

Corporate Governance for Ecological Sustainability

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Corporate governance is usually a term that refers to the rules, processes, or laws by which businesses are operated, administered, regulated, and controlled. The term can refer to internal factors defined by the officers, stockholders or constitution of a corporation, as well as to external forces such as consumer groups, clients, and government regulations. An important theme of corporate governance is the nature and extent of accountability of particular individuals in the organization, and mechanisms that try to reduce or eliminate the principal-agent problem. Well-defined and enforced corporate governance provides a structure that works for the benefit of all concerned stakeholders by ensuring that the enterprise adheres to accepted ethical standards and best practices as well as to formal laws. Good governance bestows several advantages on the company, namely: (1) increases a company's access to all types of external finance: domestic and international, public and private; (2) provides higher market valuations than those that are poorly governed; and (3) better governance structures and processes improve decision-making within all types of companies and enhance their long-term prosperity.

In a broader sense, corporate governance also includes the relationships among the various stakeholders involved in the operation of a business, and the goals for which the corporation is governed. While nations are grappling with sustainable development, businesses are called to follow suit. Hence, sustainable development is emerging as an overarching goal for businesses, and this is becoming a challenge for company governance.

This article is not meant to provide an exhaustive *exposé* on corporate governance. Rather, it seeks to highlight the imperative to align business practices for an ecologically sustainable society, while making the case for transparency and organisational learning. Although it is targeted at private organisations, its contents are equally applicable to the public sector. A key message is that changing the world does not have to be hard or costly. The best answers to how to promote your business while simultaneously helping the world can be found within the company.

The sustainability imperative: a call from within

Today, it is recognized that business operations, while they create value for society, they also have detrimental impacts on society and the natural environment. Businesses are operating and reinforcing an economic model that is based on the extraction of natural resources and production of waste, with the final objective of increasing consumption in society. It is not without thought and merit that the World Business Council for Sustainable Development (WBCSD) has articulated a

sustainable development roadmap to 2050 with decadal targets.¹ The WBCSD notes the following in its Vision 2050:

1. humanity has largely had an **exploitative relationship** with our planet; we can, and should, aim to make this a **symbiotic one**;
2. the pathway to sustainability will require **fundamental changes in governance structures, economic frameworks, business and human behaviour**; and
3. The world **already has** the knowledge, science, technologies, skills and financial resources needed to achieve Vision 2050, wherein 9 billion people are living well and within the means of the planet in 2050.

Vision 2050, as an attractor towards the sustainable future is founded on six pillars:

1. **People** - Most people can meet their basic human needs, including the need for dignified lives and meaningful roles in their communities. Living well within the realities of Nature has become a universal cultural norm ;
2. **Governance** - Governance systems skillfully practice subsidiarity through pooling sovereignty, cooperating effectively to manage global systems and issues: markets, disease, climate, water, fisheries, conflicts and commons;
3. **Ecosystems** - Economic growth has been decoupled from ecosystem destruction and material consumption, and re-coupled to sustainable economic development and meeting needs;
4. **Energy and resources** - Energy and resource use have been transformed to meet the requirements of planetary replenishment and civilization's requirements;
5. **Economy** - People, companies and governments are forward-looking, problem-solving, and experimental – understanding that security is achieved through the right kind of change in a fast-changing world.

Did we miss something in Corporate Social Responsibility?

One important cornerstone of corporate governance is its responsibility towards society, and today there is much activity within the field of '*corporate social responsibility*' (CSR) in Mauritius. The concept of CSR requires some introduction despite the concept being operational in Mauritius for several years. This is important since most of what is construed as CSR is none but charity or philanthropy. CSR is much more complex and is usually more difficult to implement for a company than charity. CSR should be linked up to the core business of the company in the sense that while doing good for society, the company also does well. In this sense, CSR is not a set of statements but a strategic imperative and an excellent corporate scorecard. CSR goes beyond compliance, and it has more to do with the *responsiveness* of the company to the social (and environmental) impacts of its activities than its responsibilities per se.

