



## **Corporate Governance: From shareholders to stakeholders**

According to a survey published by the United Nations Global Compact and Accenture, a mere 21% CEOs<sup>1</sup> (out of 1000 global CEOs surveyed) believe business is playing a critical role in contributing to the global sustainability goals.

The good news - in the same survey - is that CEOs believe there is real opportunity for the global business community to drive sustainable growth, efficiency, innovation and hence for reputation building.

This is reflected in a gradual shift in the mindset of leaders from creating value for just shareholders, to creating value for all stakeholders of the business, including shareholders, customers, suppliers, employees and local communities. This is increasingly being recognised as essential for the long-term success of a business.

Opinion on this aspect of corporate governance has shifted continually throughout the latter part of the 20<sup>th</sup> century. Shareholder primacy reigned supreme during the 70s with the theories of the renowned Nobel -laureate Milton Friedman. In recent times however, due largely to wide-ranging environmental issues, stakeholder capitalism is gradually gaining ground with support from economists such as Joseph Stiglitz.

Stakeholder value creation and long-term success of an organisation in a future fraught with uncertainties can only be ensured through the building of a sustainable business.

As we continue to push the tolerance limits of the earth's ecosystems, we foresee a future where regulations will need to be tighter to prevent an ecological collapse. A sustainable business hence is one that not only abides by present day regulations but also prepares itself for the shrinking operating spaces created by tighter regulatory regimes and restricted resource availability in the future.

Firms typically review a range of issues as part of their focus on developing sustainable businesses. The buck doesn't stop there, however. Organisations need to ensure that not just their own operations, but that the entire value chain is sustainable. This naturally requires transparency across the entire supply chain. It requires a powerful brand at the head of the

### **Focus Areas for Developing a Sustainable Business**

- Water Usage
- Emissions
- Energy Consumption
- Biodiversity
- Waste Management
- Material Consumption (recycling)
- Employee safety

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<sup>1</sup> UNGC – Accenture Strategy CEO Study on Sustainability, <https://www.accenture.com/in-en/insights/strategy/ungcceostudy>, 2019

chain to pull the strings and shape the entire supply chain with the application of appropriate technology.

**Table 1: Examples of sustainable initiatives by leading organisations**

Businesses	Sustainable Initiative
Starbucks	Phase out single use plastic straws by 2020
Starbucks and McDonalds	Developing a compostable coffee cup
HP	Making ink cartridges from plastic collected from oceans
Everlane	Pledged to eliminate new plastic from its supply chain by 2021
Novelis	Pioneer in circular economy through its aluminium recycling
Lush	Encourage the regrowth of native crops like vanilla and avocado in Guatemala to reverse damage due to palm oil cultivation
Apple	Own facilities run entirely on renewables

One way to bring visibility into business operations is to begin to report performance. Reporting forces an organisation to collect data and measure performance. Extending this to beyond the confines of a business to its upstream and downstream partners, naturally leads to greater transparency across the entire value chain.

**Figure 1: Major elements of a successful sustainable business development initiative**



Several firms, therefore, have now begun reporting on their sustainable business development. Reporting on sustainability forces these firms to be transparent about their



operations and facilitates and the identification of risks and opportunities they are faced with. This leads to improved decision making, which in turn leads to better performance, improved brand perception, consumer confidence and even improvement of risk management. In fact, it is often argued that sustainability reporting and risk management are in essence 'two sides of the same coin'.

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*Sattva has been working with various corporate clients to help them define their social impact goals and maximise the return on social investment. Our focus is to solve critical problems and find scalable solutions. Several corporates have been a partner to many such collaborations where effective CSR programmes have strategically aligned with business and have provided meaningful solutions to social issues.*

- To read more about our work with CSR, check: <https://www.sattva.co.in/our-work/>
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