HANDBOOK ON
Corporate Governance and Corporate Social Responsibility

Edited by
Michel Magnan • Giovanna Michelon

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Corporate governance and corporate social responsibility: Introduction and roadmap

Around the world, corporations, either privately- or state-owned, are the main vectors of innovation, economic development, and social ascension. Within most societies, corporations are at the centre of citizens' lives as employers, suppliers as well as customers of goods and services, and investment opportunities. However, interactions between corporations and their host societies can be challenging and even antagonistic under some conditions. Operations or transactions which used to be performed routinely in the 80s or even 90s are now subjected to increasing scrutiny by many. For instance, a corporation's sourcing practices are now likely to be under the spotlight. The following questions are now likely to be asked by the media, analysts, investors, and other stakeholders: *Was child or slave labour used to manufacture some inputs? Did production operations compromise fragile ecosystems? Were surrounding communities consulted before the launch of major projects?* Such new reality in which a corporation is held accountable as to how responsibly it conducts its operations brings about major changes as to how its board of directors engages with management and exercises its duties. In many jurisdictions, a board's role has traditionally been to take decisions that are in a corporation's best interests in a way that ensures its long-term sustainability, the latter being traditionally defined in financial or economic terms. However, in some ways, a board's role has evolved from focusing on economic value creation that mostly benefits a corporation's shareholders towards ensuring that a corporation contributes to the advancement of society and to its key stakeholders in a way that is sustainable, the latter being defined much more broadly. In other words, boards of directors now have to confront issues that revolve around a corporation's social responsibility and how it acquits itself of its responsibilities in this regard. The transition towards a corporate social responsibility (CSR) orientation by boards brings profound changes to the practice of corporate governance. Therefore, the purpose of the *Handbook* is to provide an overview of key CSR issues and of their implications for corporate governance. A critical insight that emerges from the *Handbook* chapters is how extensively CSR underlies the evolution of corporate governance practice in recent years.

In developing the *Handbook*, we have strived to provide the reader with a wide range of CSR issues that boards of directors should be cognizant about and for which they are likely to be confronted with in the future. While our perspective is academic and relies on the most recent research, we have strived to develop practical or concrete implications and takeaways in each of the chapters. We consider that the *Handbook* can be used at the undergraduate and graduate levels in governance, sustainability, or CSR courses. Moreover, governance or director education programs are likely to find several chapters to be useful as complementary material.

The *Handbook* comprises four sections. First, we discuss the origins and evolution of the interface between corporate governance and CSR. Second, we focus on environmental responsibility, that is, environmental or ecological issues that corporations are now facing and for which boards of directors have to react or be pro-active. Third, we cover a wide range of social responsibility issues, many of which underlie the operations of corporations as they relate to employees, customers, or suppliers. We believe that, together, environmental and social responsibilities represent the essence of CSR as it is currently understood, with environmental responsibility encompassing a firm's interactions with other species and the planet in general and social responsibility capturing a firm's relations and implications with society and the communities it is involved in. Social responsibility would include ethical, philanthropical and economic responsibilities as well. Finally, we provide some closing chapters which are thought-provoking and which sketch a pathway towards future research and out-of-the-box approaches to corporate governance.

Throughout the *Handbook*, the concept of stakeholder will be omnipresent as, in our view, CSR, and its relations with corporate governance, rest on taking a wide perspective regarding corporations' reach within society.

We take this opportunity to thank all the authors who have willingly accepted our invitation to join this project. We are pleased to assert that our contributors come from around the world and thus bring many perspectives on CSR. We feel that this global outlook reinforces the relevance of the *Handbook* as it moves its content and takeaways beyond country-specific views. Moreover, our contributors have expertise and backgrounds in a wide range of theories and methodologies, thus ensuring that the *Handbook* provides a balanced perspective.

We now discuss the themes we will be analyzing in the *Handbook* as well as present our contributors.

PART I FOUNDATIONS

The chapters in this section lay the foundations of our *Handbook* as they provide the background to the trends that led to the emergence of CSR and corporate governance as we know them today. We also discuss why and how CSR and corporate governance interface and intersect one another.

A major challenge for both researchers and practitioners is the various definitions and meanings which are attached to the expression *Corporate Social Responsibility*. While we touch on this issue, we adopt a rather expedient way and choose to view CSR in a way consistent with the Commission of the European Communities (2001) for which CSR is 'A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.'

The first chapter, which is entitled 'Corporate Governance and Corporate Social Responsibility: A Reconciliation with Tension?' provides an historical perspective on the evolution of corporate governance, from both conceptual and practical viewpoints. More specifically, we discuss the conceptual foundations of modern corporate governance as well as some key political, social or economic turning points which strongly influenced its practice. We also show that while, in appearance, corporate governance and CSR seem to have developed in parallel, their respective evolutions are intertwined at several junctures. For instance, shareholder proposals at corporate annual general meetings in the 60s, 70s and 80s on issues such as investing in apartheid South Africa, are a manifestation of a corporate governance mechanism. However, their aim is to change how the firm's board and management view their responsibilities towards society and to modify their business practices, a CSR issue. We then review more recent cases in which CSR issues become embedded into corporate governance.

In Chapter 2 'Corporate Governance and Corporate Social Responsibility: A Continuity Perspective', we delineate the concept of CSR. Such a task is essential to guide the reader through the *Handbook* but also to link together its various chapters. Building upon CSR historical evolution, we define the contour of CSR as well as what it encompasses. We also present the contrasting views and definitions that have arose over the years. In our view, the continuity between corporate governance and CSR rests on how management conceives a firm's strategy in relation to its role within society. We then discuss the key theoretical frames that underpin most prior investigations of CSR, that is, stakeholder and legitimacy theories. We provide an overview of both normative and positive arguments, and we proceed with explaining how notions of accountability aligned with a broad conceptualization of corporate governance lead CSR issues to become potential governance problems. Finally, we discuss how CSR reporting has evolved from a voluntary practice to an increasingly scrutinized and regulated endeavour, entailing potential legal risks for corporations accused of greenwashing.

In Chapter 3, Michel Magnan draws upon his experience as a corporate director as well as on his work in governance research to discuss how, in his view, CSR and sustainability considerations are now central to the work of corporate directors. His chapter addresses two distinct yet related issues. On the one hand, there is increasing governance tension between some investors or pension plan members and corporate directors and trustees. Many investors or pension plan members enjoin firms or pension plans to eliminate their exposure to social or environmental practices that are deemed detrimental or not consistent with sustainability goals. However, corporate directors and trustees are concerned about their fiduciary duties and are hesitant to take actions that are not strictly guided by the pursuit of profit. On the other hand, there is a question as to whether individuals who are involved in governance pay attention to CSR concerns or are they purely an academic interest. Building upon the legal framework that guides directors' responsibilities and tasks, Magnan argues that sustainability concerns, especially on environmental matters, can be viewed as manifestations of a systemic risk which firms and institutions such as pension plans or other asset owners must consider in developing their business strategies and plans. Accordingly, Magnan puts forward the view that boards have an oversight responsibility with respect to how CSR issues are addressed by a firm as its long-term sustainability and value creation potential may be at stake.

The next three chapters in that section direct their lens towards issues which, in our view, transcend CSR and which cannot easily be labelled as either environmental or social: CEO activism, carbon emission targets and the measurement of CSR performance.

In Chapter 4 'CEO Activism: Connecting with Stakeholders', Paula Bernardino explores the recent emergence of Chief Executive Officer (CEO) activism on environmental and social issues. Rather than relying on corporate communications or public relations, CEOs increasingly voice their views and take a stand on CSR issues. For instance, on 19 August 2019, the Business Roundtable announced the release of a new Statement on the Purpose of a Corporation that was signed by 181 CEOs. These CEOs committed to lead their companies for the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders. In releasing the new statement, Business Roundtable chair Jamie Dimon, Chairman and CEO of JPMorgan Chase & Co. said that 'The American dream is alive, but fraying. Major employers are investing in their workers and communities because they know it is the only way to be successful over the long term and take a stand, sometimes to the displeasure of some governments.'[1] Such public expressions of opinion by CEOs may generate some scepticism among many observers but they reflect an ongoing trend of CEO activism. In the chapter, Bernardino asserts that while it is recent, CEO activism seems to be more impactful than generic corporate activism on CSR issues. The impact of a CEO's activism appears to rest on his/her level of morality, the perceived level of authenticity of the statement and the timeliness of the action or message in relation to the issue being addressed. As different types of leadership arise, for example, greater gender diversity, CEO activism is likely to grow. However, CEO activism may carry political or reputational costs on issues for which public opinion is widely divided or which are highly politicized.

At the macro level, the transition towards a low-carbon economy is guided by various international agreements (e.g., the Paris agreement) in which states set medium and long-term emission level targets. However, at the micro level, these targets will be achievable only if corporations join in. In this respect, several firms around the world have announced their intent to become carbon neutral or carbon negative by certain pivotal dates (e.g., 2030, 2040 or 2050), thus acknowledging their willingness to participate in the efforts against global warming. In Chapter 5 'Net Zero Targets and Governance: A Literature Review (2009–2021)', Ifigeneia Paliampelou provides a comprehensive review analysis of the 'net zero' target label and of its governance over the 2009–2021 period. The review focuses on a core CSR issue, that is, the decarbonization of our economy. However, progress towards that goal as well as monitoring of decarbonization efforts essentially rest on measurement and disclosure. In this regard, a critical aspect of carbon disclosure lies in reporting about a company's emission targets. Since target formulation can be ambiguous, opportunities for greenwashing do exist – especially if labels are applied, for which no clear definition is provided. Paliampelou reviews elements of the net zero definition and suggest a 'net zero protocol' within the corporate setting, which should consist of (i) transparent and standardized calculation process for GHG emissions; (ii) reporting on scope 1, 2, and 3 emissions; (iii) employment of net zero practices; (iv) cross-sectoral net zero alignment and; (v) alignment of corporate governance with sustainability disclosure. One of the key insights from the review is that various corporate net zero definitions are used to disclose scope 1, 2 and 3 emissions within the same company report or company official announcement. Another problematic pattern in net zero carbon accounting is the discontinuity in the net zero definitions that a company claims in different years. The challenge for boards of directors is thus to ensure that there is consistency across a firm's environmental strategy, its published targets and its message conveyed via formal and informal disclosures. Hence, there is potentially a need for an integrated oversight of a firm's decarbonization strategy.

In Chapter 6 'The Challenge of Measuring CSR Performance', Lies Bouten, Giovanna Michelon and Robin Roberts analyze a critical challenge that is the focus of attention of corporate managers, boards, investors and other stakeholders: the measurement of CSR performance. They choose to focus on CSR ratings provided by various commercial organizations such as MSCI or Refinitiv. These ratings are often used by academics to proxy for CSR performance but are also widely relied upon by investors to assess the merits or eligibility of firms as ESG-worthy investments. They point out that behind an appearance of objectivity and precision, the different ratings reflect ideological or philosophical differences between the rating providers. Such differences translate into the relative materiality that is attributed to economic or financial concepts and measures versus environmental and social ones. Such differences imply that reporting biases underlie the various ratings, thus raising some concerns for academics, boards of directors, and investors who rely upon them.

PART II ENVIRONMENTAL RESPONSIBILITY

This section of the *Handbook* looks at how corporations engage with their environmental responsibilities, focusing on several challenges and issues that figure prominently on boards and various stakeholders' agendas.

Carbon pricing is viewed as a critical determinant to reduce our society's carbon footprint. Corporations are at the forefront of this issue as there is increasing pressure by institutional or activist investors to reduce their carbon emissions. However, to be able to achieve externally disclosed carbon emission targets, firms need to implement inhouse actions that will lead to less carbon emissions. One such action is the adoption and enforcement of Internal Carbon Pricing (ICP) within a firm. A question thus arises as to why such a managerial action is taken, especially in view of the operational and oversight complexity it entails. In Chapter 7 'Internal Carbon Pricing: Origins, Determinants, and the Impact of Governance', Mathieu Gomes, Hania Khursheed and Sylvain Marsat examine the context surrounding the emergence of ICP. They point out that ICP can take different forms and can aim for different objectives. Using the Carbon Disclosure Project (CDP) database, they then examine empirical facts linked to adoption, price setting, and the role governance mechanisms can play with respect to ICP. Their results provide a nuanced picture, with exposure to both climate-related and regulatory risks driving ICP adoption. However, exposure to physical impacts does not appear to play a role in this regard. Firms with more independent boards also appear more likely to adopt ICP when facing climate change exposure.

The aim of corporate governance is increasingly viewed through the prism of how a firm creates value for its stakeholders. For instance, in a recent report on the future of governance, the Institute of Corporate Directors and the Toronto Stock Exchange state that it is '…imperative for boards to know, understand and act in the interests of a broader range of stakeholders, in addition to shareholders'.[2] Adopting a wider stakeholder perspective is especially relevant in addressing complex CSR challenges such as climate change and global warming, which have far-reaching implications and which relate to several other CSR issues. In that context, in Chapter 8, Adriane Macdonald and Alireza Jahandideh look at 'Multi-stakeholder Climate Action Partnerships: What Do We "really" Know About Business Partner Contributions to Partnership Goals?' Multi-stakeholder partnerships (MSPs) are a relatively novel way to pool together the resources from organizations emanating from different sectors so that they can address more effectively complex sustainability problems. Underlying MSPs is the idea that partners from the business, government, and non-profit sectors each possess unique capabilities and resources that contribute to partnership performance. However, there is potential risk that business partners divert the partnership away from its stated goal to pursue its own ends, especially on a sensitive topic such as climate change. This chapter seeks to shed light on the issue by reviewing prior evidence on climate action via MSPs, focusing on business partner contributions. Overall, while the drivers for business partnering for climate action are clear, its substance as well as its implications for the success of MSPs are not as transparent. A potential explanation for these mixed findings could be the governance of the MSPs themselves: bringing partners that have widely different aims and missions into a partnership with a common goal requires strong, effective, and resilient governance as well as equally engaged partners. However, such an equilibrium may be difficult to reach and/or to maintain.

So far, our focus has been mostly on CSR as experienced or viewed by corporations, their management, or their boards. However, a major driver for corporations engaging in CSR initiatives are asset owners that are important investors, for example, pension or retirement plans. In Chapter 9, Carol Adams and Rod Masson bring us inside one such asset owner, Australia's Construction and Building Industry Superannuation Fund (or Cbus), as it develops its responsible investment policy, integrates the Sustainability Development Goals (SDGs) and enhances its corporate reporting and governance accordingly. The chapter describes how Cbus decided to adopt the Integrated Reporting Framework alongside a shift in how it defines value creation. In implementing these changes, Cbus relied extensively on its pre-existing culture. The chapter highlights how corporate reporting helped to align priorities across the organization, deepen the Board's engagement and broaden strategic thinking to encompass a multi-capital approach. In fact, the new corporate reporting model has become a key vehicle to disseminate the organization's values to prospective and current employees.

Increasing awareness about the environmental implications from production and consumption activities leads several stakeholders to revisit our existing economic model which is reliant on growth and increasing levels of inputs and outputs. Among the alternatives being considered is the concept of circular economy. The European Parliament defines the circular economy in the following way:[3] 'The circular economy is a model of production and consumption, which involves sharing, leasing, reusing, repairing, refurbishing and recycling existing materials and products as long as possible. In this way, the life cycle of products is extended. In practice, it implies reducing waste to a minimum. When a product reaches the end of its life, its materials are kept within the economy wherever possible. These can be productively used again and again, thereby creating further value.' In Chapter 10, using one organization (Loop Mission) as a template, Andrea Romi and Michelle Rodrigue provide us with a comprehensive overview of this new model which does exhibit attractive features from a CSR perspective. While the circular economy offers a range of benefits in terms of environmental, social, and economic implications, the transition toward a circular economy presents several challenges for all stakeholders, especially for those involved in the governance of organizations (directors, managers, shareholders). In this regard, Romi and Rodrigue highlight the fact that the adoption of a circular economy model implies a comprehensive reconfiguration of a firm's value creation process, including its supply chain and distribution network. They end their chapter with a call for action by decision-makers to engage their organization into a circular economy pathway.

In Chapter 11 'CSR-related Governance Mechanisms: Is the Impact on CSR Performance Effective or Symbolic?', Camelia Radu and Nadia Smaili ask a fundamental question. In other words, do the practices implemented by boards to steer management towards CSR goals move the needle in terms of an organization's CSR performance? The question is critical if the CSR agenda is to move forward within our society. In recent years, boards of directors appear to have made CSR a critical part of their governance. For instance, according to a recent survey, most large Canadian firms now link their executive compensation to ESG goals.[4] The United States exhibit a similar trend with Keddie and Magnan (2023) showing that 42.9 percent of S&P 500 firms (largest firms in terms of stock market capitalization) now explicitly link their executive compensation with ESG performance metrics, a sizable increase from less than five years before.[5] The proportion of firms with ESG incentives varies across sources depending upon the strictness of the criteria being used but the overall trend is certainly upward. Through a literature review, they examine the role of two CSR-related governance mechanisms: CSR board committees and CSR-linked executive compensation. Prior evidence provides a nuanced picture of the effectiveness of these two mechanisms which can either be effective or have a symbolic role according to the governance context in which they are implemented. Their analysis suggests that the presence or not of some desirable CSR-focused governance features is not sufficient to determine if they have a substantive effect on CSR performance. Their findings do raise some questions regarding the reliability and even relevance of CSR or ESG ratings and scores that simply rely on the presence or not of some mechanism without consideration for a firm's internal and external contexts.

Research on the role of corporate governance in determining a firm's corporate environmental disclosure has a long tradition. In Chapter 12 'Corporate Governance and Environmental Disclosures', Silvia Gaia and Chaoyuan She provide a comprehensive overview of the literature on this theme, highlighting the challenges faced by researchers in measuring the several aspects of environmental disclosure as well as the many corporate governance mechanisms which may play a role in this regard. Transparency and accountability issues arise when analyzing the role that boards of directors play in environmental disclosure and the authors do question as to the extent directors consider stakeholders beyond shareholders when developing an environmental disclosure orientation.

