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Theme Paper

Corporate Governance and Sustainability: Moving from Words to Deeds

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Corporate Governance and Sustainability are written about and in the news. There are initiatives, policies, guidelines and codes of practice. They are topics of study at Universities. They have been much discussed, but how much of the rhetoric has impacted upon corporate and social reality? Have boards become more effective? Are they adding more value? Have good intentions and well meaning pronouncements resulted in practical action and changes of behaviour?

In the case of boardroom debates and decisions, have corporate policies been implemented? Have words resulted in deeds that have made a difference? Have aspirations led to beneficial outcomes? Are companies engaging with their employees, suppliers and customers and helping them to select and adopt more responsible and sustainable options and choices?

Are the paths that we have chosen to confront particular governance and sustainability challenges the right ones? Are contemporary approaches delivering or are they just cosmetic? Are they fit for purpose? Have they been a distraction? Are directors and boards overlooking more practical steps that could lead more quickly to greater impacts? Is a review and/or change of balance, emphasis and focus required?

These and related questions are to be put to delegates at the forthcoming London Global Convention which incorporates the13th International Conference on Corporate Governance and Sustainability. Participants are being encouraged to rethink both governance and sustainability. The organising team recognises that we need to consider practices as well as codes if we are to increase beneficial impacts.

Since the publication of a succession of reports on corporate governance there have been visible corporate collapses. Governments have had to step in to prevent a meltdown of financial institutions that observed governance codes and obtained a clean bill of health in relation to most principles of good corporate governance set out in such documents. Has faith in corporate governance been misplaced? Has it been the latest in a succession of fashions? Will it go the way of other past fads?

Is there a problem of implementation or with the approaches to governance that have been adopted? Can they be revised and improved? Do we need to look for and adopt complementary pieces of the jigsaw puzzle to build more effective boards and more sustainable companies? Some might argue that there has been greater impact in certain areas than others and that a block has been put in place that can be built upon.

The context in which some companies operate has significantly changed. Legal duties and responsibilities have been clarified and/or extended, according to jurisdiction. For many there is greater insecurity and uncertainty. In addition to pressures from shareholders for profitability, has awareness of responsibilities to other stakeholders grown? Is there greater concern for sustainable operations and strategies?

Sustainability has become a strategic issue for many companies in a number of arenas ranging from sources of supply to corporate impacts. How boards – either individually or collectively – handle sustainability and environmental challenges and opportunities is an indicator of their effectiveness (Coulson-Thomas, 2012b & 2013a). The London Global Convention will examine the leadership required for good governance, business excellence and sustainable growth.

The distinction between direction and management is an important one (Coulson-Thomas, 1993). A board should focus upon providing strategic direction and not interfere in operational matters that ought to be the concern of the management team. However, concentrating upon the ‘big picture’ should include seeking assurance that board policies are being implemented and that a management team is taking appropriate steps to seize opportunities, address challenges and remain current and vital. A board should inspire action and monitor achievement.

Where there are concerns directors should probe and challenge. Far too many companies have initiated expensive, disruptive and multiyear change and transformation programmes and various single-issue corporate initiatives that have failed to deliver, while overlooking more cost-effective ways of delivering multiple corporate objectives (Coulson-Thomas, 2012e & 2013e). One should not necessarily follow the herd if a more affordable route to a high performance organisation exists.

A good example of groupthink (Janis, 1972) and preoccupation with grand initiatives is the championing of culture change. In a desire to address ‘root causes’ many boards are endeavouring to ‘change’ a corporate culture, despite this being a problematic activity (Pettigrew, 1990). It is also an unnecessary one when there are affordable ways of quickly changing behaviours as and when required with whatever people, cultures, systems and structures one has (Coulson-Thomas, 2012e & 2013e).

Calls for culture change have become so widespread that some boards may find these siren voices difficult to resist. Various problems have been ascribed to ‘culture’ from mis-selling and risky lending to a near collapse of the international financial system (Behrendt & Moxey, 2008). Take mis-selling, Richard Lloyd (2013) of Which has pointed out that estimates that the £18.4 billion which it is estimated that UK banks have had to put aside to cover compensation claims relating to the mis-selling of payment protection insurance is almost twice the cost of the 2012 Olympic Games.

