competition in ESG policies between shareholder-focused firms fails to push an industry towards a socially optimal level of ESG---or indeed, even towards a stable level. But more positively, their analysis suggests that if firms pick ESG policies to balance profits with the interests of employees and customers then inter-firm competition delivers a socially beneficial level of ESG.

**WORKING PAPER PRIZES**

# The (Geo)Politics of Controlling Shareholders

**8 OCTOBER 2024**

## In this session

Presenting virtually) **Curtis Milhaupt,** William F. Baxter-Visa International Professor of Law at Stanford Law School, Senior Fellow of the Freeman Spogli Institute for International Studies at Stanford University, and ECGI Fellow.
**Luca Enriques**, Professor of Law, University of Oxford and ECGI Fellow

**Luca Enriques** introduced the ECGI Law Prize winner, Curtis Milhaupt, during the Working Paper Prize Session. Enriques highlighted the significance of Milhaupt's paper, *"The Geopolitics of Controlling Shareholders,"* noting its exploration of how controlling shareholders wield not only economic but also political influence, extending their power beyond traditional corporate boundaries. He referenced Elon Musk as an example of a "geopolitical chaos agent," illustrating Milhaupt's argument that certain influential corporate figures exert considerable impact in global and national political arenas. Enriques praised the paper for pushing corporate governance scholars to consider the far-reaching effects of corporate control, particularly in contexts involving national security and geopolitics.

Curtis Milhaupt's presented the prize-winning paper by video. The paper reframes the role of controlling shareholders by examining their influence in a geopolitical context. Traditional governance models focus on agency issues between management and shareholders, but Milhaupt extended this analysis to reveal how controlling shareholders, such as state actors and tech founders, wield political and economic power beyond the firm's boundaries. By including examples like the Lee family's control over Samsung and Elon Musk's influence through Starlink, Milhaupt argued that these shareholders not only impact firm behavior but also shape national and international policies—a dynamic with significant governance implications.

A striking aspect of Milhaupt's argument was his critique of dual-class share structures, which, he suggested, offer controlling shareholders unchecked power with limited accountability. He connected these structures to wider geopolitical risks, noting that founders often leverage dual-class shares to build political as well as economic power. This analysis raised a critical question: how can governance frameworks balance the need for visionary leadership with safeguards against concentrated power that could undermine democratic or economic stability?

Milhaupt's work highlighted the need for policy reforms that address the intersection of corporate governance and national security. He called for nuanced policies that consider the broader geopolitical ramifications of concentrated control, especially in industries like technology and energy, which have significant national security implications. Milhaupt's approach not only challenged traditional governance assumptions but also emphasized the evolving role of corporations in global geopolitics, suggesting that policymakers need to rethink governance standards to manage these multi-dimensional risks.

2024 ANNUAL CONFERENCE

# Conclusion

8 OCTOBER 2024

The 2024 ECGI Annual Conference brought together a diverse assembly of scholars, policymakers, and industry leaders to address some of the most pressing challenges in corporate governance today. Across two days of insightful presentations and discussions, a clear message emerged: **effective governance requires a holistic approach that integrates corporate culture, regulatory frameworks, and stakeholder accountability.**

From the foundational discussions on the interplay between governance structures and corporate culture, it was evident that today's corporate leaders face both heightened responsibilities and complex pressures. Speakers like Francesco Vanni d'Archirafi and Anat Admati emphasized the importance of embedding ethical values into the fabric of governance frameworks, highlighting that compliance alone is insufficient to meet societal expectations. Instead, governance must be purpose-driven, fostering cultures that prioritize long-term resilience, ethical integrity, and societal impact.

Mathias Dewatripont presented a convincing case that, while regulatory frameworks are critical to managing risk, they are insufficient on their own. Real change must come from within the institutions, supported by compensation structures, regulatory consistency, and a shift in governance focus.

Saskia Slomp emphasized that by creating high-impact, clear standards, EFRAG aims to support a cultural evolution within companies that goes beyond compliance.

The session on sustainability reporting standards and the exploration of double materiality further emphasized the growing demand for transparency and accountability. While frameworks like the CSRD and ESRS are driving companies to disclose their social and environmental impacts, discussions revealed the challenges of implementing these standards across global contexts, as well as the risk of "culture washing." The sessions highlighted that genuine cultural transformation and responsible governance require meaningful engagement with these standards, not merely adherence to metrics.

Prof. Admati's call for a **holistic governance** approach stressed the need for transparency, stronger enforcement, and global regulatory alignment to close loopholes that allow corporations to prioritize profits at the public's expense. Her lecture served as a compelling reminder of the responsibility corporations hold in aligning governance with societal interests, encouraging a shift from compliance-based governance to frameworks that actively mitigate harm and promote ethical practices.