Boards of directors are increasingly being held responsible for a firm's CSR disclosure. In fact, CSR-based disclosure, especially with respect to greenhouse gas emissions and targets, is emerging as a major concern for audit committees.[6] The advent of the International Sustainability Standards Board as well as new Securities & Exchange Commission disclosure requirements with respect to climate change risks further raise the visibility of CSR disclosure as well as the accountability obligations for boards of directors.[7] There is a long tradition of CSR-based disclosure research going back several decades. Not unsurprisingly, there exists also several comprehensive literature reviews on the topic, focusing on either its environmental and social dimensions or, more broadly, on CSR or ESG disclosure. In Chapter 13 'CSR Disclosure, Capital Markets, and the Moderating Influence of Corporate Governance', Albert Tsang, Tracie Frost and Huijuan Cao approach CSR disclosure from a different angle, as they look at the moderating influence of corporate governance on the relation between CSR disclosure and capital markets. Based upon a comprehensive literature review, they note that while the number of papers published in accounting journals that have a corporate governance angle has sharply increased in the past 20 years (coinciding with the enactment of the Sarbanes-Oxley Act of 2002 and the availability of new data), their relative impact in terms of the number of citations per paper has been stagnating in recent years and has been overtaken by CSR-related papers. They also point out that the future evolution of both corporate governance and CSR-related research is bound to become entangled as CSR issues become increasingly relevant and important to boards of directors. They note that corporate governance and CSR are intricately related with one another, especially in terms of the ultimate effect on firm value. Overall, their review reveals that several governance mechanisms (the board itself and its composition, executive compensation, auditors, and the media) often imply a positive relation between CSR disclosures and capital markets outcomes. However, similar evidence is not forthcoming when CSR disclosure and activities are of a mandatory nature. In other words, in reacting to mandated changes in CSR disclosure and activities, capital markets tend to exhibit a fair amount of scepticism. They conclude by stating that the evidence they present has implications for policy makers as they consider new CSR disclosure requirements.

We conclude the section on Environmental Responsibility with a reflection by Olivier Boiral and Alexander Yuriev. In Chapter 14 'Sustainability from the Top: Revisiting the Roles and Responsibilities of the Board of Directors', they enjoin corporate directors to change how they engage with the sustainability issues and challenges facing their organizations. Boiral and Yuriev argue that organizations vary greatly in terms of sustainability issues they face, an outcome of their differing missions and activities. In their view, boards of directors should adopt a more comprehensive approach towards sustainability issues rather than taking a narrowly focused path that is often driven by regulatory concerns. Such an approach should be guided by the four key roles that the board typically assume: creating value and reducing risk, supporting strategy and best practices, adopting effective governance mechanisms, and monitoring and disclosing results. Their overview of current academic and practitioner literature on how boards of directors integrate sustainability issues into their deliberations serves as a foundation for practical advice toward a more sustainability engaged board.

PART III SOCIAL RESPONSIBILITY

In this section of the *Handbook*, we present chapters that illustrate emerging issues that broaden boards' role with respect to social topics. Rising expectations from stakeholders as well as evolving legislative and regulatory environments significantly expand firms' accountability toward society with respect to their management of various social causes or issues, thus raising boards' oversight responsibilities.

In Chapter 15, Steve Sauerwald and Wiechieh Su provide a comprehensive overview of current research on 'Corporate Philanthropy: Antecedents, Consequences, and Implications for Corporate Governance'. They highlight that firms face both internal and external pressures to engage in philanthropic activities as executives may derive benefits from such activities and pressure groups may target specific firms under some conditions. In such a context, governance mechanisms, especially boards of directors and the media, play a significant role in ensuring that a balanced corporate philanthropy emerges. The importance of such a balancing act drives the tensions underlying corporate philanthropy as a too expansive strategy may attract unwanted attention from financial stakeholders such as activist investors, while a strategy that is perceived as underwhelming may compromise a firm's social legitimacy and ability to engage with social stakeholders such as community groups. Sauerwald and Su also point out that the benefits from philanthropic activities are not linear in the resources invested in such a pursuit but follow rather an inverted U-shape format. They conclude their chapter with takeaways and recommendations for boards, managers, and investors as they decide and oversee corporate philanthropy strategies.

Diversity, as well as the benefits that can be derived from it, is increasingly viewed as a competitive advantage by several organizations. A 2018 report by McKinsey & Company makes a compelling case to that effect (Hunt, Yee, Prince, and Dixon-Fyle, 2018). However, the evolution towards more diverse workforces and boards still faces several challenges and can be rather sinuous in some contexts. In Chapter 16 'Boardroom Diversity: The Role of the Responsible Leader', Ruth Sealy and Johanne Groswold argue that boards can and must play a leadership role in pushing organizations' diversity agendas. Their chapter takes us through the evolution of board diversity research, with a focus on how board gender diversity relates with CSR. While the link is usually positive, they highlight three 'caveat emptor' situations that condition the effectiveness of diversity on board outcomes, that is, having a critical mass, the need for cognitive diversity and the possibility of backlash. They conclude the chapter with a case analysis of the United Kingdom's National Health Service. Their work provides food for thought for directors and managers considering the enhancement of diversity within their board or organization.

The past few decades have seen the emergence of non-governmental organizations (NGOs) that promote sustainability within industry or for a specific cause. These NGOs typically regroup several stakeholders from different sectors into an alliance for a specific purpose. An example of such an alliance is the Marine Stewardship Council, an international non-profit organization. According to its website, the MSC's aims are the following: 'We recognise and reward efforts to protect oceans and safeguard seafood supplies for the future.' The MSC provides sustainable fishing certifications to fisheries. Hence, for a fish products corporation, applying fishing practices that are certified by the MSC is likely to be an important dimension of its CSR strategy. Similar alliances have emerged in other fields, thus providing firms with a vehicle to enhance the implementation of their CSR strategies. In Chapter 17 'Social Alliances as Catalyzers of CSR Programs' Impact', Catalin Ratiu, Paola Ometto, Luciana Simion and Bennett Cherry focus on how stakeholders form and govern social alliances to pursue ESG goals. They define social alliances as a type of multi-stakeholder partnership or cooperative arrangement that evolves among social enterprises (small, medium, or large), NGOs, community groups, and/or governmental agencies, with the primary purpose of adding value to the community, rather than growing the wealth of a select group of individuals or corporations. To illustrate how social alliances work within their ecosystem, evolve and govern themselves, they choose to focus on a comparative analysis of three well-known social alliances: Working for Women (WW), Forest Stewardship Council (FSC), and The Conservation Alliance (CA). With the increasing importance attached to the implementation of sustainable or responsible practices by corporations, it is likely that such social alliances will gain in visibility in the future.

The Covid-19 pandemic caused major economic, social, and environmental upheavals in organizations around the world, leading to increased uncertainty for all stakeholders. Such uncertainty had several dimensions, from the fear of losing their job for employees to the risk of bankruptcy by entrepreneurs whose businesses were closed. Financial institutions were at the forefront of the crisis as market liquidity dried up early in the pandemic while economic disaster loomed for many of their clients. In Chapter 18 'Corporate Governance, Covid-19 and Stakeholders: Learnings from the Canadian Financial Sector', Eduardo Ordonez-Ponce looks at how the Covid-19 crisis affected how Canadian financial institutions and their boards engage with their key stakeholders. Using a corporate social responsiveness approach, the impression that emerges from the analysis is that Canadian financial institutions had changing and somewhat unclear strategies in providing support to their external and internal stakeholders. He also raises some concerns about the financial services industry's capability to face future crises of a similar magnitude. In his view, these institutions' boards should adopt a more forward-looking long-term perspective as they plan for the future and about their role within society in crisis situations.

On 21 June 2017, Uber co-founder Travis Kalanick resigned from his position as chief executive officer (CEO) of the widely known ride-hailing app. His resignation capped several months of turmoil within the organization. Amid major efforts to change Uber's corporate culture, several employees had been coming out with allegations of sexual harassment and gender discrimination. Reacting to pressures from five of the firm's largest investors, Uber's board mandated a law firm to investigate the matter. At the time of Kalanick's resignation, 57 allegations of harassment were still under investigation by the law firm.[8] The Uber case, and many others like it, raise several corporate governance and CSR questions, most notably with respect to the role of the board in ensuring that a firm and its top management conduct business in a manner that is consistent with laws and regulations but also with the values it espouses in its CSR strategy. In Chapter 19, Sylvie St-Onge explores the question 'What should a board of directors know about workplace harassment?' The chapter discusses the many negative impacts that cases of workplace harassment allegations can have, including on an organization's culture, image, and bottom line. Thus, it is critical that boards be aware and informed about a firm's culture and its evolution and take appropriate actions to prevent situations from deteriorating or be ready to intervene when needed. The chapter then proceeds to define what constitutes harassment (psychological, sexual, and discriminatory), including the fast-growing cyberstalking. She delineates employers' responsibilities with respect to harassment and provides some useful advice to help board members to acquit themselves of their obligations. The chapter is especially timely as fostering an inclusive, diverse and safe (both physically and psychologically) workplace is certainly a key facet of CSR.

In July 2021, Germany enacted its so-called Supply Chain Due Diligence Act, known in German as the Lieferkettensorgfaltspflichtengesetz (LkSG). The ultimate purpose of the Act is to bring German business firms to comply with due diligence obligations to improve compliance with human rights and material standards within their supply chains. In practice, the Act requires targeted firms (i.e., large ones) to identify and address CSR risks within their supply chains. The Act's adoption, and similar measures in other countries, bring to the forefront the importance for managers and boards of directors of knowing a firm's supply chain when making CSR claims. In Chapter 20 'Knowing Your Supply Chain', Valentina De Marchi explains how the development of Global Value Chains (GVCs) presents several challenges to firms that seek to enhance their CSR profile and performance. She describes how the relative importance of supply chains in terms of greenhouse gas emissions (scope 3) makes it imperative for managers and boards to gain a better understanding of their composition and components so that they can take effective actions. She offers practices that can be implemented to enhance the line of sight into a firm's GVC and suggests postures to overcome the risks of means-ends decoupling.

More than ever, indigenous governance is at the forefront of boards' preoccupations for organizations in countries with Indigenous populations such as Canada, Australia or the United States. At the international level, the passage of the United Nations' Declaration on the Rights of Indigenous Peoples purports to give a voice to Indigenous peoples in governance decisions affecting the usage of natural and economic resources. In several countries, such a call has been amplified with initiatives addressing their specific context, an example being the Truth and Reconciliation Commission of Canada which issued several recommendations to redress wrongs perpetrated against Indigenous peoples and the legacy of colonialism still in place.[9] Consequently, corporations operating in the areas traditionally inhabited by Indigenous peoples have been facing increasing pressures to engage with their Indigenous stakeholders and to report on these engagements. However, there is scant guidance as to how to incorporate Indigenous views into corporate governance and how to build a mutually beneficial, respectful and accountable relationship between corporations and Indigenous peoples. In Chapter 21 'The Ladder of Indigenous Governance', Paul Kalyta proposes a practical tool that seeks to help assess and categorize the extent of participation of Indigenous stakeholders in corporate governance. Building upon a model for citizen participation, he develops a ladder of Indigenous governance, with nine levels of stakeholder engagement, from neglect to control, and provides examples of Indigenous engagement at each level. These levels are complemented with examples of actual Indigenous engagement.

Diversity has become a key underpinning of CSR but also of good governance. Previously, in Chapter 16, Sealy and Groswold discuss how corporate boards can promote and enhance diversity within their organization, especially with respect to gender. In Chapter 22 'Promoting Women on African Boards: An Examination of Board Diversity Provisions in Corporate Governance Codes', Teerooven Soobaroyen, Vidisha Ramlugun and Irene Nalukenge pursue the issue further and explore gender diversity within the African context, as expressed in corporate governance codes and in some corporate disclosures. While there is explicit mention of gender diversity in some codes, an intriguing finding is that diversity often takes a form that is not common among corporate governance practices in European or North American countries. For instance, some country-level codes refer explicitly to religion or race (cultural affiliation) as important dimensions of diversity within the corporate world. They further examine the question and its underlying rationale and discuss implications for the globalization of so-called corporate governance best practices.

The Pandora and Panama papers have exposed to the public the reach and scope of assets held in so-called tax havens or, more broadly, offshore financial centres. Institutions and multinational corporations increasingly rely on offshore financial centres to conduct their business, not solely for tax avoidance or minimization but also to facilitate legal transactions or to avoid transparency requirements. In Chapter 23 'Relying on Offshore Financial Centers: A social Issue that Raises Governance Concerns for Multinationals', Tiemei Li examines the governance and CSR consequences of engaging in offshore activities. Reviewing prior evidence, she documents that the existence of offshore subsidiaries and affiliates within a multinational undermines the quality of reporting by a multinational, in its financial statements as well as in other disclosure aspects. Such deterioration in transparency complicates the oversight efforts of boards of directors over managerial actions. Moreover, it makes it more difficult for stakeholders to ascertain the depth and magnitude of a multinational's CSR activities. The extent of a multinational corporation's use of offshore entities also has the potential to undermine its CSR credibility as its actions in this regard can be viewed by the gauge of the low or quasi-inexistent income taxes it is paying. However, taxes are needed to support several CSR-related goals within a society. The chapter raises several questions for future research but also a warning to boards of directors that care about CSR.

In Chapter 24, Carol Tilt, Cathy Rao and Dinithi Dissanayake examine 'Social Reporting: Trends, Determinants and Implications'. Their comprehensive review of the literature suggests that CSR is a key strategic issue for companies globally, with increasing interest being devoted to the investigation of disclosure practices within emerging economies. While generally reporting on social issues is more advanced in the West, it is growing in most regions of the world. Understanding the context of those regions is key to gaining insight into what may be needed to improve CSR and social reporting in the future. This chapter reviews the recent trends in social reporting, identifying the frameworks used, and discusses major determinants and differences identified between developed and developing countries, with particular attention to governance mechanisms. The review finds that the influence of external, institutional factors is observed across both developed and developing countries, but there are also clear differences. Notwithstanding increased interest, companies in developed countries generally ignore broad social issues such as poverty and human rights. Further, topics such as modern slavery and human rights are gaining significant attention from both scholars and regulators, but interestingly this has mostly been in developed countries. The studies reviewed also reinforce the importance of considering diversity in firms' board selections. There is also an important need to take into account moderating factors such as political, social, organizational, institutional and cultural context or practices in firms' social disclosure decisions.

PART IV LOOKING INTO THE FUTURE OF CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

The *Handbook*'s last section contains three chapters that offer new paths to reflect upon the interaction between corporate governance and CSR. All three chapters revisit how we perceive corporate governance and corporations' interactions with society in light of the realization that individual corporate actions may have ecological and social implications that are far beyond the traditional scope of boards of directors' oversight. Taking a holistic and comprehensive view, these chapters propose novel ways to enhance corporate governance effectiveness in addressing major issues such as climate change. Ghio, Senn, Spring and Cho push the boundaries of how we define diversity in corporate governance circles. Bebbington, Larrinaga and Michelon propose a form of corporate governance that is truly global in terms of its reach and issues being addressed. Dillard considers that the solution rests in a corporate governance model that engages stakeholders more fully in a continuous dialogue and interaction process with corporations.

Many factors drive decision-making at the board of directors' level but accumulating evidence suggests that diversity of thought can be critical (Cormier, Gutterez and Magnan, 2022). Such diversity rests on both psychological and demographic diversities, the former being often proxied by the latter in practice because of measurement challenges. In their chapter 'Diversity at the Top: Evidence on Board Composition and Representation', Alessandro Ghio, Juliette Senn, Sophie Giordano-Spring and Charles Cho revisit the issue by assessing if firms 'walk the talk' when it comes to corporate governance and diversity. Focusing on a sample of large French firms over a ten-year time horizon, they observe significant progress in terms of gender diversity at the board level (most likely helped by mandated quotas) but scant changes with respect to age or ethnic diversity. Furthermore, their analysis of CEOs' key messages as conveyed in their annual letters suggests that diversity is not a top priority, with the leadership image being conveyed remaining close to historical patterns, that is, white, male, and Eurocentric. They conclude by stating that there is a wide gap between the current organizational rhetoric about diversity in corporate governance and the reality as reflected in the composition of boards of directors and the origins of CEOs. One may surmise from their findings that most firms are unlikely to garner the benefits from the diversity of thought which underpins current societal pressures toward diversity.

In Chapter 26, Jan Bebbington, Carlos Larrinaga and Giovanna Michelon propose 'A Social-Ecological Approach to Corporate Governance'. In this chapter, they note that science's understanding of nature as well as the extent of global environmental change leads to the conclusion that we are living through a time of unprecedented inter-connected changes in earth systems: including climate, water, and biological systems. These changes have implications for how we organize our economies and affect the way in which humans live. The term used to describe this situation is 'the Anthropocene', the current geological epoch in which human activity drives global environmental change. They use the Anthropocene framing to characterize the interdependent relationship between the social and the ecological systems and to locate the role of corporate governance in this context. They describe this as a socio-ecological approach and use this to reflect upon how both the owner-manager interface might change as well as how a company interacts with a wider stakeholder community. They propose three elements underpinning a socio-ecological form of corporate governance: biosphere stewardship, adaptive and transformative governance routines and global/regional governance infrastructure linked to corporate scale levels.

In the last chapter (Chapter 27), Jesse Dillard proposes an 'Accountability-based Participatory Corporate Governance and Corporate Social Responsibility'. Within that framework, the corporation is a responsible member of an ongoing community with the rights and responsibilities of the various parties governed by an ethic of accountability. A corporation is granted the right to employ society's economic assets in providing goods and services, investment opportunities and employment opportunities to ultimately facilitate the long-term viability of a democratically govern society in a sustainable manner. In exercising this right, the corporation accepts the responsibility to account to society for the use of its assets. Those to whom an account is given have a responsibility to provide thoughtful, relevant, and practical evaluation criteria, and the state or other authoritative body has a responsibility to provide the necessary implementation infrastructure and oversight. Accountability-based participatory corporate governance goes beyond traditional 'stakeholder management' to actively engage and respond to the concerns of the various interested constituencies. Taking pluralism seriously means that the corporation is accountable for its actions to those affected. By being aware of and participating in pluralistic engagements, heretofore unrecognized possibilities for the design, implementation and evaluation of accountability systems may become apparent. What Dillard proposes is not a panacea but should be viewed as a pragmatic suggestion for anticipated improvement in participatory governance and CSR as well as a suggested framework for engaging in an ongoing dialogue and debate regarding participatory governance and CSR.

NOTES

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PART I

FOUNDATIONS

1. Corporate governance and corporate social responsibility: A reconciliation with tension

Michel Magnan and Giovanna Michelon

1.1 THE CONCEPTUAL EVOLUTION OF CORPORATE GOVERNANCE

The late 20s and early 30s saw the transition of entrepreneurial firms owned and managed by their founders toward modern large corporations managed by career professionals. Industrial and financial giants such as Standard Oil, U.S. Steel or General Motors all experienced the separation of ownership and control as their founders retired or died and got replaced by career executives. Such a trend has attracted the attention of several scholars who perceived it as a potential agency problem (e.g., Berle & Means, 1932). An agency problem arises when a principal (owner) delegates responsibility and tasks to an agent (manager), and it is not possible for the principal to directly observe how the agent is fulfilling his/her responsibility. In other words, corporate governance studies have for a long time been concerned with the control of the corporation's assets in the hands of management.

