Introduction

As I finished writing Better Governance Across the Board: Creating Value Through Reputation, People and Processes, published in May 2019, designed as a guide on how boards could fulfill their responsibilities as fiduciaries better, I realized I had not really dealt with the sustainability problems boards face. These are major challenges to environmental, economic, employment, and social sustainability and their impact on the long-term viability of organizations.

I realized if boards were to meet these four sustainability challenges, governments, academia, communities, investors, and businesses would have to work together. In particular, businesses would have to find new ways of using corporate governance to achieve environmental, economic, employment, and social sustainability. Only in this manner could businesses become part of the solution rather than denying the need for change and continuing to be part of the problem through their efforts, lobbying or otherwise, to retain the status quo.

I believe failure to achieve sustainability in any one of the four areas is likely to lead to turmoil, bringing on significant changes in capitalism as we know it. The result could be what I refer to throughout this book as a “political tragedy of the commons”; as the journey to change through unrest may be difficult to navigate. This seems to me to be possible, given the already high levels of discontent with the current economic system in many developed economies caused by globalization, rising inequality, and the devastating impact on the middle class of the 2008 global financial crisis. Populist politicians have capitalized on the resulting disaffection in the US, UK and the EU. Social media has vented grievances and helped polarize political discourse so that we could face a rerun of the 1930s, if we do not find a way of averting the social and “political tragedy of the commons.”

Such a social and “political tragedy of the commons” could be precipitated by the unexpected global health and economic crisis caused by the Covid-19 pandemic. This has laid bare some of the flaws of the current economic system. First, the excessive emphasis on maximizing efficiency through complex and tightly coupled global supply chains that proved extremely fragile. Companies and countries will have to move away from “just-in-time” thinking if they are to

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1 A “political tragedy of the commons” occurs when actions which are individually sensible are harmful to communities if everyone takes the same action at the same time. For example, it may make excellent sense for one company to lay off 30% of its workforce because of AI; but if all companies lay off 30%, the resulting disemployment and fall in consumption will create social and economic havoc, potentially leading to revolution.

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build resilience into their supply chains. Second, the underinvestment in public health systems everywhere will need to be corrected to prevent future pandemics from overwhelming hospital frontlines and creating economic crises. Third, the pandemic has highlighted the need for government intervention and will change the role of governments and how we live and work in ways that will take time to get right. Fourth, it may help governments realize that global problems require global solutions and that global solutions can only be implemented by global institutions. Regardless of the pandemic’s impact, I believe three things must change in the way businesses are governed if a rerun of the 1930s is to be averted.

First, boards need to spend much more time and energy discussing the impact of environmental, economic, employment, and social sustainability on their organizations. In a 2014 survey of 3,800 senior managers, 65% of the companies identified sustainability as a management agenda item, but only 22% of the interviewed senior executives believed their own boards were actually providing substantial oversight on sustainability issues. This is in large part because insufficient time is devoted to sustainability and how it affects every part of the value chain. It is also because boards do not have the right tools to measure the impact and costs of unsustainable behavior and often do not appreciate complicated reality, relying instead on executive summaries which simplify issues that are really complicated. There is a reason why we have the saying “The devil is in the details.” It is the truth and it applies to sustainability.

Second, boards must find a way to reconcile the needs of stakeholders and not just shareholders. The pendulum has begun to swing away from shareholder value maximization of the previous thirty years towards stakeholder capitalism, culminating in the August 2019 US Business Roundtable Declaration replacing shareholders with stakeholders; recognizing that profits are a result rather than the purpose of business. Maybe Milton Friedman’s worldview has finally been jettisoned. For this momentous change in outlook to mean something quantifiable, company law will have to change and boards will have to be explicit about the priorities they attach to different stakeholders. My hope is that boards will rediscover Peter Drucker’s view that

_The customer is the foundation of a business and keeps it in existence. He alone gives employment. And it is to supply the consumer that society entrusts wealth-producing resources to the business enterprise._

Third, once boards take the time needed to understand the likely impacts on their organizations of imminent sustainability challenges, they will also need to appreciate the social impact of collective decisions that may make sense for their organizations individually, when undertaken simultaneously. What
makes sense for one organization may be absolutely the wrong thing to do; if all companies do the same thing at the same time, as has been amply demonstrated by the impact of the Covid-19 pandemic. Yet the fiduciary duty of directors only requires boards to do what is in the best interests of shareholders, without considering the broader consequences of everybody else doing the same thing at the same time. This is the source of complication, usually ignored by boards; not surprisingly, given their duty as fiduciaries in company law is only to shareholders; and they have no way of measuring the costs of externalities and putting them on the P&L.