Does one actually need to change a culture to prevent mis-selling, assuming that there were a practical and achievable way of doing this? A much more affordable alternative would be to quickly make it very difficult for people in front-line roles to mis-sell. This could be achieved by performance support with appropriate pointers and blockers across a global organisation encompassing a diversity of cultures (Coulson-Thomas, 2007c). Boards can champion speed, flexibility and affordability.

Board members should challenge generalisations and automatic assumptions. If a change of culture is mentioned, obvious questions are change of culture to what, how might this be achieved and are there other ways of encouraging compliance and supporting desired behaviours? Companies today have to establish relationships with customers and other stakeholders from a wide range of cultures, while a culture that may suit one department or activity might be inappropriate for another.

Why would anyone spend a second trying to change a person’s ‘culture’ as opposed to adopting practical ways of helping people - with whatever cultures and other attributes they might have - to change behaviours? Adopters of performance support that make it very easy for people to emulate high achieving peers and do difficult jobs find that people quickly adopt better and desired ways of doing things that offer clear benefits to themselves and their employers. In both the private and public sectors, compliance can be enabled and evidenced (Coulson-Thomas, 2012f & 2013e).

Why is it that so many directors ‘go with the flow’? Why are they adopting costly, time-consuming and inflexible approaches when less expensive, quicker and adaptable options are available? Is it because directors seek security in large numbers and find the ‘soft option’ is to do what other large companies are doing, and where they have concerns become a ‘team player’ and ‘not rock the boat’? How can we re-energise corporate boards and what part if any could ‘governance’ play in this?

Large company mindsets can be particularly inappropriate in the context of a smaller business. Those who have been directors of large corporations sometimes find it difficult to relate to entrepreneurs or add value on the board of a public body. An investigation based survey for an ACCA discussion paper found that the contribution which directors and boards – and particularly NEDs – could make to the growth and development of a smaller business is not always appreciated or sought by owner directors (Coulson-Thomas, 2007b). The London Global Convention will examine the role and applicability of governance in SME and public sector contexts.

Boardroom Strategies for Managing Risks and Preventing Frauds will also be considered. An undesirable consequence of contemporary approaches to governance and the prevailing conduct of many boards is how they endeavour to avoid risks. Can others recall when - prior to our contemporary concern with 'governance' - boards used to be positive and focused upon building companies and making things happen? Negative attitudes seem to prevail in many board rooms today. One finds caution where there is a requirement for courage. The emphasis is upon avoiding risks and 'compliance' rather than developing new income streams and business building.

Sometimes risk and return are related. An excess of caution and negativity can lead to lower returns and missed opportunities. A board should inspire innovation and creativity rather than act like a wet blanket and smother initiative. As mentioned above, there are practical and cost-effective steps that a board can take to ensure compliance while allowing people the freedom to explore new possibilities, and enable responsible decision making by those with the potential to do great good and significant harm (Coulson-Thomas, 2007, 2012e & f & 2013e).

There are a number of areas in which a different balance needs to be struck in corporate boardrooms (Coulson-Thomas, 2012b & e, & 2013c-e). Hitherto, 'governance' has not resulted in the shift of emphasis that is required. 'New leadership' is less focussed upon planning and top-down approaches and more concerned with implementation and the provision of better support to key workgroups that deliver priority corporate objectives (Coulson-Thomas, 2012d & 2013c-e).

Prior to the term 'governance' achieving the currency it has today the author recalls writing books such as 'creating excellence in the boardroom' and 'creating the global company' that emphasised the vital role that boards can play in providing strategic direction, business development and building shareholder value (Coulson-Thomas, 1992 & 1993). Getting the right board was often the key to successful and sustained growth. NEDs were helping executive directors, not checking up on them like private investigators. They looked outwards for opportunities rather than inwards for abuses.

How many contemporary and ambitious young entrepreneurs identify governance as a critical success factor for the growth and development of their businesses? What have boards contributed to most of today's star internet-based businesses and high growth companies? Perhaps we will get some answers to these and other questions in London. The contribution of boards to sustainable business growth through the green economy is another area that will explored during the forthcoming Convention.

A desire to focus on 'the big picture' and retain a 'helicopter view' can enable a board to retain a sense of perspective. It can also lead to over-generalisation and a mind set that instinctively endeavours to establish some form of code, policy or guidance rather than ensure a management team is taking specific steps to address important issues. The outputs of far too many boards consists of words – words that can be countered by further words in response, words that do not result in deeds.