Building upon prior work, Jensen and Meckling (1976) formalize what is now known as agency theory. Both principal and agents are assumed to be rational economic actors motivated by self-interest. Because the principal cannot observe the agent's action, and does not have access to the same information set as the agent, there is information asymmetry between the two parties. The existence of this information asymmetry combined with self-interest poses a monitoring problem, which corporate governance mechanisms try to tackle and address.

Definitions of corporate governance rooted in agency theory emphasize shareholders' interests and the monitoring of management decisions and behavior. For example, according to Shleifer and Vishny (1997), corporate governance is defined as 'the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment'. The board of directors is an important supervision mechanism that complements other internal and external arrangements, including, among others, financial reporting and auditing, managerial incentives and compensations packages, the regulatory environment, and the strengths of the legal protection given to shareholders rights (Gillan, 2006).

Focusing on a board's monitoring effectiveness, the stream of studies developed within an agency theory framework highlights some key features for a sound corporate governance system which in turn affect also what is labelled as best practices in the configuration of a board of directors. In particular, the presence of a high proportion of independent non-executive directors, the separation of the positions of CEO and Chair of the Board, as well as the presence of financial experts and independence of the audit committee are all considered to be good practices that enhance the ability of the board to supervise and monitor management's behavior and decisions, as well as to improve the quality of financial information provided to market participants.

Nevertheless, despite the strong influence of agency theory in shaping current practices in corporate governance, several scholars understand and conceptualize corporate governance as dealing with a wider role of businesses in society (e.g., Atkins, 2020). This perspective relies on a stakeholder-oriented (rather than shareholder-focused) model of the firm, adopting a broad accountability framework that sees corporate governance as guiding company's decision making within a context of societal flourishment. Therefore, corporate governance is considered 'the systems of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activities' (Solomon, 2007). Within this conceptualization, it is fundamental for companies to engage with stakeholders to build, maintain or enhance their legitimacy to operate, that is the ability of the organization to meet societal expectations. Through stakeholder engagement, companies understand stakeholder expectations and 'good corporate governance and accountability should focus on addressing these social, environmental, economic and ethical expectations' (Unerman and Bennett, 2004, p. 685). While agency theory is suitable to conceptualize the monitoring function of corporate governance, stakeholder theory is helpful to understand broader accountability and reporting practices. Such a conceptual approach lays the groundwork for corporate governance systems to embed notions of corporate social responsibility as well as corporate reporting that goes beyond providing an account of the financial performance of corporations.

A third stream of research recognizes that boards of directors have a dual role encompassing both monitoring as well as advice or counsel (Brickley and Zimmerman, 2010). The focus of such research is on the role of corporate governance in strategic decision making and value creation, and in particular on the role of the board of directors in contributing to the determination of company's aims and strategic plans (Hillman et al., 2000). Adopting this resource-dependence theoretical approach, scholars argue that directors, and boards, serve to connect the company with external factors that generate uncertainty and dependencies, that ultimately affect the ability of an organization to control resources and therefore formulate strategies (Pfeffer and Salancik, 1978). This framing has been useful to reflect upon the relevance of individual director experience and skills, beyond a dichotomous distinction between executive (related) and non-executive (independent) directors, and to identify the set of competencies and links with the external environment that help the organization operate in a turbulent, uncertain environment. The board is therefore not just seen as a key mechanism for supervision and accountability, but also as the key decision making body that drives corporate strategy. In other words, there is an integration of agency theory and resource dependence theory in viewing directors' role (Hillman and Dalziel, 2003). In this context, directors can bring broad business expertise, in terms of internal decision making, operations and competitive context, and/or specialized expertise in areas that support corporate strategies but do not form the foundation on which strategy is built (e.g., finance, law and regulation, communication) and/or experience and connections with the company's environment beyond the value-chain and competitive context, that is knowledge and links with relevant non-business constituencies.

Overall, the three conceptual approaches developed in the academic literature are helpful to define three main purposes that corporate governance serves: monitoring of management behavior, accountability to stakeholders and strategic direction of business. These three main purposes are also often reflected in how best practices and regulations articulate governance mechanisms, although with variation in whether and how different jurisdictions facilitate and discipline them. Ultimately, as a legal entity that is distinct from its owners, the corporation has the objective to survive and prosper in the long run. Shareholders own rights (to vote, to dividends, to claim residual assets) that can be freely traded on a market, whereas the safeguarding of a company's assets is entrusted to the board of directors, thus conferring upon them a fiduciary duty. Eccles and Youmans (2015) note that, although there is a common belief that this fiduciary duty requires directors to place primacy on shareholders' interests, a comprehensive examination of legal frameworks across the world suggests that the board of directors' primary duty is to the corporation as a separate legal person. And while some jurisdictions such as the United States (U.S.) place this fiduciary duty as co-equal to directors' duty to shareholders (primacy duality), others such as Brazil, adopt a legal definition of corporate person that includes wider stakeholders. This implies that corporate governance systems around the world differ, and while a comprehensive overview of these systems is beyond the scope of this chapter (for details see: Clarke, 2017), the next section will examine some influential corporate governance guidelines and recommended practices.

1.2 TURNING POINTS IN THE EVOLUTION OF CORPORATE GOVERNANCE PRACTICES

While corporate governance has evolved over the years and has been subjected to a wide range of influences, we can identify four pivotal events or crises that contributed to shape current practice:

- The Great Depression and the enactment of the U.S. Securities Acts of 1933 and 1934 which saw the creation of the Securities and Exchange Commission (SEC);
- The Second World War which led to continental Europe adopting a stakeholder-oriented model of corporate governance following the Second World War;
- The financial scandals of the late 80s and early 90s in the United Kingdom (U.K.) which brought about the Cadbury report on corporate governance;
- The financial scandals of the late 90s and early 2000s which led to the adoption of the Sarbanes-Oxley Act in 2002.

The Crash of 1929 and the following Great Depression saw the demise of many firms and the ruin of many investors. These events also raised several concerns about the future of capitalism as well as with the fairness of capital markets for non-insider investors. In its eponymous book, The Great Crash, J. K. Galbraith (1954, reprinted in 2009) describes many of the excesses and market failures that characterized the period leading to the Crash: insider trading, poor governance, accounting manipulations, and so on. Upon his election as President, Franklin D. Roosevelt embarked on major judicial, legislative and regulatory efforts to address many of the structural weaknesses that were presumed to have precipitated the crash. The New Deal, as it was called, was accompanied by an overhaul of capital markets' oversight: until then, listed firms, their managers and directors and other market intermediaries (e.g., investment banks) acted more or less without close scrutiny from regulators or legislators.

The enactment of the Securities Acts of 1933 and 1934, which led to the setting up of the Securities and Exchange Commission, represent critical features of The New Deal. The 1933 Act covers mostly the process of raising capital on public markets (e.g., Initial public offerings) while the 1934 Act deals with transactions on securities which are already listed on a market. Another pivotal event were the hearings of the Temporary National Economic Committee (TNEC) starting in 1938. The TNEC was created by a joint resolution of the U.S. Congress and had a mandate to investigate the concentration of economic and financial power within the U.S. economy. Among the main implications for corporate governance from these actions, we can highlight the formalization of the process for accessing capital markets, with the imposition of extensive disclosure requirements for SEC registrants covering financial as well as non-financial matters, the mandatory auditing of annual financial statements issued by SEC registrants and the disclosure of compensation received by a firm's top executives.

Another pivotal event in the evolution of corporate governance among Western economies is the Second World War. Its aftermath saw European countries trying to rebuild their economies, which led to political dynamics that were quite distinct between North America, which had not suffered any destruction, and which emerged from the war much richer, and continental Europe. The involvement of stakeholders, especially labor, was seen as a key driver in the social and economic reconstruction of European countries and led to the emergence of a governance regime in countries such as Germany where labor representatives sit on corporate boards (Roe, 2006). The fallouts from the War explain also the level of ownership concentration one sees in continental Europe (vs. the U.K. and the U.S.)., that is, the need to retain strong shareholder control in the face of political pressures for stakeholders' involvement. Bank financing, with a concurrent involvement in corporate governance, also became a feature of continental European countries following the War, which saw stock markets crater in most countries. All these elements led to a corporate governance culture not as conducive to transparency, with an insider orientation and with banks playing a key role.

The 80s saw the rise and fall of several British tycoons, sometimes accompanied by financial scandals if not outright fraud. Maxwell Communications and its controlling shareholder and CEO Robert Maxwell epitomize that period. Robert Maxwell was found dead under mysterious circumstances near his yacht in the Canary Islands in November 1991. Soon afterward, reports emerged that more than £460 million were missing from the firm's pension funds. A few months before these events took place (May 1991), the Financial Reporting Council, the London Stock Exchange, and the British accountancy profession set up *The Committee on the Financial Aspects of Corporate Governance*, which was chaired by Sir Adrian Cadbury, then chairman of Cadbury plc. The outcome of the Committee's deliberations, widely known as the Cadbury report (1992), laid the foundations for many changes in corporate governance, in the U.K. and also around the world.

A finding of the Committee was that a lack of independent judgment among board members, maybe induced by the fact that many of them were senior executives of the firm of which board they served, could have contributed to poor governance and weak financial oversight. Accordingly, one of the key recommendations of the Cadbury report was that firms should appoint at least three non-executive directors, two of whom should be independent from management (recommendation 4.11). While independence of judgment is the quality deemed essential, the Report focuses on independence from the firm as it is observable and measurable. The report states that the board should determine a director's independence status (recommendation 4.12). The Cadbury report led to a series of similar governance studies in other countries around the world and laid the foundation for the call by regulators and institutional investors to appoint independent directors on boards. The concepts and wordings found in the Cadbury report also underlie many regulations. For instance, Canadian securities regulations basically replicate the Report's definition of independence, its reliance on the board to assess independence (Canadian Securities Administrations 58–101; 58–201). However, in contrast to the Cadbury report that recommended that a critical mass of non-executive directors be appointed, the Canadian securities regulators express the wish that a majority of the board be composed of independent directors. Thus, one can easily map the thinking that underlies the Cadbury report onto the current U.K. Corporate Governance Code (Financial Reporting Council, 2018), the guidance issued by the OECD about corporate governance (OECD, 2015) as well as governance rules and regulations in several countries around the world.

Another development that drastically altered corporate governance, in the U.S. but also elsewhere in the world, was the enactment of the Sarbanes-Oxley Act in 2002 following the Enron and Worldcom accounting scandals that ultimately led to their bankruptcy. The Sarbanes-Oxley Act mandated that boards set up audit committees composed solely of independent members, transferred the oversight of external auditors to a new entity (Public Company Accounting Oversight Board) under the responsibility of the SEC and imposed norms about financial governance and the reliability of internal controls. In a way that is similar to the Cadbury report, the Sarbanes-Oxley Act had an impact beyond the borders of the U.S. and led to legal or regulatory changes in several other countries.

These four developments shaped the evolution of corporate governance in most advanced economies. One can easily see a formalization of corporate governance practices toward greater accountability by boards of directors and enhanced transparency and standardization in corporate disclosure on financial and non-financial matters. The global dissemination and adoption of corporate governance practices is also worth highlighting. However, we can also observe potential tensions between a shareholder-centric view of corporate governance and a more stakeholder-oriented model.

In this regard, the rise of environmental, social and governance (ESG) as a framework to drive firm performance and increasing concerns about sustainability are probably the next game changers in corporate governance. Our Handbook provides in-depth analyses of several environmental and social issues or concerns that are affecting corporate governance or that are bound to change how it is practiced.

1.3 CORPORATE GOVERNANCE, CSR AND THE ROLE OF INVESTORS

As we will see in Chapter 2, a critical historical debate has developed around Friedman's position over what corporate responsibility entails and what should therefore be on the board agenda. This view has resonated and influenced corporate practices for a long time. However, recently, scholars, investors and governance actors (e.g., directors and managers) have renewed the view that the fiduciary duty of the board is to promote the value of the corporation.[1] The 2019 statement[2] for the purpose of the corporation, released by the Business Roundtable, is an example of the shift from a shareholder primacy paradigm to one that is stakeholder inclusive, to achieve long-term value. The three major index fund managers (e.g., Blackrock, State Street and Vanguard)[3] all recognize that a sole focus on shareholders wealth encourages short-terminism and it is not necessarily compatible with or contributing to achieving business prosperity in the long-term. Of course, a relevant question is whether the statements issued by the investment funds are boilerplate or whether, generally speaking, investors see the shift towards value-added governance as a fundamental one. There is no easy answer to these questions, and somewhat both situations are plausible. However, there are several indicators suggesting that more and more investors have started to mobilize their power to promote the consideration of stakeholder interests, as well as planetary challenges, in business decision making and, accordingly, to broaden the board agenda. Before discussing these recent developments, it seems appropriate to first briefly discuss how we are where we are, by first referring to what is known as the socially responsible investment (SRI) field.

SRI is traditionally associated with investment decisions that incorporate non-financial goals and/or based on ethical norms and moral values. Initially, SRI funds typically adopted negative screening policies that allow the exclusion of controversial businesses (e.g., gambling, weapons, tobacco). In the 70s, investors avoided investing in companies that were supporting the Vietnam War, or later in companies that had operations in South Africa when the Apartheid regime was still in power. Shareholders were also quite active in voicing their concerns and preferences to management via the submissions of shareholder resolution, to be discussed and voted upon during the annual general meetings of U.S. corporations. Rodrigue and Michelon (2021) note that these resolutions were mainly submitted by advocacy groups and religious organizations who used their relatively small ownership and related voting rights to signal how they were not supportive of certain companies' practices on social (and environmental) issues.

Around the start of the new millennium, SRI funds started to adopt positive screening investment approaches, that is selecting companies with a good social and environmental performance. This period witnessed also active pressures by some large institutional investors such as pension funds via the submission of increased shareholder resolutions that – rather than asking companies to avoid certain practices – pushed them to adopt specific practices to address concerns over the social and environmental impact of corporate activities.

Academic research on whether SRI indices perform as (financially) well as conventional indices provides mixed evidence, that is there is no clear indication as to whether SRI funds performs worse or better than traditional ones. Of course, even if SRI funds perform worse than other funds, one can argue that the utility function of ethical/social investors include non-financial, ethical considerations that may counterbalance the relatively poorer financial performance. Despite this consideration, there has been a strong mobilization in academe and in the business world to foster a business case for CSR, that is, CSR is associated with superior financial performance, for example, Porter and Kramer (2006). More recently, there has been an increasing call for mainstream financial investors to integrate ESG considerations in their investment decisions, on the premises that ESG integration helps manage risks and achieve sustainable financial returns in the long run. This investment practice is now commonly referred to as ESG investing, as it is quite different from the original SRI philosophy. Whereas SRI was/is concerned with considering other investment goals than purely financial ones (e.g., cutting carbon emissions, or favoring community development), ESG investing is concerned with how ESG factors may have financial impacts on corporate performance, and therefore also for investment decisions. In line with this evolution, this approach to investment leads activist shareholders to frame CSR as a source of risk that needs to be managed and explains why more recent resolutions require firms to increase the amount of CSR related information they communicate to the market (Michelon et al., 2020).

What is likely to explain this new wave of investor interest in CSR? What are the turning points that may have contributed to the spreading of ESG investing across the mainstream investor community? Again, we like to pose difficult questions and the answers are possibly multiple. We propose some which we believe are helpful to further understand the points of convergence and divergence between corporate governance and CSR.

First, it is possible that to survive and be an effective force for corporate change, the original investors' movement resting on CSR adapted its framing to co-opt the support of a wider set of investors, thus enabling them to exert more pressure on corporate management. This has been referred to as the 'marketization' of the original social movement ideas (King and Gish, 2015), a wide social phenomenon that contributes to the creation of a new 'market' for ESG investing, that is a 'consumer product that is marketed to investors' (King and Gish, 2015, p. 713). These authors suggest that marketization of ESG investing has contributed to transforming a relatively radical movement seeking social and environmental justice towards one that is seeking to align social values and financial decisions. The marketization of ESG investing has been made possible by increasing professionalization in the field: for example, the creation of organizations that helped investors strategize and coordinate on CSR issues (e.g., the Interfaith Center on Corporate Responsibility), but also the creation of specific higher education courses in business schools.

Second, and in relation to this last point, there has been a degree of institutionalization of the ESG investing favored by some key supranational players. We are referring specifically to the Principle for Responsible Investment (PRI), a UN-supported network of investors that has worked as an overarching platform to push investors into integrating ESG factors in their investment decisions. Similarly, at the institutional level, scholars have pointed out the role of academic research in fostering the social construction of a positive relationship between CSR and financial performance (Gond and Palazzo, 2008). In simple terms, what these authors argue is that the way in which CSR-financial performance is perceived (and what actors believe about this link) can influence the presumed association itself. They analyze how financial market participants, businesses and scholars promote this association because they are interested in such a relationship existing.

Third, there is growing awareness that the planet is undergoing a crisis, with climate change and biodiversity loss being amongst the key indicators rising alarm bells (IPCC, 2022). In face of this emergency, there have been several institutional and regulatory efforts to tackle these problems. The year 2015 represents a key turning point in this regard: the COP 21 (Paris) Agreement and the pledge undertaken by several countries around the globe to reduce carbon emissions signaled to businesses and investors that regulatory actions were under way; similarly, the launch of the 17 UN Sustainable Development Goals represents another landmark for international policy. Finally, but possibly even more importantly, in the aftermath of the Paris Agreement, the Financial Stability Board – as represented by its Chairman Mark Carney – acknowledged publicly[4] that climate change is a threat to the stability of the financial systems and urged investors and actors in the financial system to start including considerations about the financial impacts of climate change on both corporate financials and investment decisions.

All together these institutional and policy changes have also had implications for the proliferation of regulations and standards in sustainability reporting, as we discuss further in Chapter 2. It is on these grounds that we next present a discussion of the points of tension and conciliation between corporate governance and CSR.

1.4 CONCLUDING COMMENTS: POINTS OF TENSION AND CONCILIATION BETWEEN CSR AND CORPORATE GOVERNANCE

In this chapter we have discussed how the origins of corporate governance are rooted in the evolution of the modern corporation and the need to address the agency problem arising from the separation of ownership and control. For a long time, corporate governance research and practice has therefore focused on understanding and addressing how to best incentivize and monitor management decisions in alignment with shareholders' wealth maximization. Reacting to a sequence of large financial scandals across the world, codes of best practice and regulation have strived to propose solutions that minimize the agency problem, thus somewhat neglecting the broader role of corporations in our society. Although conceptualizations of corporate governance that embed accountability to stakeholders have flourished, especially in Europe where the involvement of stakeholders was seen as fundamental to reconstruct the economy after the Second World War, it is not until recently that governance and social responsibility are being considered as two interrelated concepts. In this respect the previous section has highlighted how the interconnectedness between nature, society and business is becoming more prominent and increasingly also regulatory in nature.