Today, CSR matters because people want to be associated with responsible companies that have a genuine interest to invest in **long-term human capital**. From an ecological perspective, human well-being cannot be decoupled from the well-being of ecosystems and the natural environment that host business and social activities. In addition to investing in human capital, through talent development, connecting to community, building trust among stakeholders, and promoting fairness and equity among others, the new or emerging reality would require that businesses also invest in

natural capital. The nexus between human well-being and the well-being of ecosystems brings an additional ethical dimension to the conventional way of conducting business.

I wonder whether it would not make more sense to talk about Corporate Social and *Environmental Responsiveness*!

Transparency

Companies can earn even more approval – and enhance their value-chain - if they take the trouble to report and communicate their enterprise’s impact on society, to demonstrate transparency. Although it is mandatory for companies to disclose their audited financial statements in their annual reports, disclosure on the social, environmental and economic impacts of their activities remains sparse. Daniel Goleman, author of *Ecological Intelligence*, sees (radical) transparency as an evitable outcome of changes that are taking place in society driven by the quest for sustainability. Although this openness about the consequences of the things companies make, sell, buy, and discard may go beyond the current comfort zones of most businesses, it also provides the company with an opportunity to learn and grow.

Open disclosure practices for sustainability have crept on the agenda of some companies in Mauritius, and the following provides a few examples of the leading options that are available. Most companies in Mauritius doing voluntary reporting beyond compliance have adopted the UN Global Compact (www.globalcompact.org). Fewer have endorsed the Global Reporting Initiative (GRI – www.globalreporting.org) or the Earth Charter (www.earthcharter.org). ELIA, which has endorsed the Earth Charter, is currently doing the sustainability report of a leading group in the cane industry using the GRI’s Sustainability Reporting Framework.

The GRI helps respond to questions such as ‘what does sustainable development mean for my organisation?’ and ‘what are the economic, social and environmental impacts of my organisation?’ It is probably the most stringent sustainability reporting framework available worldwide today. The GRI scrutinizes a company’s management and stakeholder engagement approaches, as well as its performance on six criteria (Economic, Society, Environment, Human Rights, Labour Practices and Decent Work, and Product Responsibility) defined and quantified across a spectrum of up to 79 indicators. The Earth Charter is a voluntary instrument, and can be used to inspire and catalyze action. Its value for business is that it offers a shared vision and principles for a more just, sustainable and peaceful world. The synergies in application and reporting of these three schemes can be found at <http://www.globalreporting.org/NR/rdonlyres/EC39A0A7-0947-4F6D-9AE3-AE73758C8756/0/TECGGReportweb.pdf>.

ISO 14063:2006 gives guidance to an organization on general principles, policy, strategy and activities relating to both internal and external environmental communication which stresses five principles, especially transparency.

Learning organisations

In his book – *The Fifth Discipline* – which was hailed as one of the seminal management books of the last 75 years by Harvard Business Review, Peter Senge quotes that “the prevailing system of

management is, at its core, dedicated to mediocrity'.² The reason for this quote can be attributed to the failure of organisations to learn and thus innovate. Since there is no 'silver bullet' to sustainability, businesses will have to invest in learning how to become sustainable if they want to thrive in the future. Fortunately, Peter Senge has provided businesses with the five key elements, which when manifested allow the organisation to learn and overcome its challenges better than its competitors. As he has put it: 'the only sustainable source of competitive edge is your organisation's ability to learn faster than its competitors'. ELIA offers training on organisational learning for sustainability. In order to achieve ecological sustainability, the learning organisation, and its people, will have to embrace the following:

1. **Systems thinking** – Business and human enterprises take place as a mace of intertwined actions of causes and effects that are very often decoupled in time and delocalized space. This is especially so in a globalized economy when the production of goods and services and their consumption are not in the same geographical location. Systems thinking provides a framework and tools to make the full patterns of these causes and effects clearer, and to help us to change them effectively;
2. **Personal mastery** – An organization's commitment to learning begins by investing in the development of co-learning abilities and practices of its members. Those who have achieved a high degree of personal mastery are intrinsically motivated, dare to take initiative, take responsibility for their actions, are able to reflect on the consequences of their behaviors and are committed to generating a learning culture within the organization as a whole;
3. **Mental models** – They are the deeply ingrained assumptions and generalizations that influence how we understand the world and how we behave. Mental models are very often the root causes of resistance to change. Working with and bringing to light our mental models starts with turning the mirror inward; to learn to unearth our internal pictures of the world, and hold them rigorously to scrutiny (i.e. a dialectical process);
4. **Building shared vision** – This is the discipline of generating a genuine vision of sustainability that inspires people to commit to sustainability rather than feeling forced to do so. In mastering this discipline, leaders learn that sustainability needs to be based on a shared vision, rather than one imposed from above;
5. **Team learning** – A learning organization cannot be created by a few individuals who are *natural* learners. Team-learning practices are essential for the development of a learning organization. Team-learning is achieved when groups of individuals *learn* how to learn together and learn from each other. A sustainable future can only become reality when humanity as a whole has realized that the only way forward is to learn together and accept that no single person or institution has the answer. The solution lies in our co-creative ability based on co-learning.

Innovation for sustainability

A pivotal characteristic of the learning organisation is *innovation*. Viewed as an emerging property of the learning organisation, ecologically intelligent and innovative business practices will be fostered by five pre-conditions,³ which further enhance learning within the organisation:

1. **New voices** – Top management (and policy makers) must give up its monopoly on strategy creation. Stakeholders, in all their diversity, will contribute to strategy creation, making it a

deeply participative and democratic undertaking. This element spells out what Einstein meant by “The significant problems we face cannot be solved by the same level of thinking that created them”. This is sufficient reason for “gestalt switch”;

2. *New conversations* – Opportunities for new insights are created when one juxtaposes previously isolated knowledge in new ways. The field of industrial ecology provides numerous examples, and we do not have to go off-shore to find an example. The restructuring of the sugar industry into a cane industry is a text book example where ‘waste’ produced by one process is used as input for another process;
3. *New passions* – Unleashing the deep sense of discovery that resides in almost every human being, and focusing that sense of discovery on the search for sustainability is another prerequisite. Individuals will embrace change when they are empowered to contribute to this unique and exciting sustainable future;
4. *New perspectives* – Everyone in the business organisation will have to search constantly for new ways that help the company to re-conceive itself, the value it delivers to society, and the way it defines its competitors. The following questions will have to be at the forefront of strategy formulation: Does it (the business) use only the energy it needs? Does it run on renewable energy? Does it fit form to function? Does it recycle everything? Does it reward cooperation? Does it bank on diversity? Does it utilize local expertise? Does it curb excesses from within? Does it tap into the creativity of being confronted with ecological limits?
5. *New experiments* – The manifestation of creativity in Nature happens at the intersection of chaos and order. Innovative strategies for sustainability will happen at the junction of systems concepts like emergence, self-organization and complex adaptive systems. The new experiments will be part of living and conducting business ecologically, where learning will be characterised as experiential.

Conclusion

The search of ecological sustainability is arguably one of the biggest challenges that we as humanity are faced with today. Change cannot be forced; it can, however, be inspired and catalyzed. Wherever this kind of change is initiated there will be resistance to change from those who deny the need for change, and instead prefer to maintain the status quo. Knowing how to meet and address this resistance is essential to avoid that the agenda for sustainability becomes polarized. Given the scale and scope of the changes that are required, the road to ecological sustainability will probably be a long one. The challenge is even more daunting because there are no ready-made, off-the-shelf solutions. Whether we are able to meet the sustainability challenge is first and foremost dependent on whether we are willing to learn from the lessons that we created through our planetary mismanagement. Businesses can contribute in a significant way to this learning for sustainability. By committing to and demonstrating transparency, accountability, and open disclosures beyond compliance, businesses can position themselves as leaders within this movement. Transforming your business into a learning organization prepares you for the journey ahead and provides many competitive advantages. We already have all the reasons why this change is needed, so why wait for things to worsen. Encourage your business to join in with the global team of learning organisations for sustainability.

References

¹ WBCSD 2010 Vision 2050 – the new agenda for business.

² Peter M. Senge, *The Fifth Discipline – the art & practice of the learning organization* (Random House, Chatham, 2006). P.xvi

³ Gary Hamel, *Strategy Innovation and the Quest for Value*, Sloan Management Review, Winter 1998, 7-14.