As the title *The Challenge of Sustainability: Corporate Governance in a Complicated World* suggests, I:
1. Explore how corporate governance has changed over the past thirty years.
2. Discuss the challenge boards face when considering environmental, economic, employment, and social sustainability.
3. Suggest a number of ways boards could use corporate governance to achieve greater sustainability.

The book is presented in three parts.

**Part 1: “Expanding Corporate Governance’s Remit”**

Part 1 covers the development of corporate governance and its development in the Anglo-Saxon capitalist world. Anglo-Saxon capitalism’s focus between 1990 and 2008 moved gradually from maximizing shareholder value to beginning to consider the needs of stakeholders, evidenced by the rise of corporate social responsibility (CSR) in the 1990s. The global financial crisis (GFC) of 2008 and the resulting economic and political dislocations that followed led to questioning the role of capitalism in twenty-first-century society.

**Chapter 1, “Corporate Governance – An Evolving Idea in Challenging Times,”** reviews the evolution of CG over time; the challenge to CG posed by the dissatisfaction with the current economic order; and the need for CG to evolve further, if it is to reduce this discontent.

**Chapter 2, “No One Single Approach to Corporate Governance,”** explains why there can be no one single correct approach to CG because it reflects the development histories of countries and their complicated underlying capital market structures resulting in five different CG approaches.
Part 2: “Corporate Governance’s Five Sustainability Challenges”

Part 2 deals with the five sustainability challenges to CG that have arisen since 2000 as a result of increased awareness of environmental issues and climate change; the retreat from full-bore globalization as result of political change; the impending disruption of “Industry 4.0”; and the rise of the internet and social media. As a result, CG’s remit has broadened to one of ensuring long-term success and sustainability of organizations – a much more complicated and challenging responsibility for boards and directors, for which they may not be well-prepared.

Chapter 3, “Environmental Sustainability,” deals with three increasingly urgent challenges to environmental sustainability: climate change, moving to a circular economy, and conservation.

Chapter 4, “Economic Sustainability,” deals with two social issues challenging the sustainability of neoliberal capitalism: the importance of growth being inclusive, and reducing rising inequality so that everybody can benefit, not just the few.

Chapter 5, “Employment Sustainability,” deals with the challenges for boards created by the impact of disruptive technologies on employment and employability, and whether education systems provide what is needed.

Chapter 6, “Social Sustainability,” explores issues and challenges for boards when considering how they can contribute by being responsible citizens, and bridging cultures.

Chapter 7, “Volatility and Uncertainty,” deals with the challenges posed by volatility and uncertainty on board decision-making.

Chapter 8, “Complexity and Ambiguity,” deals with the challenges posed by complexity and ambiguity on board decision-making.

Part 3: “Achieving Sustainability in a Complicated World”

Part 3 consists of four chapters with suggestions for boards on how best to meet the challenges of environmental, economic, employment and social sustainability in a complicated world.

Chapter 9, “Adopting a Proactive Approach to VUCA,” combines volatility with vision, using the “Five P” framework; uncertainty with understanding; complexity with courage and commitment; and ambiguity with adaptability to suggest a new and better way of making decisions.
Chapter 10, “Adopting New Processes,” introduces suggestions for additional processes boards could consider to improve their ability to meet the challenges of environmental, economic, employment and social sustainability.

Chapter 11, “Valuing People Properly,” challenges the underlying assumptions boards have about how to treat people and suggests sustainable ways of investing in people.

Chapter 12, “Making Capitalism Sustainable,” makes the case for an urgent need for reform of capitalism, arguing for an end to “predatory value extraction,” and emphasizes the importance of companies embracing a sustainable purpose.

References