It is in this regulatory space that conciliation between governance and social responsibility is growing. While the accountability perspective of corporate governance implies that companies are held responsible (and accountable) for the social and environmental impacts arising from business activities, such accountability has – if at all – been discharged through voluntary corporate initiatives. In recent times however, more jurisdictions are now mandating the reporting of social and environmental information (e.g., the EU Non-Financial Reporting Directive), therefore, implicitly requiring companies to take responsibility for their social and environmental externalities. Moreover, the planetary crisis represents a systemic risk to our financial stability and as such, the quest to integrate environmental and social risks and opportunities in business decision making represents a new imperative that board of directors cannot neglect anymore, as often these risks and opportunities have financial implications. Recently, the academic literature has mobilized the concept of 'dependencies' (O'Dwyer and Unerman, 2020; Unerman et al., 2018) to that of 'externalities' to highlight the significant relation between the natural environment and businesses (Cooper and Michelon, 2022). Dependencies are the other side of the coin with respect to externalities. Whereas externalities are impacts that are borne by others (at least in the short term, e.g., pollution), dependencies are risks to business operations that arise from both changing natural and social conditions (e.g., increased regulation of carbon emissions or social protest around civic and human rights). As such, risk management systems are increasingly tackling social and environmental concerns and boards required to rethink decision making to embrace longer-term horizons and notions of value creation that go beyond enterprise value. The emergence of EDI (equity, diversity and inclusion) as an issue that corporations need to address and be accountable for is an illustration of this trend.

Despite these points of reconciliation, there is still much divergence in practice that prevent a full alignment between notions of governance and social responsibility. The ability of boards (and investors) to fully embed long-term thinking in daily business decisions is a challenging endeavor, which likely requires a cultural transformation, but also the design and implementation of appropriate management support systems. In practice, several corporate and board decisions on issues such as executive compensation, ethics or political lobbying bring to the forefront the challenge of reconciling what is in the best interest of the corporation (fiduciary duty of directors) with what is in the best interest of society at large, with the selected time horizon perspective having a profound effect on one's assessment. The debate about the place that CSR should hold in corporate governance matters is likely to continue and even intensify as environmental and social concerns about the future of our societies persist and grow.

NOTES

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4. Breaking the Tragedy of the Horizon – climate change and financial stability – speech by Mark Carney at the Lloyd's of London on 29 Sept 2015. The full speech is available at: www.bankofengland.co.uk/speech/2015/breaking-the-tragedy-of-the-horizon-climate-change-and-financial-stability.

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2. Corporate governance and corporate social responsibility: A continuity perspective

Michel Magnan and Giovanna Michelon

2.1 WHAT IS CSR?

Defining what we mean by CSR (corporate social responsibility) is a challenging task. Not just because academics and practitioners have proposed several definitions, but also because the term has been contested, else used (almost) interchangeably – or at least in association – with others such as corporate sustainability, corporate philanthropy, triple bottom line, and more recently ESG (environmental social and governance). There may be some merit in trying to clarify all the nuances and potential meanings of each of these terms, and how they may have commonalities and differences with CSR. However, one hopefully pragmatic way to conceptualize CSR is to reflect upon the term CSR itself. Here, the term 'social' should not be considered as limited to 'social' matter, rather as characterizing the type of responsibility of a corporation, that is for its broad role in society. The key puzzle we need to solve when trying to define CSR is therefore: what is this broad role that corporations play in our society? So, what do scholars think this role is?

Surely there would be wide agreement that corporations have an economic role, that is to contribute to the economic development of our society. In this sense, the relationships that corporations have with their constituencies are economic in nature. For example, the employment of labor and capital corresponds to salaries and wages and appropriate rewards (dividends and capital gains) for risky investment, the provision of goods and services results in a commercial exchange in which satisfied customers are willing to pay a specific price, the payment of taxes to national and local governments represent the exchange value for public services. Yet, those scholars that have proposed the first formal definitions of CSR did so based on the belief that large corporations at the time held great power and that their actions had a substantial impact on society (Bowen, 1953). It is this 'substantial' impact that CSR requires managers to consider in their decision making. Bowen is often referred to as the 'Father of CSR' (Carroll, 1999) as his academic work was the first to focus on an explicit doctrine of social responsibility.

2.1.1 Definitions of CSR

Bowen (1953) called upon businessmen 'to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society' (p. 6). The evolution of the modern concept of CSR has been mapped by Archie Carroll (1999). In the 1950s, according to Carroll, a formal literature on the subject began to develop. During the 1960s and 1970s, definitions of CSR were expanded and proliferated. Definitions that are particularly relevant were given by Davis (1973) 'business activity should accomplish social benefits along with the traditional economic gains which the firm seeks' (p. 312) and by Carroll himself (1979): 'the social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time' (p. 500). These expectations were later incorporated into a four-part categorization known as the Pyramid of CSR (Carroll, 1991). A focus on empirical research and alternative schemes such as corporate social performance and stakeholder theory marked the 1980s (Evan and Freeman, 1988; Freeman, 1984) when the fundamental idea underlying CSR was that business corporations have an obligation to work for social betterment. This focus prevailed from the1990s to the present with the concept of CSR providing the basis or point of departure for related concepts and themes. In 1991, Wood summarizes the basic idea of CSR: '…business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behavior and outcomes' (p. 695).

De George (1999) has identified four different ways in which the term CSR is used. First, when a company is described as socially responsible this can simply mean that it meets its legal obligations. Second, when a company is described as socially responsible it means that, in addition to meeting its legal obligations, the organization also fulfils its social obligations. These two uses of the term refer to the level of commitment that organizations in fact demonstrate, thus these uses are descriptive. The possible level of commitment has been represented in literature as a continuum (Fisher, 2004). At one extreme, a firm identifies resistance to social demand. Then, the firm adopts a defensive or social obligation approach, that is, it meets its economic and legal responsibilities. In the middle, a firm seeks accommodation or a social response approach, that is, fulfillment of society's ethical expectations. Finally, at the other extreme, a firm adopts a proactive social contribution approach. The third and fourth uses identified by De George refer to how the term CSR stands against the obligations themselves – either those imposed by society or those assumed by a particular organization (whether or not these reflect society's concerns). Since these are obligations that *should* be fulfilled, they point to a *normative* use of the term. Social responsibility, used this way, refers to the obligations that companies have toward society.

2.1.2 Opposing Views on CSR

A major reason for there being no consensus about the social responsibilities of companies is that there is no general agreement about the purpose of business nor who has legitimate claims on it. Fisher (2004) frames the debate about the requirements of CSR as reflecting two competing (normative) views of the role of companies in society: the classical (free market view) and the socioeconomic view.

According to the former view, whose main exponent is Nobel prize winner Milton Friedman, the only social responsibility of companies is to maximize value for shareholders, and scholars adhering to this view do not embrace the idea that corporations have a social role, broader than their economic mandate. Rather simply the maximization of value requires compliance with law and other social norms, which identify the only 'social' responsibilities of companies. Notably, Friedman puts forward an essay in which he proposes that, in a free capitalist system, the role of corporations should be limited to the pursuit of economic purposes. In the essay that was published in the New York Times in 1970, Friedman formulates four propositions to sustain the thesis that 'The social responsibility of business is to increase its profit':

- Only people can have (moral) responsibilities, not corporations because they are 'artificial' persons and in this sense can only have artificial (e.g., legal) responsibilities;

- Managers are employees, hired to optimize the welfare of their employer – that is, the shareholders;
- The idea of CSR implies that managers can take actions that can conflict with the welfare of the owners, as it requires relocating someone else's capital in accordance with the manager's perception of social interest;
- This is a decision shareholders could take themselves as part of philanthropy if they want to.

The arguments brought forward by Friedman in 1970 emphasize that corporations should engage in open and free competition without deception and fraud and conform to the norms of society (Friedman, 2000). They have been described as assuming a minimalist approach to CSR, in that they resolve CSR as mainly an issue of corporate philanthropy (e.g., corporate donations).

Although Friedman's views have recently been severely criticized,[1] it is undeniable that they have resonated for a long time, especially in North America. Perhaps Friedman's essay was after all a reflection of the times, when it was common business practice to engage in philanthropy to address societal expectations. Even if the wider academic debate was more reflexive of the social unrest during the 1960s and the 1970s, regardless, Friedman viewed CSR as a spending that generates no returns, and this view was later challenged by a series of scholars that put forward the idea of business case for CSR (see next section).

The socioeconomic view offers a broader account of CSR, and it is related to the definitions discussed earlier: companies have obligations that go beyond pursuing profits and which include protecting and improving society. CSR encompasses voluntary responsibilities that go beyond the purely economic and legal responsibilities of companies. Sethi (1975, p. 62) claims that social responsibility can be defined as '…bringing corporate behavior up to a level where it is congruent with the prevailing social norms, value and expectations'. Society expects companies to make a profit and obey the law and, in addition, to behave in certain ways and conform to the ethical norms of society. These behaviors and practices go beyond the requirements of the law and seem to be constantly expanding (Carroll, 1999). While the normative argument in Friedman's view lies upon legal responsibility, in the socioeconomic view, normativity comes from morality and how society believes business should behave.

2.1.3 Mediating Opposing Views: The Role of Purpose and Strategy

According to the classic (free market) view, social responsibility and business strategy have been viewed separately, each one contributing to either the social or economic objectives of the company. To overcome this contraposition, some theorists postulate that there exist linkages between social responsibility and the creation of competitive advantage. Typically, the argument is that doing good for society or engaging in ethical behavior builds support from stakeholders that is necessary to company survival (Clarkson, 1995) and creates competitive advantage by reducing agency and transaction costs (Jones, 1995).

Assuming an overall perspective of a corporation, corporate strategy encompasses both the economic (corporate business strategy) and non-economic (corporate social strategy) objectives (Husted and Allen, 2000). This approach follows the resource-based view (Grant, 1993) that defines competitive advantage as the creation of unique resources and capabilities which leverage organizational routines across different business units. In fact, the main objective of

Prahalad and Hamel's (1990) 'The Core Competence of the Corporation' was to push toward the development of company-wide, frequently intangible, *competencies* that are the cornerstone to sustainable competitive advantage. As a result, strategic management research has turned to the challenge of investigating 'soft' behavioral issues that are difficult to operationalize, including those of corporate values and ethics central to the concept of corporate social objectives and strategy.

According to Husted and Allen (2000), strategy refers to the plans, investments, and actions taken to achieve sustainable competitive advantage and both superior economic and social performance. As a result, CSR is the strategy adopted by the company to position itself with respect to social issues to achieve long-term social objectives and create a competitive advantage. Social objectives refer to all those goals that may not be directly related to creating value added for the customer or maximizing shareholder wealth. These social objectives are closely related to the notion of corporate social performance, which has been defined as 'the satisfaction of stakeholders' expectations regarding the company's behavior as it relates to the company's societal relationships with those stakeholders' (Husted, 2000). The company's positioning allows it to achieve its social objectives by reducing the gaps that occur between the company and its stakeholders. Generally, it is expected that the use of social strategy would have a positive impact on corporate social performance by reducing the gaps between the company and its stakeholders, thus increasing stakeholder satisfaction. In addition to achieving social objectives, social strategy creates competitive advantage by developing unique capabilities that have a positive impact on the company's profitability.

Competitive advantage is the core concept of strategic management and has consistently been defined as a function of profit (Porter, 1985). It is therefore perhaps not surprising that famous strategy scholar Michael Porter has proposed a model to explicitly link CSR and competitive advantage (Porter and Kramer, 2006; Porter and Kramer, 2011). Rather than conceiving CSR as delegated philanthropy or claim that the relationship between CSR and profits is win-win, Porter and Kramer propose to approach CSR with a strategic perspective, so that it can be much more than just a cost, constraint, or a charitable deed. For them, such an approach to CSR would generate opportunity, innovation, and competitive advantage for corporations – while solving certain pressing social problems at the same time. The strategic approach uses the same frameworks that guide a company's core business choices and can be used by corporations to identify all the effects – both positive and negative – they have on society; determine which ones to address; and suggest effective ways to do so. This requires a broad understanding of the interrelationship between a corporation and society while at the same time anchoring it in the strategies and activities of the corporation. In doing so, managers can identify points of intersections, where inside-out linkages (impacts) and outside-in linkages (risks and opportunities) meet and those would represent the social issues companies need to start prioritizing. Although with some nuances and differences, this idea of inside-out and outside-in linkage is highly related to the concepts of externalities and dependencies that we introduced at the end of the previous chapter.

In the current century, the most important step towards a more resilient approach for CSR, somewhat echoing Porter and Kramer's proposal, is represented by the release of a new Statement on the Purpose of a Corporation by the Business Roundtable, signed by several CEOs committing to lead their companies to the benefit of all stakeholders. Since the 1970s the Business Roundtable has issued principles of corporate governance endorsing principles of shareholder primacy. The latest statement is instead a public commitment towards a new idea of how corporations should operate in our society. Coming perhaps a bit late vis-à-vis the original formulation of stakeholder theory, this initiative represents a historical milestone for strong continuity between corporate governance and CSR.

2.2 CSR FOR WHOM?

2.2.1 Stakeholder Theory

The idea that a company serves more than just shareholders has been developed by stakeholder theory, which asserts that each company interacts with a wide range of constituencies, made up of employees, suppliers, customers, investors, institutions, other associations, competitors, the environment and so on. Stakeholder theory owes its development to Freeman's seminal work *Strategic Management: A Stakeholder Approach* (1984), and it was fully elaborated by W. Evan and E. Freeman in an article in 1988. In the article, they assert that the doctrine, according to which managers would be responsible exclusively towards shareholders, should be replaced by a more general theory of a 'relationship based on trust' towards all the stakeholders of a company.

Besides clarifying the main separation between shareholders and other constituencies, numerous definitions have been set forth to identify stakeholders. They range from a broad conceptualization that regards stakeholders as any individual or group having an interest in or being affected by the company (Carroll, 1989; Freeman, 1984), to mid-range theories that define stakeholders as those groups or individuals who assume some degree of risk bearing activity with a firm (Clarkson, 1995), to narrow approaches which only recognize stakeholders whose relationship to the company is primarily economic (following Friedman, 1970). Freeman (1984) identifies as primary stakeholders those who have a formal, official, or contractual relationship with the company, and all others are labeled as secondary stakeholders. Clarkson (1995) distinguishes between voluntary and involuntary stakeholders based upon their exposure to or acceptance of risk bearing activities with a company. Stakeholders are all those interests' bearers in a company's successful activities such as 'suppliers, clients, employees, shareholders and the local community as well as the management as an agent of these groups'. In other words, stakeholders are those individuals or groups who have a legitimate interest or a legitimate claim over the company and who can affect and qualify its economic aims. Regardless of the definition of stakeholders, these models encompass a relationship based on a two-way exchange; stakeholders are not only affected by the company but can also affect its activities as well. Therefore, managers must give simultaneous attention to all legitimate interests of stakeholders while making corporate decisions.

In stakeholder theory, the role of management is seen as achieving a balance between the interests of all stakeholders. Maintaining such balance is the only way to ensure survival of the company or the attainment of other performance goals. The normative condition in stakeholder theory is that managers must provide returns – financial and otherwise – to stakeholders to ensure the continuity of wealth creating activities by virtue of the critical resources provided by stakeholders. Carroll (1989) defines this as the strategic stakeholder approach to management.

Besides the instrumental relevance for a firm's survival, stakeholder theory is ultimately justified on the basis that firms have responsibilities to stakeholders for moral reasons. It holds that individuals or groups having legitimate interests in the ongoing activities of the company do so to obtain benefits (economic or non-economic) and that there is no priority of one set of interests over another. Donaldson and Preston (1995) highlight that all interests of stakeholders have intrinsic value, and each group of stakeholders deserves consideration for its own sake, and not merely because of its ability to further the interests of some other group. In addition, stakeholder theory assumes an implicit social contract between society and corporations in which the right to operate as an economic institution is viewed as contingent to the upholding legitimacy.

2.2.2 Legitimacy Theory and the Role of Business in Society

The relation between business and society is the general rationale of legitimacy theory, which asserts that modern companies serve society, of which they are an integral part (Goodpaster and Matthews, 1982). According to legitimacy theory, companies have 'implicit' contracts with society, and they need the legitimation of society to operate (Guthrie and Parker, 1989). The notion of social contract was introduced by political philosophers (T. Hobbes, J. Locke, and J. Rawls) to justify the moral legitimacy of specific government models and to define reciprocal obligations of governors and citizens. According to this perspective, companies, as well as States, are human 'constructions' and as such need a justification. The reference to an implicit contract between companies and society implies that the fundamental aspect of a company, meant as a production organization, is to be found in its ability to promote the welfare of society through the satisfaction of stakeholders' interests.

Donaldson (1982) sees the relation between companies and society as a social exchange that can be modelled in the form of an implicit social contract, analogous to the social contract in political philosophy. The company receives some privileges from society, mainly related to the legally institutionalized corporate personhood. In exchange, society is granted specific benefits of corporate production. Society agrees with this exchange as long as the social benefits exceed the social costs, and only on that condition is society prepared to acknowledge the company's right to exist. Overall, legitimacy theory asserts that companies need a justification for their existence and activities and therefore offers a framework for the societal role of business, guiding companies to form themselves into responsible members of society. According to this perspective, CSR fills with purpose a business and it represents a strategy to respond adequately to the expectations of society.

2.2.3 Notions of Accountability

Both stakeholder and legitimacy theories imply broad notions of accountability. Gray, Owen and Adams define accountability as 'the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible' (1996). Thus, accountability recalls two responsibilities or duties: the responsibility of taking certain actions (or forebear from taking actions) and the responsibility to provide an account of those actions.

In an agency-rooted approach to corporate governance, the essential elements of accountability arise from the relationship between the management and the shareholders: the management is held responsible for managing resources and assets entrusted to it by the shareholders and for providing an account of their use. Annual reports and financial statements are therefore a mechanism for discharging this accountability. Adopting a stakeholder-oriented approach to corporate governance implies that the addressers of accountability are wider than just shareholders, and therefore also the actions and objects for which a company is held responsible and therefore accountable, beyond the financial dimension to include also social and environmental aspects. Indeed, one of the most significant developments in the field of CSR since the beginning of the new century has been the growth in public expectations that companies not only make commitments to CSR, but also develop systems to manage implementation, and systematically assess and report on progress relative to those commitments.