The Working Paper Prize presentations illustrated the influence of corporate governance on broader economic and geopolitical dynamics, from the market effects of ESG commitments to the national security implications of concentrated ownership. The two papers collectively highlighted the need for balanced, **context-aware governance** in navigating modern challenges, from the political influence of controlling shareholders to the nuanced economic effects of ESG policies. Both papers illustrated that corporate governance is no longer confined to shareholder-manager relations; it now intersects with national security, social responsibility, and market dynamics. This broadened perspective prompts companies, investors, and regulators to adopt a more holistic view of governance, one that accounts for a company's influence on external ecosystems and its role in broader societal frameworks.

As the conference concluded, participants were left with a renewed understanding of the importance of integrated, holistic, and values-driven governance which adapts to the needs of a rapidly changing world.



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# PROGRAMME

## DAY 1: Monday, 7 October 2024

14:30 Registration

15:00 **Opening Remarks**

**Herman Daems** (Chair of the Board, ECGI)

15:15 **Opening Keynote**

**Francesco Vanni d'Archirafi** (Chair, Euroclear Holding and Euroclear)

15:45 **DOES CORPORATE CULTURE MATTER?**

**Mathias Dewatripont** (Solvay Brussels School and ECGI)

16:15 Coffee Break

16:45 **Saskia Slomp** (CEO, European Financial Reporting Advisory Group (EFRAG))

17:15 **PANEL: CORPORATE GOVERNANCE AND BUSINESS CONDUCT**

Moderator: **Marleen Och** (KU Leuven and ECGI)
Panelists:
**Laetitia Boucquey** (Government Affairs and Public Policy, BlackRock)
**Fredré Ferreira** (Governance Lead, EFRAG)
**Kristof Macours** (Group General Counsel and Company Secretary, Euroclear)

18:15 **Closing Remarks**

**Marco Becht** (Solvay Brussels School, Université libre de Bruxelles and ECGI)

18:30 **ECGI Annual Dinner**
Open to speakers, ECGI members and invited guests

# PROGRAMME

## DAY 2: Tuesday, 8 October 2024

08:30 Registration | ECGI General Assembly Meeting

09:00 **ECGI General Assembly**

**Herman Daems** (Chair of the Board, ECGI)
**Marco Becht** (Executive Director, ECGI)

10:00 Registration (Public)

10:30 **Welcome Remarks**
**Marco Becht** (Executive Director, ECGI)

### 10:40 ECGI WORKING PAPER PRIZE SESSIONS

**ECGI Law Prize**
**Marco Becht (Executive Director, ECGI)**

**Prize Paper | "The (Geo)Politics of Controlling Shareholders"**
**Curtis J. Milhaupt** (Stanford University and ECGI) (Virtually)

**Intesa Sanpaolo Finance Prize**
**Marco Becht** (Executive Director, ECGI)
**Marco Boscolo** (Head of European Regulatory & Growth Policies, Intesa Sanpaolo)

**Prize Paper | "ESG: A Panacea for Market Power?"**
**Philip Bond** (University of Washington)

11:40 Coffee Break

### 12:00 THE 2024 WALLENBERG LECTURE

**Introduction**

**Marco Becht** (Executive Director, ECGI)

**Wallenberg Lecture | "Whose Corporate Governance?"**

**Anat Admati** (Stanford University and ECGI)

Q&A

13:15 Lunch reception

# BIOGRAPHIES

**Anat R. Admati** is the George G.C. Parker Professor of Finance and Economics at Stanford University Graduate School of Business, where she is also a Faculty Director of the Corporations and Society Initiative (CASI) and for the Program on Capitalism and Democracy (CAD), in collaboration with the Center for Democracy, Development and the Rule of Law (CDDRL) at the Freeman Spogli Institute for International Studies (FSI). She is the co-author, with Martin Hellwig, of the award-winning and highly acclaimed book The Bankers' New Clothes: What's Wrong with Banking and What to Do about It (Princeton University Press, 2013; bankersnewclothes.com).

**Marco Becht** is a Professor of Finance and the Goldschmidt Chair Professor of Corporate Governance and Stewardship at the Solvay Brussels School for Economics and Management at Université libre de Bruxelles and also teaches at Imperial College, London. He is a Founder Member, a Fellow and the Executive Director of the European Corporate Governance Institute (ECGI), and a Fellow in Financial Economics at the Centre for Economic Policy Research (CEPR). He also co-founded the Global Corporate Governance Colloquia (GCGC) series.

**Philip Bond** is the Edward E. Carlson Distinguished Professor in the Finance and Business Economics department at the University of Washington. He has previously served on the faculties of Northwestern University, the University of Pennsylvania, and the University of Minnesota. His published work has appeared in both leading finance and economics journals. He is a former co-editor of the Journal of Finance, and a former president of the Finance Theory Group.

**Marco Boscolo** is currently the Head of European Regulatory & Growth Policies at Intesa Sanpaolo. With a background in monitoring and analyzing EU political developments, he specializes in sustainable finance, banking regulation, and European growth policies. He is experienced in advocacy, public consultations, and stakeholder engagement, with a strong network within EU institutions. Prior to his current role, he held senior management positions and served several times as an expert for the Committee of the Regions, supporting two former members of the Committee to draft their opinion, including on climate finance. He holds a Master's degree in Economic and Business Management from Università Ca' Foscari Venezia.