There is little point mouthing motherhood statements, issuing bland pronouncements or producing business plans that are not implemented. In an attempt to be 'strategic' board pronouncements are sometimes too general to stick or have an impact. For example, vision and value statements are often instantly forgettable when they could be crafted to be helpful and enable those faced with a decision to determine the course of action most in line with an organisation's strategic direction. Many boards need to better engage various groups of stakeholders if they are to build mutually beneficial relationships with them (Coulson-Thomas, 2012d).

Traditionally many boards have been criticised for taking a short-term view rather than thinking longer-term. However, in competitive markets and at times of uncertainty and insecurity, and when windows of opportunity can quickly open and close, some focus on immediate and pressing issues may also be required. There may not be a longer-term if certain issues and customer concerns are not addressed. One can adopt affordable ways of staying current (Coulson-Thomas, 2012e & 2013e).

Some clever directors and senior board members appear instinctively attracted to generalisations, frameworks and concepts where entrepreneurs look for practical and affordable ways of building their businesses. Many of them also have a penchant for 'big projects' which they hope will deliver some benefits in future years rather than discuss available options that could impact more quickly upon current issues.

One sees an instinctive preference for interesting ideas, concepts and generalisation in the areas of research interest registered by business school and other academics on a website such as academia.edu. Hundreds or thousands of them follow 'interesting' topics, some of which seem remote from the practical concerns of businesses and their customers. Far fewer focus on important areas such as pricing or purchasing, while only a handful may register to follow a topic such as "economic recession" which in recent years has been of concern to millions of people in certain countries.

Is governance just another 'interesting' area for debate? Have our discussions of both governance and sustainability contributed to a preoccupation with the general, fine words and codes of practice? Are the documents that have been produced enough to address contemporary or residual concerns? Should boards be doing more to capitalise upon opportunities and influence behaviours? What are the next steps?

Has governance been oversold? Has the attention devoted to it created unrealistic expectations? Why should a particular governance structure have any impact on the behaviour of key workgroups and corporate performance? The author's investigations have suggested for many years that it is the conduct of directors, how effective they are and whether or not they make the right calls when difficult decisions have to be taken that determines their contribution (Coulson-Thomas, 1993 & 2007a).

An association between board observance of corporate governance codes and financial performance is not necessarily conclusive evidence of a cause and effect relationship between the two. It is more likely that success is the consequence of a leadership team endeavouring to do the right thing in relation to producing offerings that customers wish to buy, pricing them competitively and operating profitably.

In relation to governance, a board endeavouring to 'get things right' might wish to observe widely advocated governance codes. It might also seek to ensure that those for whom it is responsible operate in a sustainable way and how performance is measured and reported will reflect sustainability issues and impacts. International Integrated Reporting will also be reviewed at the London Global Convention.

The 2013 annual survey of CEOs undertaken by The Conference Board reveals that human capital is now the number one challenge globally and in Asia and Europe (Mitchell et al, 2013). Does HR need to become more influential within the boardroom? The role that HR directors and leaders might play and the leadership required at the top of organisations today will be explored at the London convention.

The 'new leadership' needed to fully exploit the findings of a five-year investigation undertaken by the author shifts the emphasis from motivating and managing people to helping them and making much more effective use of corporate know-how, and particularly of how best to do things (Coulson-Thomas, 2012e & 2013b-e).

Corporate boards can have an important role to play - individually, collectively and in influencing Government – in ensuring that businesses behave in a responsible way and that their regulation is effective and proportionate - generating beneficial results without the imposition of excessive burdens (Coulson-Thomas, 2013a). In relation to both board operation and Government intervention, care needs to be taken to ensure that box ticking and gaming does not occur (Hood, 2009).

Inappropriate or inadequate action could lead to a questioning of the role that capitalism can and could play in addressing certain of the fundamental challenges facing mankind. A session on socio, economic and environmental sustainability at the convention will discuss capitalism's own sustainability and the qualities and actions that could contribute to this. If business entrepreneurs view sustainability and environmental challenges as opportunities, the innovations that their creative spirits in free and competitive markets might produce may well be our best hope for the future.

There is much that business leaders can learn from each other, whether from panel discussion sessions, informal networking, or from corporate governance and sustainability case studies delivered by winners of the Golden Peacock Awards that will be presented at the London Global Convention. In relation to many of the issues to be discussed at the convention, directors and other attendees are likely to have shared interests and to be potential collaborators rather than competitors, with a common interest in an affordable route to a profitable and sustainable future.

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