Corporate accountability spans emerging CSR issues like climate change, biodiversity impacts, business ethics, diversity, marketplace behavior, human rights, and labor rights as well as the more traditional areas of financial performance. Interest in the interrelationships between issues will also increase the complexity of the corporate accountability debate; in many areas of the world, social issues are now in ascendance, and these qualitative, complex themes are likely to be the ones against which companies find it hardest to measure and verify performance.

According to Gray et al. (1996), an increase in transparency and accountability through more formal social and environmental accounting could have two important effects: (1) it allows to socially reconstruct the organization, since the consequences and impact of the company's activities and the actions of society with respect to the company will be more transparent; and (2) tends to create information inductance, that is, the type of information that is reported influences, not only the recipient of the information but also the creator and transmitter of the information (i.e., the management).

Despite these effects, which drive to a rebalancing of power relationships through changing of control over, and access to, information, accountability may still present major problems. Stewart (1984) argues that unless the accountee can enforce accountability, then no accountability is due. In other words, what accountability should be, and what it may lead to, is not necessary what it is, if the power relations between stakeholders and the company are unbalanced.

Gray et al. (1997) have argued that it is relatively easy to make an initial specification of a company's potential accountabilities through the application of the stakeholder model. Then, for each company-stakeholder relationship so identified, several levels of information are required to approach a full accountability. These levels include descriptive information about the relationship, the accountability that society requires (through law and quasi-law), and the accountability that the business wishes to express and the accountability that stakeholders themselves wish to see. Gray (2001) raises two potentially practical problems to this process. First, the volume of data implied by the model may lead to enormous and unwieldy reports. Second, it implies that society holds every company accountable for every action for which every stakeholder believes the company is responsible: it is unlikely what happens in practice, and some restrictions need to be placed on the potentially infinite range of responsibilities.

The first problem is solved by a reporting company with the adoption of a transparent approach on the extent to which the report is not complete. Here, the second-best solution is to inform stakeholders of the extent of the incompleteness. As regards the second problem, if we assume that companies cannot possibly satisfy all the expectations, then accountability may become a formal statement about the extent to which the company is actually unable to meet all the expectations of society and stakeholders, passing therefore to society what responsibility a company can and cannot undertake. Moreover, an auditing process may inform the readers on how much the report has satisfied the above conditions, it has some descriptive power, even if its nature is essentially normative. Not only does it help when creating the plan of action, but it also contributes to evaluating the steps along the way.

Building a corporate mission on CSR means to declare what are the social objectives the company wants to pursue. Accountability allows companies to verify the coherence between undertaken commitments to stakeholders, the effective results and 'social' performance of the company. Similarly, to a financial budgeting process, this verification enables the company to improve both its planning and performing abilities.

Effective and accountable management systems help companies shape cultures that support and reward CSR performance at all levels. As part of this effort, many companies are working to increase accountability for CSR performance at the board level. This can lead to changes in who serves on the board, how directors handle social and environmental issues, and how the board manages itself, and fulfills its responsibilities to investors and other stakeholders. Companies are also seeking to build accountability for CSR performance at the senior management level, in some cases by creating a dedicated position responsible for broad oversight of a company's CSR activities or else integrating CSR in the organizational functions. Finally, many companies are working to integrate accountability for CSR performance into actions ranging from long-term planning to everyday decision-making, including rethinking processes for designing products and services and changing practices used to hire, retain, reward, and promote employees.

2.3 CSR REPORTING

In the previous section, we have seen that accountability has many dimensions, objects and values. In this section we focus on the role of CSR reporting because it is more likely through reporting that companies can face their legitimacy and agency problems, starting a dialogue with stakeholders, and providing them with relevant data which have the aim of reducing the information asymmetries. By CSR reporting we refer to means and instruments used by companies to communicate transparently with stakeholders, employing a wide mix of narratives and indicators to describe the nature of social and environmental impacts of business activities.

CSR reporting has been explained using several theoretical lenses. According to stakeholder theory, it is part of the dialogue between the company and its stakeholders. The seminal paper by Roberts (1992) argues that CSR reporting represents a medium for companies to negotiate stakeholders' relationships. Therefore, stakeholder theory interprets CSR disclosure and reporting as indicative of which stakeholders matter most to an organization and thus those which the organization may be seeking to influence.

Another key theory mobilized to explain voluntary CSR reporting is legitimacy theory. As we have seen, legitimacy theory argues that companies can only continue to exist if the society in which they are based perceives the company to be operating to a value system which is commensurate with the society's own value system. Companies may face many threats to their legitimacy. CSR disclosure therefore is used to provide voluntary information on companies' activities that help in legitimizing corporate behaviors, educating and informing, changing perceptions and expectations. It is this stream of research that has first posed the grounds to explain greenwashing in CSR reporting: as CSR reporting is a tool for legitimacy, companies use CSR information to present themselves with a good image and to show that they exhibit the same social norms and values as those of their society. There is a rich stream of research that suggests companies increase their CSR disclosure when facing a legitimacy crisis (Cho, 2009) or when the underlying environmental and social performances are poor (Cho and Patten, 2007).

Research has also documented an increase of CSR reporting that correspond with periods where those issues peaked in importance politically or socially (Guthrie and Parker, 1989). As such, political economy theories explain why companies appear to respond to government or public pressure for information about their social impact. The usefulness of political economy theory lies not only in its assessment of CSR reporting as a reaction to the existing demands of stakeholders but in the way it perceives accounting reports as social, political, and economic documents. This theory also recognizes the use of social and environmental reporting as a strategic tool in achieving organizational goals, and in manipulating the attitudes of stakeholders. There are also studies that explore CSR reporting as a response to the information needs of investors and analyzed it with reference to the broader literature on the costs and benefits of voluntary disclosure (e.g., Cormier, Ledoux and Magnan, 2011).

CSR reporting is a practice with a long history: the first CSR reports were voluntarily released as stand-alone documents in the late 1980s, mostly by companies operating in sectors exploiting natural resources (oil and gas, mining) or with potentially negative environmental effects (chemical). However, it is an area of renewed interest due to a wave of regulatory actions mandating CSR reporting (for a detailed overview of various regulations see: Krueger et al., 2021; Lin, 2021), with several standard setters entering the field.

In such a fluid context, some potentially conflicting trends are apparent in CSR reporting. On one hand, over the years, several frameworks have emerged and developed to formalize and systemize corporate practices. For instance, the Global Reporting Initiative (GRI) has played a critical role institutionalizing CSR reporting (Larrinaga and Bebbington, 2021). Other more focused frameworks include the U.S.-based Sustainability Accounting Standards Board (SASB), the Integrated Reporting Framework (which is now part of the IFRS Foundation), the Task Force of Climate-Related Financial Disclosures (TCFD), an initiative of the Financial Stability Board under the leadership of Mark Carney, a former Governor of the Bank of England and of the Bank of Canada, and the Carbon Disclosure Project (CDP). All these frameworks are dynamic, evolutive and voluntary in their application, thus allowing firms to select a reporting approach that best fits their reality and stakeholders' needs.

On the other hand, in response to demands from several financial stakeholders (financial analysts, large institutional investors), regulators have recently moved to formalize CSR reporting, with a strong emphasis on environmental sustainability and climate change. For example, in Europe, the Non-Financial Reporting Directive 2014/95 has required all listed companies to disclose information on environmental protection, social and employee-related matters, respect for human rights, anti-corruption and bribery matters from 2018. In 2021, the EU Commission adopted a legislative proposal for a revised directive (the Corporate Sustainability Reporting Directive) which requires companies to report in compliance with 'European sustainability reporting standards' that were adopted by the Commission as delegate acts. Within this process, the European Financial Advisory Group (EFRAG) has been appointed as the technical advisor for the development of the EU Sustainability Reporting Standards (ESRS). The first exposure drafts were released for public consultation in April 2022. Recently, the IFRS Foundation has also set up the International Sustainability Standards Board (ISSB), which has so far issued two exposure-drafts for new standards. For its part, the Securities and Exchange Commission has recently issued requirements for firms to disclose and discuss how exposed they are to climate change risks and how such risks could affect their business.

A major point of contention between the voluntary frameworks mentioned above and the regulator-driven frameworks that are currently emerging is their targeted audience, with regulators prioritizing investors' information needs rather than those of a broader set of stakeholders; the only exception being the EU Sustainability Reporting Standards which requires both to be considered (for an overview of how different reporting standards address investors vs. stakeholders' need, see Cooper and Michelon, 2022). A question that arises is thus if the move towards regulatory-driven CSR disclosure will enhance its quality or if it will bring firms to follow a minimalist strategy?

2.4 CONCLUDING REFLECTIONS

The new wave of regulations mandating in different forms and shapes sustainability-related information is clearly posing new challenges and key questions to boards of directors and top management teams. Whether the regulators' moves into CSR reporting will change the nature of CSR itself or how corporate governance oversees CSR is too early to say. Various regulators across the world see different audiences for CSR reporting and assign inherently a different purpose to it. Although the 2019 Statement on the Purpose of a Corporation released by the Business Roundtable, together with increased investors mobilization for a transition towards a low carbon economy may be interpreted as signals of convergence towards a stakeholder-centered model of corporate governance, it is very possible that we will have to go through a period of relative fragmentation in terms of what companies will consider falling into the remit of their social role in society (and hence how they will see their accountability scope). What seems to be emerging however is an increased awareness that governance, environmental and social matters are interrelated and interconnected and that corporations need to start conceiving governance arrangements that embed wider stakeholder concerns, as well as management of risks that arise from changing conditions in the natural and social environments.

NOTE

1. See for example the article in *The New York Times* 'Greed is good. Except when its bad' published on Sep 13, 2020, in occasion of the 50th anniversary of Friedman's original essay. Available at: https://www.nytimes.com/2020/09/13/business/dealbook/milton-friedman-essay-anniversary.html.

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3. Corporate social responsibility: A director's perspective

Michel Magnan

3.1 INTRODUCTION

My aim in this chapter is to present views and impressions as to how corporate social responsibility (CSR) intersects and affects corporate governance. More fundamentally, I seek to offer an inside perspective on the inner thoughts and perceptions of a director when dealing with the interface between CSR and corporate governance. In other words, when facing CSR issues such as a firm's climate change plans or its equity, diversity, and inclusion agenda, what are directors supposed to think and how are they supposed to act? The challenge for many directors is to understand a whole new language as well as to make decisions on criteria that are neither strictly economic nor oriented towards improving a firm's immediate bottom line. Moreover, to ensure consistency between a firm's external CSR message and its internal actions, directors need to assess what are the appropriate governance mechanisms to put in place so that they can monitor management while being straightforward in their outside accountability.[1]

The outcome of all these tensions is that CSR and governance are now closely intertwined. On the one hand, concerned stakeholders target large institutional asset owners and investors such as pension funds, sovereign funds or investment funds to reorient their investment strategies to take into account the environmental and social performance of underlying assets. On the other hand, publicly traded entities need to respond to more critical assessments of their CSR performance by investors but also by other stakeholders such as lenders, communities, employees, and so on. In all these cases, directors, trustees, and other governance actors occupy a critical position at the frontier between external pressures by investors and other stakeholders to whom they are ultimately accountable and internal management who is responsible for implementing any CSR action.

Such a position can be quite uncomfortable if there is a perceived conflict between the pursuit of a CSR-oriented strategy that emphasizes the well-being of stakeholders and the quest for value creation for the benefit of pensioners (for a pension fund) or investors (for listed firms and investment funds). Reconciling a CSR perspective with a value creation orientation thus becomes a major challenge for a director or a trustee. In this chapter, I analyze and discuss this challenge taking a director's (trustee's) perspective. First, I offer my viewpoint as to why a director should care about CSR. Second, I review the governance mechanisms which can be involved in the implementation of a CSR orientation. Third, I discuss the tools and methods available to directors to acquit their duties with respect to CSR as well as their limitations.

3.2 WHY SHOULD A DIRECTOR CARE ABOUT CSR?

3.2.1 Conceptual Foundations for a CSR Mind Set

CSR, or close alternative labels (ESG, sustainability), is now widely viewed as a critical concern for governance actors such as corporate directors, top managers or pension and investment funds' trustees. There are recurring media stories about firms' avoiding their social responsibilities or even pursuing strategic and operational paths that are not sustainable or that diverge from what is deemed responsible environmentally or socially.

CSR's rising prominence in the governance of firms is consistent with the legal framework in several countries. For instance, within a Canadian context, and under the Canada Business Corporations Act (Act), directors and officers carry a duty of care and a fiduciary duty of loyalty (Fasken, 2021).[2] [3] The duty of care implies that directors and officers must accomplish their duties and responsibilities with care, diligence, and skill that a reasonably prudent person would exhibit under comparable circumstances. Hence, in making decisions, directors and officers must make sufficient inquiries to gather relevant information and shall take into consideration all material information that is available to them prior to taking any action.

The Act also imposes a fiduciary duty of loyalty upon an entity's directors and officers. Such a fiduciary duty requires them to act honestly and in good faith with a view to the best interests of the corporation. Moreover, directors and officers must behave impartially and put the interests of the corporation first when making a decision. Self-interest and self-dealing must not be allowed to taint their decisions. Hence, directors and officers shall avoid conflicts between the corporation's interests and any opposing interests, including their own.

According to a Supreme Court of Canada ruling, directors owe a fiduciary duty to the firm at all times, which relates to but is not synonymous with acting in the best interests of shareholders:

> The fiduciary duty of the directors to the corporation is a broad, contextual concept. It is not confined to short-term profit or share value. Where the corporation is an ongoing concern, it looks to the long-term interests of the corporation. The content of this duty varies with the situation at hand. […]
>
> In considering what is in the best interests of the corporation, directors may look to the interests of, [among other things], shareholders, employees, creditors, consumers, governments and the environment to inform their decisions. […]
>
> There is no principle that one set of interests—for example the interests of shareholders—should prevail over another set of interests. Everything depends on the particular situation faced by the directors and whether, having regard to that situation, they exercised business judgment in a responsible way. (BCE v 1976 Debentureholders, 2008 SCC 69)

However, while the principles stated in the Supreme Court decision seem clear, their actual implementation into real-life business decisions is far from obvious as scant guidance is given. When considering CSR, Canadian directors must thus consider and reconcile these duties with shareholders' expectations, whose main concern is likely to be the stock market value of a firm's shares. While several institutional investors now exhibit a responsible investment approach, the depth and scope of such an approach greatly varies across investors, thus further confounding directors' views regarding the appropriate path to take regarding CSR. In other words, when making an investment decision, how far should environmental and social concerns map onto a director's decision grid?

3.2.2 A Risk-based and Long-term Approach

I consider that adopting a prudent risk management-based approach as well as focusing on what is in an organization's best long-term interest are governance considerations that are entirely compatible with CSR. However, in a more fundamental way, for a director to engage with CSR, it is necessary to develop a state of mind that is in tune with stakeholder concerns and expectations, with shareholders certainly occupying a core but not unique position. The development of such a perspective revolves around having a comprehensive and in-depth view of two risks: reputational and systemic.

At the end of the day, an organization's long-term future is built upon sustainable relations with its critical stakeholders such as employees, clients, suppliers, lenders, and shareholders as well as on its ability to conduct business for the foreseeable future.

3.2.2.1 Reputational risk

To maintain such relations, a critical ingredient is the ability for a firm to hold and build up its reputation. In other words, reputational risk, and a firm's ability to manage it, are probably directors' top concerns as they grasp with the challenge of overseeing CSR actions and initiatives. Reputational risk encompasses and interconnects with several other risks such as operational risk, compliance risk or strategic risk. For instance, how a manufacturing firm handles its factory waste is an operational issue (operational risk), that is governed by laws and regulations (compliance risk) and which represents a strategic risk if the underlying production process has been poorly chosen and is technologically behind. Beyond these risks, any failure with respect to waste will undermine a firm's reputation. Therefore, in overseeing a firm's management, boards must adopt a comprehensive perspective. They need to think through potential interactions between risks which, rather than adding up, can amplify the reputational impact of a particular corporate action and severely undermine a firm's CSR credibility.

3.2.2.2 Systemic risk considerations

A board must also ensure that a firm's actions ensure its long-term future, that is, its sustainability. In this regard, environmental and social developments within a society have the potential to undermine or severely weaken a firm's ability to survive profitably over the long run. Taking climate changes as an example, most scientific evidence that is currently available suggests that such changes arise from human-generated carbon emissions. Such climate changes have implications for a wide range of natural phenomena from the severity of storms to sea water levels. Considering the scope and scale of climate changes arising from carbon emissions, it is difficult to find a firm that is not affected by them, either directly or indirectly. Supply chain resilience, the price of energy, the migration toward a carbon-free economy, the possibility that carbon-intensive assets could be stranded, ability to continue operations in seacoast locations, health costs resulting from extreme heat waves are but a few illustrations of the challenges that firms will face in the foreseeable future. If I consider in addition the various government initiatives to transition toward a carbon-free economy, I may conclude that climate change represents a systemic risk that has the potential to seriously undermine a firm's long-term future. Consistent with their fiduciary duties, directors must ascertain the extent of such systemic risk and should, accordingly, enjoin management to manage it and take appropriate actions to reduce carbon emissions that ultimately compromise the firm's future.

3.3 CSR AND THE BOARD: A MULTI-DIMENSIONAL TASK

In theory as well as in practice, a firm's board is ultimately responsible for the oversight of a firm's CSR strategy and actions as it is accountable to shareholders and other stakeholders. However, in practice, several firms rely on board committees to oversee CSR. For instance, according to Spencer Stuart 2021 Board Index, 7 percent of S&P 500 firms had a CSR committee (or a board committee with a similar meaning). In addition, 11 percent of firms had an Environmental, Health and Safety committee.[4]

An issue that makes the governance of CSR a major challenge for most firms is its multi-dimensional nature as well as the scope of CSR-related issues. For example, while a board may adopt a CSR strategy as part of the firm's overall strategic planning, it may choose to delegate its monitoring and follow-up to a specific committee. Such CSR committees may also be responsible for reviewing the firm's sustainability disclosure. However, sustainability disclosure encompasses several dimensions and implies measurement and reliability issues which require specific expertise. Moreover, firms are now closely monitored by rating agencies and institutional investors regarding their sustainability performance as it is disclosed. Lack of transparency and obfuscation may lead to accusations of greenwashing, which can carry severe consequences (e.g., greenwashing accusations levelled against Deutsche Bank wealth management unit).[5] In that context, a firm's audit committee is likely to get involved as it usually oversees a firm's disclosure to ensure that it is truthful and fair. Since improper CSR disclosure may severely undermine the credibility of a firm's financial disclosure, the audit committee is bound to seek oversight responsibilities regarding the disclosure of CSR performance measures. Moreover, the advent of the International Sustainability Standards Board with assorted standards may increase pressure on audit committees to get involved in CSR matters, at least in the Canadian context. In fact, the issue is a recurring topic of discussion at meetings of audit committee chairs of publicly listed entities.