**Herman Daems** is the Chair of the Board of ECGI and former Chair of the Board of BNP Paribas Fortis (2009 - 2022). He is an emeritus Professor at the Faculty of Economics and Management of KU Leuven and former Chair of the Board of Governors at KU Leuven (2012 - 2020). He has chaired the Belgian Corporate Governance Committee, and was a member of the executive committee of the VBO/FEB. He was a visiting Professor at the Harvard Business School, UCLA, UC Davis, Groningen and IESE in Barcelona and held twice a Fullbright Fellowship.

**Mathias Dewatripont** is a Professor at Université libre de Bruxelles (ULB) and former Executive Director and Vice Governor of the National Bank of Belgium (NBB). He previously co-directed ECARES, now part of the Solvay Brussels School of Economics and Management of ULB and he was Research Director of CEPR and part-time Visiting Professor at MIT. He was a founding Member of the Scientific Council of the European Research Council and served as Member of the Basel Committee on Banking Supervision and of the Supervisory Board of the European Central Bank. He co-directs ULB's Institute for Interdisciplinary Innovation in Healthcare (I3h). His general research area is the theory of contracts, incentives and regulation, with applications to banking and innovation and he has published widely.

**Fredré Ferreira** currently leads on Governance and the value chain implementation guidance in the SR pillar at EFRAG. She contributed to the sector-agnostic draft ESRS delivered to the EU Commission in November 2022 and focused on governance in ESRS 2 and ESRS G1 Business conduct. She is also part of the Dynamic Risk Management (macro-hedging) team in the financial reporting pillar. Previous EFRAG projects include Insurance (IFRS 17 Endorsement), Goodwill and impairment, and the FICE DP amongst others.

**Laetitia Boucquey** is a member of BlackRock's Government Affairs and Public Policy team based in Brussels. Laetitia focuses on European policy and national issues impacting the end-investor. Prior to moving to this role, she was an associate in the Business Strategy team for BlackRock's EMEA ETF and Index Investments business in London. Laetitia started her career as a Sales Support for iShares ETF in Belgium and Luxembourg. She earned a Master Degree in Social Economic Sciences and a Postgraduate in Finance and Securities.

**Kristof Macours** serves as Group General Counsel and Company Secretary at Euroclear, overseeing the group's legal and governance matters. Before joining Euroclear, he was Head of Legal at BNP Paribas Fortis and Deputy General Counsel at BNP Paribas Group. Kristof has over 30 years Legal and Corporate Governance experience in the financial industry.

(Presenting virtually) **Curtis Milhaupt** is the William F. Baxter-Visa International Professor of Law at Stanford Law School and a Senior Fellow of the Freeman Spogli Institute for International Studies at Stanford University. His research and teaching interests include comparative corporate governance, the legal systems of East Asia, and Chinese state capitalism. In addition to numerous scholarly articles, he has co-authored or edited seven books, His research has been profiled in The Economist, the Financial Times, and the Wall Street Journal and has been widely translated. He is an elected member of the American Law Institute and an ECGI Fellow.

**Marleen Och** works as a researcher at the Jan Ronse Institute for Company and Financial Law at KU Leuven, where she prepares a doctoral thesis on shareholder engagement and conducts research in the field of sustainable finance and sustainable corporate governance. She has an LL.M. in International and European Business Law with a focus on financial law. She is the author of the monthly ECGI In Focus newsletter in which she explores the evidence and complexities associated with the concept of responsible capitalism.

**Saskia Slomp** is the CEO of EFRAG. In her previous role as Governance and Administration Director she supported the various governance bodies of EFRAG and was responsible for the user activities and outreach events, in addition to her responsibilities for human resources. Until the end of 2009, she was Technical Director at FEE (now Accountancy Europe) where she was responsible for financial reporting, company law, corporate governance, capital markets, SMEs, sustainability issues and the public sector. In the beginning of her career, she worked with KPMG in The Netherlands. She is a member of the Dutch NBA.

**Francesco Vanni d'Archirafi** is Chairman of Euroclear Holding and Euroclear SA in Brussels. He was previously, after a long career at Citigroup based in NYC, Lima, London, Milan and Madrid, the Chief Executive Officer of Citi Holdings and Chief Executive Officer of Citi Transaction Services and the former Chairman of Citibank Europe plc and Chairman and CEO of Citibank International plc. He has also chaired or served on several boards including LCH and Banamex. He is Chairman of the Board of Verti Spa, he chairs the Audit and Compliance Committee of Mapfre SA where he serves on the board and has been a long standing member of the board of Mapfre International. He is on the International Advisory Board of IESE in Barcelona and Chairman of the Advisory Council for The Kogod School of Business at American University in Washington DC. He serves as Trustee of several organizations in the education and social sector after more than 25 years on the boards of Junior Achievement Spain, Europe and Worldwide where he served multiple terms as Chairman: Borne, the Voluntary Solidarity Fund International, United Way UK and The Felix Project in London, Centesimus Annus Pro Pontefice in Rome and UW Worldwide in Alexandria.

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