CSR action, or inaction, has implications as well for other board committees. The enactment of climate-related disclosure requirements by the Securities and Exchange Commission (SEC) brings to the forefront the matter of risk management. As stated by the SEC in its news release, the new regulation requires the disclosure of '…information about climate-related risks that are reasonably likely to have a material impact on their business, results of operations, or financial condition'.[6] Hence, for boards, climate change risk and how a firm manages it becomes a critical issue on which they are accountable. That task will typically fall under the responsibility of the risk management committee (12 percent of S&P 500 firms according to Spencer Stuart) or of the audit committee (in the absence of a risk management committee, risk management is typically overseen by a firm's audit committee). In addition, considering the potential consequences of CSR mis-performance or underperformance on a firm's reputation, the reputational risk dimension of CSR actions will most certainly attract the attention of the board committee that oversees risk management.

Another CSR-related trend that has implications for governance is the introduction of ESG performance metrics in executive compensation contracts. According to various surveys, between 25 percent and 50 percent of U.S., U.K. and Canadian firms now include some form of ESG metrics into the design of their executive compensation contracts, with that proportion showing a steady uptrend in recent years.[7] The use of such incentives puts CSR matters squarely within the realm of the human resources and/or compensation committee of the board which are responsible for the design and oversight of executive compensation matters. The committee will seek to understand the relation between strategy and the selected metrics, their reliability and validity, the responsibilities of executives with respect to CSR, and so on. Moreover, while a firm's human resources policies are typically within the purview of management, their overall direction and strategic alignment will typically be reviewed by the human resources committee of the board. Since many aspects of CSR relate to working conditions, the committee is likely to seek further details on these matters.

The challenge for a board will thus be the coordination of all these different oversight activities to ensure that management receives a coherent and consistent message from the board and its committees. Such arbitrage must be performed with the full board and entails responsibilities upon the chair to actively pursue an agenda that puts CSR at the forefront. Moreover, with support of the board, the chair must ensure that the tasks and responsibilities of the various committees with respect to CSR do not overlap but complement and serve as an input to the full board CSR oversight and decision-making.

3.4 CSR IMPLEMENTATION CHALLENGES FOR THE BOARD

The development and implementation of a CSR strategy does raise several questions for a board, which translate into as many challenges. These questions, and their assorted challenges, revolve around the following issues:

- Accountability
- Benchmarking
- Reporting
- CSR: a need for focus?
- Is a CSR orientation an excuse for managerial underperformance?

3.4.1 Accountability: By Whom and for What?

The implementation of a comprehensive and forward-looking CSR strategy involves many departments or units within an organization, even more so if CSR objectives are embedded into a firm's strategic plan and priorities. Such pervasiveness of CSR raises two levels of concern about accountability. First, who is accountable for CSR among the various managers, executives and senior executives involved in its implementation? Second, assuming that the issue of managerial accountability is resolved, to which governance mechanism are managers accountable to?

While many organizations may have executives with a CSR or sustainability label, their main responsibility typically revolves around CSR performance measurement and reporting. Specific aspects of CSR will usually be devolved to operational executives. For instance, the executive responsible for human resources and talent management will be responsible for the attainment of equity, diversity, and inclusion targets as well as for other CSR-related objectives (e.g., working conditions). Furthermore, the executive in charge of purchasing will be tasked to ensure that suppliers provide the firm with goods and services that are consistent with the firm's supply chain sustainability requirements. Similar functional accountabilities will arise across the organization according to the details of the CSR strategy and the firm's organizational structure. However, silo accountabilities may leave uncovered angles and do not convey a sense that an organization has an integrated approach to CSR which is embedded into its strategy, as best practice prescribes. In my view, if CSR is deemed to be strategic, then ultimate accountability must rest with the Chief Executive Officer (CEO) or the Chief Operating Officer (COO), who are responsible for the elaboration and implementation of a firm's strategy. CSR accountability at the top ensures that it retains its primacy and sends a clear signal to all stakeholders regarding its importance within the organization.

The second issue pertains to which governance mechanism should oversee CSR strategy implementation and priorities. Many firms have a social responsibility, a sustainability or a health, safety and environmental committee. However, in practice, most of these committees have very focused mandates, either focusing on compliance issues or disclosure matters. While some may hold oversight responsibilities over CSR strategy implementation, such a choice raises the question as to whether it is strategic for the firm or not. The adoption and monitoring of corporate strategy is deemed to be the responsibility of the full board, with best practice suggesting that it should not be delegated to a board committee. Hence, if CSR is truly embedded into a firm's strategy, the oversight of CSR strategy implementation should be the responsibility of the full board. In that task, the board can be helped by functional committees which focus specific dimensions (e.g., social responsibility committee for CSR metrics' measurement and reporting, audit committee for financial disclosure aspects that relate to CSR, human resources committee for oversight of corporate labor and compensation policies, etc.). However, all these dimensions need to be integrated onto the strategic plan and monitoring of CSR goals and targets should be performed by the full board, most likely in its regular performance and strategic reviews. Delegating that task to a committee sends the wrong signal to all stakeholders, outside and within the firm, about the importance of CSR for the organization.

3.4.2 Benchmarking: A Copout or a Must?

Modern governance relies extensively on benchmarking. For instance, in developing executive compensation strategies, boards and relevant committees (human resources, compensation or governance) will typically seek the advice of consultants who will scan the market to infer compensation practices by comparable firms. The value and merits of such benchmarking has been hotly debated and the jury is still out in this regard. On the one hand, there is evidence that compensation benchmarking has an inflationary impact on executive compensation, is subject to manipulation and takes away from the board its role in strategic decision-making. On the other hand, benchmarking allows for best practices to be gathered and implemented and provides the board with a comprehensive information set for decision-making (Faulkender and Yang, 2013). More generally, for listed firms, one can say that the stock market and the value it assigns to a firm's shares serves as a benchmarking mechanism which allows a board to infer a firm's performance and compare it with its peers.

With respect to CSR, boards may seek benchmarking for several reasons. First, peer benchmarking with respect to CSR practices can serve as an input to the development of a CSR strategy. Second, since CSR-based information is increasingly relied upon by investors who have an ESG perspective, benchmarking about disclosure becomes critical to ensure that a firm obtains recognition for its efforts. A firm may have an exemplary CSR strategy and take all the right actions to enhance its impact on society but if its disclosure is poor, then stakeholders' appreciation of its merits as a corporate citizen may be limited or biased. Finally, for boards and external stakeholders to gauge a firm's CSR performance, as well as its relative attractiveness for investors with an ESG focus, comparisons with peers become unavoidable. Thus, over the past 20 years, a small industry of CSR or ESG indices' or metrics' providers has emerged to supply the informational needs of boards but also of a wide range of stakeholders (investors, creditors, analysts). Such data allows them to assess a firm's relative performance.

However, in contrast to other matters for which benchmarking is sought (e.g., stock market performance, compensation), CSR is multi-dimensional with the quality of measurement and reporting varying considerably across firms and across rating and index services. In fact, the problems with CSR benchmarking are widely documented, in both the financial press (Livsey, 2022) and academic research (Berg et al., 2022). In that context, what does a board have to do? At this stage, it is imperative to remember that the development of a firm's strategy as well as its formulation in terms of goals and targets should rest on an assessment of its core competencies and competitive advantages. Benchmarking cannot become a default solution to formulate a strategy and, even further, a CSR strategy. It is but a tool, to be used sparingly, to inform oneself about market conditions and trends but should not become a goal in itself: doing so implies that the rating or index service managers will end up driving a firm's CSR strategy and priorities rather than its management team and board. A potential side effect of emphasizing benchmarking in the pursuit of a CSR strategy is the downplaying of stakeholder engagement and views as weightings and priorities of the rating agency replace stakeholder concerns.

3.4.3 Reporting: Trade-offs and the Search for Credibility

Social responsibility or ESG reports tend to be weighty documents. For instance, Nestlé's 2021 sustainability report had 59 pages, a length which is consistent with many reports issued by major firms in advanced economies. In deciding upon the depth and scope of their CSR disclosure, firms face some critical challenges. On the one hand, the more extensive the disclosure, the more likely the firm is expected to do well in relative ratings and classifications as disclosure is a key determinant for several rating agencies and ESG data service providers (e.g., Bloomberg transparency measure). On the other hand, full fledge disclosure on such a wide range of varied and complex topics and subjects that are assembled and filtered up throughout the organization raises the risk that some mismeasurement may take place or that some facts or events get distorted along the way. By engaging in what is thought to be a transparent CSR disclosure strategy, firms potentially open the door to greenwashing accusations.

Hence, for a board, decision-making about CSR disclosure is far from evident as the search for credibility significantly ups the ante in terms of the attention that it must devote to it: Which metrics are to be disclosed? What is the extent of auditing and verification work that needs to be performed before releasing metrics? Is the narrative disclosure consistent with the more quantitative disclosures? What is the internal governance process underlying CSR reporting? Who is accountable for what kind of information within the CSR report? Which stakeholders is the firm targeting? What are the aspects of CSR reporting that carry greater reputational risk for the firm?

As standards and norms evolve with respect to CSR reporting, it is likely that only a specialized committee of the board will be able to ensure that its quality is consistent and credible. A question that arises is which board committee should oversee CSR reporting? A social responsibility committee may be useful to monitor compliance as well as CSR strategy implementation issues but may not be well-equipped to deal with disclosure reliability and relevance issues. An audit committee has experience in overseeing disclosure and audit matters but its focus may be too financially oriented. Moreover, on its own, financial disclosure requirements are substantive and complex and CSR just adds another layer of complexity to an already full plate. In sum, many boards are now struggling with the issues of CSR reporting and striving to choose a path that will ensure credible reporting as well as protect the board from any criticism.

3.4.4 CSR Focus

In a recent special issue, The Economist argues that ESG covers too wide a spectrum and that firms and investors should focus on 'E', especially climate change (*The Economist*, 2022). Regulators seem to share The Economist's concern as they tend to concentrate their disclosure requirements to climate change risks. While the magazine's position has generated an intense debate among experts and observers, it does bring forward a valid point for boards of directors. Is it possible and feasible for firms to chase a multi-pronged CSR strategy encompassing a wide range of activities and for boards to oversee such strategy and to properly assess a firm's performance? Even pursuing a single-minded profit maximization strategy is far from evident for a firm and requires a board to be diligent in its control and advisory roles.

In my view, firms, and their boards, should pursue a wide-range CSR strategy but should target specific dimensions or aspects for which they aim to achieve leadership positions and be seen as game changers. These specific aims then become the focus of board attention and help coalesce attention, energy and skills within the board and the firm towards their attainment. Such an approach is consistent with the viewpoint expressed in a recent McKinsey report.[8]

3.4.5 CSR Orientation and Performance

In August 2019, the U.S. Business Roundtable made headlines by releasing its so-called Statement on the Purpose of the Corporation in which it stated that corporations existed to build an economy that served all Americans.[9] Signed by 181 CEOs of some of the United States' (U.S.) largest corporations, the report was either lauded or criticized. On the one hand, the release of such a statement may signal an end to shareholder value-centered capitalism and the beginning of a new era that caters to a wider range of stakeholders. For instance, in a Forbes magazine commentary, senior contributor George Bradt argues that while the Statement is voluntary and does not change the legal or regulatory regime in which firms evolve in the U.S., it does reflect the reality that CSR matters and that the search for profits without consideration for customers, suppliers, employees and communities leads us to a collective wall.[10] On the other hand, the statement can also be seen as a cynical attempt by CEOs to hide or focus attention away from their own underperformance. Aneesh Raghunandan (London School of Economics) and Shiva Rajgopal (Columbia University) (2021) investigate the issue further and find that, on average, firms whose CEOs signed the Statement performed worse than their peers on several CSR performance dimensions. Their conclusion is to the effect that '…that investors ought to be vigilant when assessing claims of stakeholder-oriented practices by firms and ESG funds'.

Moreover, recent history is replete with CEOs who strived to pursue a CSR enhanced agenda, only to be pushed aside by activist investors dissatisfied with the firm's financial performance. For instance, it is telling that the current Chair of the International Sustainability Standards Board, Emmanuel Faber, was allegedly fired from his position as CEO of Danone, the French food products giant, after pursuing a strong sustainability driven strategy that transformed

Danone into France's first '*entreprise à mission*', a status similar to U.S. B-corporations.[11] Two activist investment funds took aim at the firm for its financial underperformance and engineered a coup that led to the ousting of its CEO. Faber's downfall led to much discussion as to whether the pursuit of both economic and environmental (or social) goals was feasible.

While the jury is still out on this matter, Faber's experience that the path towards a more CSR open corporate world is paved with challenges and possible pitfalls and that CEOs, and their boards, must navigate into a tumultuous context. Striking the right balance between potentially divergent objectives is key. Moreover, the episode suggests that strong board support is critical for the implementation of a successful and long-term CSR strategy. Shareholder support, sustained by quality disclosure but also clear guideposts and milestones is also essential as there may be short-term hiccups and distractions on the way towards a more sustainable future for the firm.

3.5 THE WAY FORWARD

This chapter reflects the concerns and thoughts that a corporate director may face when discussing CSR issues at a board. While how firms' approach and deal with CSR is a critical ingredient into our society's ability to successfully manage the environmental and social challenges facing us, its eruption into the boardroom clashes with several other issues that managers and directors must also deal with. Hence, making sure that CSR issues attract board attention and represent a significant item on board meeting agendas does require tenuous and consistent work and diligence.

Having a clear line of sight about reputational and systemic risks, making sure that accountabilities are well defined, ensuring that proper governance is in place and embedding CSR strategy into a firm's strategy are some of the actions that will make the difference in the long-term in terms of having a firm make a difference. In my view, long-term value creation entails that a firm engages with CSR issues fully and comprehensively. Boards have a unique and important role to play in this regard.

NOTES

1. The analysis is grounded in the author's own governance experience. More specifically, he is a member of the board of directors of a large financial services institution in which he chairs the Audit committee and is a member of the Governance and Responsible Finance committee and of the Risk Management committee. He is also a member of the board of trustees of a sizable pension plan as well as a member of its Investment subcommittee and chair of its Audit committee. Previously, he was a member of the board of directors as well as chair of the Audit and Risk Management committee of a large property and casualty insurer.
2. For further information regarding directors' duties, see, among other sources, Fasken. 2021. Doing Business in Canada 2022 – Directors' and Officers' Liability. October 15. Retrieved on August 9, 2022, from: https://www.fasken.com/en/knowledge/doing-business-canada/2021/10/10-directors-officers-liability.
3. The analysis is conducted within a specific legal context, that is, Canada. Laws, regulations and institutions relating to corporate governance and corporate social responsibility do vary across countries. However, the challenges faced by corporate directors, especially in an era in which there is much cross-country investment, are likely to share many similarities across countries.

4. https://www.spencerstuart.com/-/media/2021/october/ssbi2021/us-spencer-stuart-board-index-2021.pdf.
5. https://www.bloomberg.com/news/articles/2022-05-31/deutsche-bank-s-dws-unit-raided-amid-allegations-of-greenwashing.
6. https://www.sec.gov/news/press-release/2022-46.
7. https://news.bloomberglaw.com/esg/executive-pay-tied-to-esg-goals-grows-as-investors-demand-action; https://www.pwc.com/gx/en/issues/esg/exec-pay-and-esg.html; https://www.hugessen.com/en/news/integrating-esg-considerations-executive-compensation-governance.
8. https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value.
9. https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans.
10. https://www.forbes.com/sites/georgebradt/2019/08/22/how-the-new-perspective-on-the-purpose-of-a-corporation-impacts-you/?sh=25a214e894f1.
11. https://time.com/6121684/emmanuel-faber-danone-interview/.

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4. CEO activism: Connecting with stakeholders

Paula Bernardino

The aim of this chapter is to explore the links between corporate activism with respect to its stakeholders and the emergence of CEO activism. A relatively new phenomenon, CEO activism seems to be better received compared to Corporate Social Responsibility (CSR) actions and/or corporate activism. It is likely to grow in importance and to evolve as different types of leadership (e.g., greater gender diversity) arise in the upcoming years. Identifying factors that underlie the trend towards greater CEO activism is challenging but its impact is starting to be better understood. Studies show CEO activism is assessed based on three important attributes: the level of morality of the CEO in question, the perceived level of authenticity and the timeliness of the action or message. For analysis purposes, four types of CEO activism are mentioned – *token*, *servant*, *strategic and citizen*. These types of CEO activism are identifiable by looking at the level of moral intensity of a social issue with the level of business relatedness.

4.1 CORPORATE ACTIVISM FOR INFLUENTIAL STAKEHOLDERS

Employees and consumers, especially Millennials, are increasingly becoming more socially conscious, and that trend is likely to continue with Gen Z. Younger consumers tend to research companies before they make purchasing decisions to identify these companies' actions towards social issues. The annual Global Corporate Sustainability Report in 2015 indicated that, globally,

> 66% of consumers are willing to spend more on a product if it comes from a sustainable brand. Millennials gave an even more impressive showing, with 73% of surveyed Millennials indicating a similar preference. Additionally, 81% of Millennials even expect their favourite companies to make public declarations of their corporate citizenship (Landrum, 2017).

However, the emergence of activism from corporations and/or their leaders presents benefits but also risks depending upon stakeholders' responses (positive vs negative) and/or which stakeholders respond.

Consistent with the evolution of society and stakeholders' expectations, a year before the COVID-19 pandemic, the 2019 Edelman Trust Barometer found that '71% of employees believe it is critically important for "my CEO" to respond to challenging times. More than three-quarters (76 percent) of the general population concur - saying they want CEOs to take the lead on change instead of waiting for government to impose it.' The events of the past three years have solidified society's expectations with respect to corporations with 'Societal leadership' becoming a core business function. The last three items in the 2022 Edelman Trust Barometer Top 10 findings make this development very clear (https://www.edelman.com/trust/2022-trust-barometer):

> #8 - Business needs to step up on societal issues
> … respondents believe business is not doing enough to address societal problems, including climate change (52%), economic inequality (49%), workforce reskilling (46%) and trustworthy information (42%).
> #9 - Societal leadership is now a core function of business
> When considering a job, 60% of employees want their CEO to speak out on controversial issues they care about and 80% of the general population want CEOs to be personally visible when discussing public policy with external stakeholders or work their company has done to benefit society. In particular, CEOs are expected to shape conversation and policy on jobs and the economy (76%), wage inequity (73%), technology and automation (74%) and global warming and climate change (68%).
> #10 - Business must lead in breaking the cycle of distrust
> … people want more business engagement, not less. … The role and expectation for business has never been clearer, and business must recognize that its societal role is here to stay.

In their paper *The New Face of Corporate Activism* in 2015, Davis and White indicate it is in corporations' best interest to be alert and supportive towards employee-led movements rather than shutting them down.

> Employees are likely to be much more in touch with social issues affecting their company than are top executives. Organizations that let their employees' voices be heard without being stifled by 'corporate antibodies' will gain an advantage in responding prospectively and thoughtfully to controversies, rather than in response to a boycott or social media storm (p. 1).

Hence, corporate activism can be embraced as an employee retention strategy but can also be useful for employee attraction. The same is true for companies' customers. Since information about companies and their policies are easily accessible in this digital era, current and potential employees and/or customers can quickly find companies' positions on social issues affecting them. 'The world changes, and business must change as well. Companies that fail to reflect the social values and priorities of their workforce and their customers are unlikely to thrive,' (Davis & White, 2015, p. 7).

4.2 THE EMERGENCE OF SOCIAL ISSUES MANAGEMENT AND CORPORATE ACTIVISM

Social issues provide an impetus for corporate activism as corporations strive to manage key stakeholders' perceptions and expectations. According to Karamanis (2021, p. 89) 'consumers want brands to take a stand on social issues they perceive important and relevant to them.' The implication from this assertion is that there are social issues in all organizations' operations as stakeholders want to increasingly hold firms accountable for their actions on a variety of issues. Karamanis (2021) further adds that, from a social issues management perspective, corporations increasingly seek to be 'on the right side of history'. In this context, remaining on the sidelines on social issues that are deemed important or critical cannot be viewed as an option as organizations, and their CEOs, need to engage with their audiences.

The 2022 Global Communications Report *The Future of Corporate Activism* indicates '93% of PR professionals say they are spending more time in their jobs navigating societal issues than five years ago, and they expect these challenges will increase.' The majority are looking to their employees to determine their positions. Some organizations now have dedicated individuals managing corporate activism. Some, like Ben & Jerry's and Rare Beauty, have created separate functions for their activists' efforts. PR agencies are creating dedicated practices to advise clients on the growing number of issues they are facing.

Society is calling on companies to become more human.

> Not that long ago, corporate executives had a single thing to worry about: profit. … No longer. For today's chief executive officers, the traditional financial metrics such as earnings and return on investment are being eclipsed in the boardroom and society by the demand to satisfy constituencies or take a stand on issues like abortion, global warming, and racial and gender equity. … the pressure on businesses to pick sides will only grow (Green, 2022).

So should corporations be activists? Jennifer Lewington at Corporate Knights argues 'According to top business schools, companies should consider taking a side on social and environmental causes in line with their brand to build corporate authenticity,' (Lewington, 2022).

4.3 CEO ACTIVISM

In their paper *The Double-Edged Sword of CEO Activism*, Larcker et al. (2018) define CEO activism as 'the practice of CEOs taking public positions on environmental, social, and political issues not directly related to their business' and view it as a topic with increasing visibility and interest. According to Andrew Ross Sorkin in the *New York Times*, 'Chief executives across the business world are increasingly wading into political issues that were once considered off limit,' (2018).

What could be driving the trend towards greater CEO activism? Hambrick and Wowak (2021) offer a stakeholder alignment model to show CEO activism originates from a CEO's personal values but is facilitated (or suppressed) by the CEO's expectation of support from stakeholders, particularly employees and customers. CEOs will be more inclined to engage in CEO activism when there is alignment with other organizational members, namely its employees. Alignment with its customers is also an important consideration. Hambrick and Wowak (2021) also discuss the importance of CEO power, celebrity, and narcissism in influencing whether, and how vividly, the CEO's values manifest in activism. More specifically, they argue that, in addition to stakeholders' ideological leanings, a CEO's social stature and personality influence if, and how intensely, a CEO's ideology and personal view will manifest themselves in activism. As they state:

> CEOs differ in ways that can either amplify or diminish the odds of acting on their values systems, including differences in (a) their capacity to act without fear of sanction by their boards, (b) their self perceived potential to engage and sway audience members toward their espoused positions, and (c) their personal eagerness for public attention that tends to follow from speaking out on contentious issues (p. 44).

However, CEO activism is not unanimously endorsed. Some advocacy positions can be viewed by the public as being polarizing, for example on issues such as diversity, inclusiveness, gun control or climate change. As mentioned above, the recent Edelman Trust Barometer survey findings indicate consumers believe CEOs should take the lead on certain societal issues rather than wait for government to adopt policies or regulations. Thus, CEOs who remain silent on important issues may attract increased scrutiny and suffer from a lack of respect. Nevertheless, others believe CEOs should not use their positions as leaders of corporations to endorse causes and promote personal beliefs at the risk of potentially alienating customers, employees and other stakeholders (Branicki et al., 2021, p. 270).

Hence, given this uncertainty, when looking at specific social issues, a clear answer emerges: the general public seems to be more in favour of CEO activism when it is related to environmental issues and widespread social issues, such as healthcare and poverty. But the reaction is mixed about issues of diversity and inclusion that revolve around race, LGBTQ rights and gender. And contentious issues such as gun control and abortion, as well as politics and religion receive less favourable reactions (Larcker et al., 2018, p. 4). And while the public notices CEO activism, it can also be a double-edged sword: 'CEOs who take public positions might build loyalty with employees, customers, or constituents, but these same positions can inadvertently alienate important segments of those populations' (Larcker et al., 2018, p. 4).

Branicki et al. (2021) show that 'CEOs used their status and positional influence to encourage other stakeholders to join them in their advocacy by speaking out. CEOs, through their advocacy, sought to actively mobilize their employees and members of the public to act.' Therefore, CEO activism can be seen as a call to action towards the issues concerned.

Toffel (2018) argues that CEO activism is different from the usual engagement of corporations into politics because of its high visibility and profile. Though corporations have been lobbying the government and making campaign donations for a long time now, a dramatic new trend has emerged in United States (U.S.) politics in recent years: CEOs are taking very public stands on thorny political issues that have nothing to do with their firms' bottom lines. Business leaders like Tim Cook of Apple, Howard Schultz of Starbucks, and Marc Benioff of Salesforce—among many others—are passionately advocating for a range of causes, including LGBTQ rights, immigration, the environment, and racial equality.

4.4 EXAMPLES OF CEO ACTIVISM AROUND THE WORLD

CEO activism is not unique to the U.S. For instance, in 2017, Alan Joyce, the Chief Executive Officer (CEO) of the Australian airline Qantas, was named the world's most influential LGBT business executive in an annual listing. He was chosen for his vocal campaigning in favour of same-sex marriage, an issue Australians were voting on at the time. 'No one should feel like they need to live a double life,' said Mr Joyce. 'In the past year I've worked hard to drive changes in my own workplace and indeed my own country' (BBC, 2017).

In the United Kingdom (U.K.), Sir Richard Branson has brought awareness and inspiration to individuals with dyslexia. He is a positive voice for young people who have dyslexia. He often speaks out about being dyslexic, and how it actually helped him succeed. 'My dyslexia has shaped Virgin right from the very beginning and imagination has been the key to many of our successes, he said. It helped me think big but keep our messages simple' (Taylor, 2019).

4.5 THE LINK/ALIGNMENT BETWEEN CEO ACTIVISM WITH CORPORATE ACTIVISM AND CSR

In their paper entitled *The Morality of "New" CEO Activism*, Branicki et al. (2021) state that 'CEO activism is viewed positively by consumers only in circumstances where evaluators perceive that the company's activism is driven by values related to its core business activities' (p. 269), which highlights how CEO activism is viewed compared to corporate activism or a corporation's CSR strategy and actions. The alignment needs to be clear to stakeholders.

Chatterji and Toffel (2019) also offer these insights into the perception of CSR vs CEO activism:

> First, the literature on 'strategic CSR' argues that if these efforts are not closely aligned with the organization's core business, their social impact will be limited. Second, these corporate initiatives suffer enduring suspicion that they are thinly veiled attempts to enhance brand equity and attract customers, rather than good-faith efforts to translate corporate values into social impact (p. 162).

This could explain why many corporations are hesitant to become 'activists' for social causes and engage in corporate activism. By contrast, CEOs and other business leaders have the opportunity to speak out as individuals try to influence social issues. And when such CEO activism is aligned with employees' and/or customers' values (or other influential stakeholders) it can be a win for the company.

4.6 THE IMPACT OF CEO ACTIVISM

Chatterji and Toffel (2019) explore whether CEO activism enhances brand loyalty or triggers a backlash against the CEO's company by examining whether CEO activism can influence political and consumer attitudes. They also examine whether CEO activism can positively or negatively influence consumers' purchasing intent and explore whether this effect is moderated by the alignment of consumers' political preferences with the CEO's. Their conclusion is to the effect that the influence of CEO activism depends on the audience: 'CEO activists may have considerably more influence on some audiences than others and that CEO activism is a double-edged sword that can promote or erode purchasing intent, depending on the audience' (p. 171), which means the population will link a CEO activism to their company's and there is therefore a risk to alienate consumers who disagree with the CEO's public stance.

Jin et al. (2022) discuss how CEO activism can be good for organizations as long as there's alignment with morality, authenticity and timeliness. These three attributes of CEO activism lead to consumers' trust and supportive behaviours. The *morality of CEO activism* is the perception if it's ethical and morally right. 'CEO activism can be positioned as an ethical act in which CEOs take a public, moral stand, and justify direct intervention based on ethics and genuinely held values' (Jin et al., 2022, p. 4). The *authenticity of CEO activism* is how it is perceived by the public, whether it is considered genuine, consistent and original, while the *timeliness of CEO activism* refers to

> the promptness in which the CEO delivers their sociopolitical claims or responds to public inquiries. Timeliness, in consideration of issue life cycles, may be an essential attribute of CEO activism as the timing of CEOs taking a stance on the social issue reflects whether a CEO's activism is proactive or reactive (Jin et al., 2022, p. 5).

These three attributes of CEO activism are important to gain consumers' trust since today's younger generations (Millennials and Gen Zs) are less likely to believe corporate CSR initiatives and messages. The perception CEOs set the corporate norms, rules and images makes their activism actions more scrutinized and believed when those three attributes are easily identifiable. ‘CEOs conveying a caring stance on public issues are more likely to generate the belief among younger generations that the organization represented by the CEO is trustworthy and socially responsible’ (Jin et al., 2022, p. 5).

4.7 CAUGHT BETWEEN POLITICAL DECISIONS AND STAKEHOLDERS’ EXPECTATIONS

To further illustrate the challenges arising from CEO activism, I now briefly review some recent cases in which CEOs’ words or actions led their corporations to be caught between political decisions and stakeholders’ expectations. As lens for my analysis, I rely on Jin et al. (2022) three attributes of effective CEO activism, that is, morality, authenticity and timeliness.

4.7.1 Voting Rights and Access

In April 2021, Georgia-based companies faced boycott calls over a voting bill that had passed in the state’s legislature. ‘Opponents of a law that changed voting rules in Georgia are calling for boycotts of high-profile Georgia based companies, including Delta, Coca-Cola and Home Depot. The legislation’s opponents say the companies didn’t do enough to defeat the measure’ (Isidore, 2021). Republicans who passed the law said the measure was needed to prevent fraud and stop illegal voting while opponents said the legislation led to voter suppression efforts that will reduce minority voting. Given the backlash they were facing, several Georgia-based companies issued statements saying they supported everyone’s right to vote.

After an initial statement that was deemed soft, Delta Airlines’ CEO came out with a much stronger statement against the new law:

‘I need to make it crystal clear that the final bill is unacceptable and does not match Delta’s values,’ said the statement to Delta employees from CEO Ed Bastian.

> After having time to now fully understand all that is in the bill, coupled with discussions with leaders and employees in the Black community, it’s evident that the bill includes provisions that will make it harder for many underrepresented voters, particularly Black voters, to exercise their constitutional right to elect their representatives. That is wrong (Isidore, 2021).

Another instance of an organization’s CEO strongly coming out against the new law can be found in the following statement from Major League Baseball (MLB) Commissioner, Rob Manfred:

> We have engaged in thoughtful conversations with Clubs, former and current players, the Players Association, and The Players Alliance, among others, to listen to their views … I have decided that the best way to demonstrate our values as a sport is by relocating this year’s All-Star Game and MLB Draft. … Major League Baseball fundamentally supports voting rights for all Americans and opposes restrictions to the ballot box (Almasy & Close, 2021).

The All-Star Game that year was thus moved from Atlanta, Georgia, to Denver, Colorado.

Looking at the statements from these two leaders, Delta Airlines’ initial statement from its CEO was deemed soft as lacking ‘morality’ and ‘authenticity.’ Thus, he had to rephrase and restate his message in a more forceful way. Whereas the statement from the MLB

Commissioner was deemed to contain the three attributes, morality, authenticity and timeliness that Jin et al. (2022) link with effective CEO activism.[1]

4.7.2 'Don't Say Gay'

In early 2022, another social issue, this time in Florida, U.S., was making headlines and specifically putting pressure on one company. In March 2022, Florida's Republican-dominated legislature passed a bill to forbid instruction on sexual orientation and gender identity in kindergarten through third grade, rejecting a wave of criticism from Democrats that it marginalized LGBTQ people. Since its inception, the proposal, called the '*Don't Say Gay*' bill, drew intense opposition from LGBTQ advocates, students, national Democrats, the White House and the entertainment industry (Izaguirre, 2022).

That is how Walt Disney Co. got caught in the middle of the debate, forcing the company into a balancing act between the expectations of a diverse workforce and demands from an increasingly polarized, politicized marketplace. LGBTQ advocates and Disney employees called for a walkout in protest of CEO Bob Chapek's slow response in publicly criticizing Florida's legislation '*Don't Say Gay*' bill, a lack of 'timeliness,' one of the attributes expected in CEO activism. 'Even though only a small percentage of Walt Disney Co. workers participated in the walkout, organizers felt they had won a moral victory with the company issuing a statement denouncing the anti-LGBTQ legislation that sparked employee outrage' (Schneider & Farrington, 2022).

4.7.3 Abortion Rights

Following the 2022 legislation in various states in the U.S. restricting access to an abortion, many companies stepped up. Following the lead of Citigroup Inc., companies such as Lyft, Uber Technologies and Microsoft said they would help cover costs for employees who must travel to another state to get an abortion—while being careful not to take a position on the issue. Several companies made their view public, releasing statements reaffirming their commitment to helping employees gain access to health care services they may not be able to obtain in their state. With abortion rights overturned on the federal level, there was more pressure for companies to respond, especially for those with headquarters in one of the 13 states that have measures in place to ban abortion.

'Employers like us may be the last line of defence,' said Sarah Jackel, the chief operating officer of Civitech, a company in Texas. Civitech committed to covering travel expenses for workers seeking an abortion immediately after the Texas' ban went into effect. Ms. Jackel said the policy had strong support from both employees and investors, though the company declined to say if anyone had used it. 'It makes good business sense, there's no reason we should be putting our employees in the position of having to choose between keeping their job or carrying out an unwanted pregnancy' (Goldberg, 2022).

Several companies released strong statements on the situation, mainly focusing on how they were helping their employees and why it was important. Although not all statements are signed by the CEO, it is always signed by a senior leader, and the three attributes of CEO activism are identifiable. And the statements from these companies also clearly demonstrate the focus on addressing a main stakeholder—their employees (see Appendix 4.1).

Lyft was one of the first companies to weigh in on the 2021 Texas abortion legislation. The corporation's founders stated that 'the law is incompatible with people's basic rights to privacy, our community guidelines, the spirit of rideshare and our values as a company' (2022 Global Communications Report '*The Future of Corporate Activism*'). In the weeks following their statement, Lyft's stock price increased by 5 percent.

However, the situation was complex for the corporate sector. With the current political climate in the U.S., this remains a divisive issue. When it was being played out, a Public Relations firm, Zeno—part of the PR giant Edelman—even quietly advised clients to 'not take a stance' on abortion rights, telling clients,

> This topic is a textbook '50/50' issue. Subjects that divide the country can sometimes be no-win situations for companies because regardless of what they do they will alienate at least 15 to 30 percent of their stakeholders … Do not assume that all of your employees, customers or investors share your view (Mann, 2022).

4.8 RECENT SOCIAL ISSUES DRAWING CORPORATE OR CEO ACTIVISM

4.8.1 Racism

When the Black Lives Matter movement emerged in May 2020 following the death of George Floyd, companies like Nike spoke up by releasing a video '*For once, Don't Do It*', urging people not to turn their back on racism. It can be argued this response from Nike was the company taking action based on the expectation of their main stakeholders: customers and employees. The racial justice protests during the summer of 2020 changed the dynamic of corporate activism.

4.8.2 Domestic and Sexual Violence

Domestic violence involving sports celebrities is another social issue where main stakeholders—fans and sponsors—voice their expectations to see the sports organizations respond and take a stand. In early 2020, New York Yankees' Domingo German was suspended 81 games for domestic violence under Major League Baseball's domestic violence policy (Kepner, 2020).

In early 2022, it was the turn of European football to make headlines with a case of a young star facing domestic violence accusations. In January 2022, Manchester United suspended star Mason Greenwood amid domestic violence accusations (Goillandeau & Sterling, 2022). A few days later, sponsor Nike dropped Greenwood, terminating its endorsement agreement with the player.

A few months later in 2022, Canada was hit with a scandal as its national hockey federation was involved in a serious situation of systemic sexual violence and cover ups dating back several years. As the scandal continued to grow with increased media coverage, a month later sponsors started pulling out. At the end of June, after Scotiabank, Canadian Tire and Telus, Tim Hortons and Imperial Oil also announced taking away their funding. 'Canadians are waiting and demanding clear and concrete explanations as to how Hockey Canada will change,' indicated a press release from Tim Hortons (Canadian Press, 2022).

This was a complex situation involving politics (politicians calling for change) and the corporate sector (sponsors) not wanting their brand and image to be related to this scandal and following their stakeholders' expectations. Ultimately, do the right thing and be on the right side of history. In early October, five months after the scandal erupted, Canadian Prime Minister Justin Trudeau suggested that 'if the national hockey governing body continued to resist calls to address its handling of sexual assault claims and funding, the organization could be replaced' (Gallagher, 2022).

Sponsors continued their pressure on the organization. The chief executive officer of Hockey Canada, along with the entire board of directors, finally officially agreed to step down on 11 October, following the mass exodus of sponsor support.

What is interesting to note from sponsors responses is, in addition to the actual action of going out with a public statement, the statements identify a main stakeholder—customers—and mention addressing their expectation as sponsors of the organization to speak up. But none of the statements mention the victims. And even more interesting, is to compare the corporate statements in the abortion rights case vs the sexual assault scandal (Hockey Canada) and observe that many more CEOs signed statements in the abortion rights situation. Is it because CEOs in the U.S. are more open and aware of the impact their activism can have? Or is it the stakeholders targeted by the statement that will make a CEO more prone to engage (employees in the abortion rights situation vs customers in the Hockey Canada situation)?

4.9 DISCUSSION AND FUTURE RESEARCH

Given it is still a relatively new phenomenon, it will be interesting to explore further the potential benefits and drawbacks related to corporate and CEO activism.

Another question that future research can look into is whether CEO activism can attract new talent. From an external perspective, the true impact of CEO activism on corporate performance is unknown. For example, to what extent can CEO activism increase consumers' intention to purchase the company's products?

The prevalence, nature and impacts of CEO activism need to continue to be researched and understood further. 'Changes in board demographics that reflect long-term trends toward younger CEOs, especially in some sectors, and a higher proportion of female leaders in contemporary organizations will be reflected in changes in the patterns of CEO activism' (Branicki et al., 2021, p. 283). So far, the studies show CEOs engage in activism when/if it does not harm the main business interests of their company. But CEO activism is still seen as relatively new and it will be interesting to see how it evolves with the upcoming changes mentioned above.

Finally, future research should also explore how socio-political contexts shape CEO activism differently across countries and how CEO activism shapes those contexts.

4.9.1 Four Types of CEO Activism

Branicki et al. (2021) define four types of CEO activism, identifiable by looking at the level of moral intensity of a social issue with the level of business relatedness:

- **Token activism**: 'a given issue is low in terms of both wider moral issue intensity and relatedness to the focal business'
- **Servant activism**: 'issues of high moral intensity but low business relatedness'
- **Strategic activism**: 'the focal issues have low moral intensity but high business relatedness'
- **Citizen activism**: 'both high levels of moral issue intensity and clear business relatedness of the focal issue'.

If CEO activism becomes more prevalent and future research offers more conclusions and key takeaways, it will be interesting to identify and evaluate CEO activism with the four types mentioned above. It will give CEO activism more legitimacy being able to explain it with these concepts.

NOTE

1. https://www.nytimes.com/2021/03/31/business/delta-coca-cola-georgia-voting-law.html.

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APPENDIX 4.1

Statements from companies following the 2022 legislation in various states in the United States restricting access to an abortion.

Several companies released strong statements on the situation, mainly focusing on how they were helping their employees and why it was important.

- **Warner Brothers** said it would cover travel expenses for abortions. ‘In light of the Supreme Court’s recent decision, we immediately expanded our health care benefits options to cover transportation expenses for employees and their covered family members who need to travel to access abortion and reproductive care,’ said a company representative.
- **Disney** said it would cover travel expenses as well: ‘We recognize the impact that today’s Supreme Court ruling could have on many Americans,’ wrote Paul Richardson, the company’s head of human resources, and Pascale Thomas, a vice president.
- A representative for **Meta** said: ‘We intend to offer travel expense reimbursements, to the extent permitted by law, for employees who will need them to access out-of-state health care and reproductive services. We are in the process of assessing how best to do so given the legal complexities involved.’
- **Bank of America** said: ‘We have expanded the list of medical treatments that are eligible for travel expense reimbursement. This list will now include cancer treatment, organ transplants at centers of excellence, reproductive health care including abortion, and hospital admissions for mental health conditions.’
- **Intuit** said it would cover employee travel expenses to get abortions. ‘We support our employees’ access to comprehensive health care—no matter where they live,’ the company said. ‘We will continue to do what we can to best support employees’ ongoing access to the full range of health care that they believe is right for them.’
- **Condé Nast** said it would cover travel and lodging for employees to get abortions. ‘It is a crushing blow to reproductive rights that have been protected for nearly half a century,’ said Roger Lynch, Condé Nast’s chief executive.
- **Zillow** said it would reimburse its employees up to $7,500 when significant travel is required for medical procedures including abortions. ‘We strongly support our employees’ right to make health care choices that are right for them, and we will continue to do so,’ a Zillow representative said.
- **Box**, which had already said it would cover employee travel expenses for abortions, said it was ‘disappointed by the U.S. Supreme Court’s decision to overturn Roe v. Wade.’
- **Salesforce** said it would relocate employees concerned about their ability to get abortions in Texas. ‘We will continue to offer our longstanding travel and relocation benefits to ensure employees and their families have access to critical health care services,’ a representative said.
- **Patagonia** reaffirmed its commitment to covering employee travel expenses for abortions: ‘Caring for employees extends beyond basic health insurance,’ the company said on LinkedIn. ‘It means supporting employees’ choices around if or when they have a child.’
- **Dick’s Sporting Goods** said it would provide up to $4,000 in travel reimbursement for employees who live in states that restrict abortion access and that the policy would apply to any spouse or dependent covered by the company’s medical plan.

- **Lyft**, which had previously said it would cover travel expenses for abortions, said the Supreme Court's decision 'will hurt millions of women by taking away access to safe, and private reproductive health care services.' It also said it was expanding its 'legal defense commitment' to protecting drivers who may be sued for taking people to clinics. 'No driver should have to ask a rider where they are going and why,' Lyft said.
- **Uber** emphasized the company's insurance coverage for 'a range of reproductive health benefits, including pregnancy termination' and its commitment to covering travel expenses for employees accessing health care services. 'We will also continue to stand behind drivers, reimbursing legal expenses if any driver is sued under state law for providing transportation on our platform to a clinic,' the company said.
- **BuzzFeed**'s chief executive, Jonah Peretti, told staff that the company would provide stipends for employees who needed to travel for abortions. 'The decision is so regressive and horrific for women that it compels us to step up as a company to ensure that any of our employees who are impacted have funding and access to safe abortions as needed,' he said.
- Jeremy Stoppelman, **Yelp**'s co-founder and chief executive, called the decision a threat to gender equality in the workplace. 'Business leaders must step up to support the health and safety of their employees by speaking out against the wave of abortion bans that will be triggered as a result of this decision and call on Congress to codify Roe into law,' he said. Yelp had earlier pledged to cover travel expenses for abortion.
- **H&M** said it would cover travel and transportation expenses for employees living in states where abortion is prohibited or restricted: 'Not only is supporting access to comprehensive reproductive care for our colleagues pivotal in supporting our women-led work force, but also crucial to our commitment toward full gender parity and equal opportunity in the workplace and broader society,' the clothing company said.
- **Vox Media** said the company would cover travel expenses for employee abortions and would also expand its pregnancy loss leave to cover people who get abortions. 'This ruling will have a disproportionate impact on access to care depending on where people live,' Jim Bankoff, the company's chief executive, wrote in a memo. 'It puts families, communities and the economy at risk, threatening the gains that women have made in the workplace over the past 50 years.'
- **Adobe**, which had previously said its health care policy covered travel expenses for abortions, said: 'We have and will always prioritize inclusive benefits to create a world-class culture for our employees.'
- **Google**, which covers travel expenses for employee abortions, told its employees they could also apply to relocate 'without justification.'
- **Starbucks** announced earlier this year that it would cover employee travel expenses for abortions, and the company's senior vice president, Sara Kelly, said in an interview that employees would be able to access this benefit confidentially. 'It doesn't matter what you believe, it doesn't matter where you live, it's about access to health care,' Ms. Kelly said.
- **Impossible Foods** said it would cover travel, lodging, meals, and childcare for employees who need to travel to get abortions out of state: 'Supporting our colleagues in their reproductive health is absolutely the right thing to do,' Peter McGuinness, the chief executive, said on LinkedIn.
- Accenture, Expedia, URBN, Estée Lauder Companies, Chobani, Yahoo, The Body Shop, Discord, Rivian, Bumble, Bloomberg L.P., Ralph Lauren, Sephora, Neiman Marcus

Group, Vanguard, IBM and Match Group said they would help cover travel for employees who needed health care procedures not provided locally.

- **Douglas Elliman** said it would expand its health care coverage to reimburse employees who have to travel to get abortions: 'Douglas Elliman stands firmly behind women and their reproductive rights,' said company leaders in an email to staff.
- **Nike** said it covered travel and lodging for employees who needed to travel to get health care procedures, including abortions: 'No matter where our teammates are on their family planning journey—from contraception and abortion coverage to pregnancy and family-building support through fertility, surrogacy and adoption benefits—we are here to support their decisions,' the company said.
- **Nordstrom** said it created a new travel benefit for employees who could not get abortions locally: 'While we had reason to believe this ruling was coming, we recognize that this news still weighs heavily on many of us,' company leaders wrote in a message to staff.
- **OpenSea** said it would cover travel for employee abortions. 'We are heartbroken, and frustrated, and overwhelmed by the challenge ahead of us,' company leaders said in a message to staff. 'We believe that access to safe and legal abortion is absolutely critical to keeping women and those with female assigned reproductive systems healthy and empowered to make their own choices about their future, and to pursue their missions and ambitions.'
- **PricewaterhouseCoopers** said its employees could apply for financial assistance for expenses associated with medical procedures. 'I know that some of you will think that I haven't said enough in this note and that some of you will think that I've said too much,' said the firm's chairman in a message to staff this weekend. 'What I hope you take away from it is that I care.'
- **Wells Fargo** told its employees that the firm would expand its existing travel benefits for medical coverage to include reimbursement for abortion travel 'in accordance with applicable law.'
- **Procter & Gamble** told its employees that starting in January 2023 its health care plans will cover travel support for medical care not available close to home: 'P&G supports our employees in having access to a wide range of health care options—including reproductive care—so they can determine what's best for them and their families,' the company said.
- **Amazon**, which had previously said it would cover abortion-related travel expenses, told employees:

> We know that many Amazonians are experiencing strong emotions following the recent U.S. Supreme Court ruling. As a company with 1.6 million employees, there are a lot of different viewpoints on this topic across our team, and we work to be respectful of everyone's perspectives while also taking care of and supporting our employees' personal medical needs.

- **Danone North America**, which updated its health care benefits to cover abortion-related travel, said: 'We are unequivocal in our support for gender equity. We believe reproductive rights fall squarely into that framework, that employees have the right to make personal decisions regarding their health and wellness, and our role is to support them in those decisions.'
- **Deloitte U.S.** said it would help cover travel for employees who needed health care procedures not provided locally.

- **Ford Motor** said its employees with health savings accounts could use those to reimburse themselves for transportation necessary for medical care ‘within limitations of tax law.’ ‘Our priority is simple: to make sure our employees and their families have access to the health care they need,’ the company said.
- **Boston Consulting Group** announced it would cover abortion-related travel expense: ‘This is a very complex and difficult topic, and I know we have a range of opinions,’ Sharon Marcil, the company’s North American chair, said in a memo to staff. ‘We are fortunate to be part of an organization where our culture is that of respect and standing together, even when we may personally disagree.’
- **Vimeo** said it would cover abortion-related travel expenses: ‘We don’t support taking that freedom away from our employees,’ the company said.
- **KPMG U.S.** said it would cover abortion-related travel and lodging.
- **UnitedHealth Group** said it would cover abortion-related travel.
- **Target** said it would expand its policy on health-care-travel reimbursement to cover procedures not available close to home, including abortions.
- **The New York Times** said it would expand its health care plan to cover abortion-related travel and other procedures not available within 100 miles of home, including gender-affirming care. ‘It’s our goal to make sure that everyone who works for The Times Company has equitable access to care,’ said Danielle Rhoades Ha, a spokeswoman for the company. ‘We are actively working with the NewsGuild on this matter.’
- **Don’t Ban Equality**, a coalition of businesses, said more than 350 companies had signed its letter opposing restrictions on abortion access.
- **Walmart** said it would expand its health care plans to cover abortion and related travel expenses. Walmart is the largest private employer in the United States, with over 1.6 million workers.

Source: Retrieved from: Goldberg, E. (June 28, 2022) *These Companies Will Cover Travel Expenses for Employee Abortions* from The New York Times.

5. Net zero targets and governance: A literature review (2009–2021)

Ifigeneia Paliampelou[1]

5.1 INTRODUCTION

In 2018, the European Union (EU) announced its long-term strategy for a climate-neutral economy by 2050, an economy with net-zero greenhouse gas (GHG) emissions. Specifically, a set of principles consistent with the Sustainable Development Goals (SDG) put forward by the United Nations (UN) should lead the transition to climate-neutral Europe[2] (EC, 2018).

In recent years there have been an outburst of corporate climate target announcements in relation to corporate GHG emissions and climate strategy. Companies commit to corporate climate targets, making use of various climate-related labels such as *carbon neutral*, *climate neutral* or *net negative*. Often, the specific definitions of these labels are unclear, which generates ambiguity in the accountability of corporate environmental claims.

Furthermore, by setting corporate climate targets, firms commit to achieve their climate strategy within a certain period (e.g., net zero by 2050), thus, influencing investors and shareholders decisions in the long term. Both the corporate and academic communities are actively seeking clarifications on corporate target definitions. This is necessary to better understand a firm's climate profile, meaning whether the firm is actively and substantially improving its environmental impact or rather using climate-related disclosure to gain legitimacy while not substantially improving its carbon footprint. For example, a firm that provides a clear definition in terms of its corporate climate targets and detailed corporate reporting on scopes 1, 2 and 3 can be perceived as actively and substantially improving its climate impact.[3] On the contrary, a firm that provides a misleading corporate climate target definition and obscure GHG emissions accounting on scopes 1, 2 and 3 might not be interested in substantially improving its climate impact, but rather aims to gain legitimacy mainly through means of disclosure. In the latter case, there are examples of organizations that shift their corporate climate targets (i.e., from *carbon neutral* to *net zero*) but their climate strategies and GHG emissions accounting on scopes are not aligned. Thus, a firm could appear to promise a corporate climate target to legitimize its societal contribution towards the environment for a length of time and signal investors that it is a 'green' company, but in practice it may be using corporate climate targets for greenwashing.

The scientific consensus is to the effect that to get to net zero emissions by 2050, significant advancements in market offsetting mechanisms and offsetting technologies are to be made and employed drastically at the industrial level. These milestones on the economic-regulatory and scientific levels may support a firm with the necessary framework to commit to its corporate climate target, transit to a low-carbon economy and refrain from greenwashing.

On a broader scale, investors are interested to know which sectors claim corporate climate targets. Analyses suggest that although some sectors commit to corporate climate targets, most sectors must overcome economic, legal and scientific barriers to move forward in this respect.

There is increased stakeholder interest in corporate climate targets. Investors and other stakeholders learn about challenges for firms and risks of whole industries. Stakeholders can drive substantial climate-impact improvements in companies, for example, through stakeholder engagement in sustainability disclosure (e.g., demand for net zero target disclosure). In order to increase stakeholder trust in the targets that they disclose, companies need to show they implemented an appropriate corporate governance model. Therefore, by aligning the corporate governance model with sustainability disclosure, firms can gain legitimacy.

The aim of this chapter is to review various net zero definitions and its elements to suggest a 'net zero protocol'. It does so by providing answers to well-defined clinical questions using a systematic literature review.[4] Specifically, the following research questions are tackled:

- The net zero jigsaw puzzle definition
- Net zero emissions in terms of scopes 1, 2 or 3
- Net zero offsetting practices
- Net zero targets on sectoral level
- Corporate governance and net zero targets.

5.2 THE NET ZERO JIGSAW PUZZLE DEFINITION

This section focuses on research question 1 (How is net zero defined?) and describes the historical timeline on relevant net zero definitions. In this section, I further analyze the controversies about the net zero definitions. In addition, this review study explains which net zero definition should be used and in what context and introduces 'net zero protocol'.

The most prominent term that companies use when referring to their climate targets is *carbon neutral*. Initial research on carbon offset providers defines carbon neutrality as a process with three independent steps: (1) determine the extent of the carbon footprint; (2) implement emissions reduction measures and; (3) offset the remaining amount (Dhanda and Hartman, 2011). Further, analysis on the role of carbon offsets in the hotel industry defines *carbon neutral* as a score of four market indicators: project quality, carbon calculations, quality information of providers and price per ton of carbon offset (Dhanda, 2014). Today, the most standardized equivalent term of *carbon neutrality* is *net zero carbon dioxide* (CO_2) *emissions*, that means emissions achieved when anthropogenic CO_2 emissions are balanced globally by anthropogenic CO_2 removals over a specified period (Table 5.1) (IPCC, 2018). Moreover, recent research defines *carbon neutral* as 'carbon replacement, carbon reduction, carbon sequestration and carbon cycle'; the four main aspects to achieve carbon neutrality (Zou et al., 2021).

Early research considers the ethical aspect of climate neutrality as 'the best guarantee of ensuring that the poor and vulnerable are spared from even more threatening impacts such as heat waves, crop failures, floods, water shortages that will increasingly threaten their lives and livelihoods' (IPCC, 2014). Another ethical definition on climate neutrality follows a four-step process: 1) measurement of emissions; 2) reduction; 3) substitution of high-energy emission sources to one with little or no emissions and; 4) compensation for emissions after the substitution efforts normally with carbon credits (Ziegler, 2016). Moreover, climate neutrality is a legitimate strategy when it does not violate human rights and reduces climate change human risk. Consequently, a plausible climate neutrality strategy is for the developed countries to invest in transition as they are advanced in technological and social reduction and substitution (Ziegler, 2016).

Yet, an ethical definition per se for climate neutrality is insufficient to quantify GHG emissions. There is a general scientific consensus that climate neutrality refers to ‘a state in which human activities result in no net effect on the climate system. Achieving such a state would require balancing of residual emissions with emission (carbon dioxide) removal as well as accounting for regional or local bio-geophysical effects of human activities that, for example, affect albedo or local climate’ (IPCC, 2018).

According to the European Climate law, climate neutrality by 2050 means ‘achieving net zero greenhouse gas emissions for European Union (EU) countries as a whole, mainly by cutting emissions, investing in green technologies and protecting the natural environment’ (Table 5.1) (EC, 2018). From an environmental perspective, the carbon neutrality definition takes into consideration only CO_2 emissions. However, different GHG gasses have a different warming potential. For instance, methane has a 100-yr global warming potential of 32 times that of CO_2 (Nisbet et al., 2020). Hence, a climate neutral definition is more unitary allowing methane and other GHG to be brought together under one term (Nisbet et al., 2020). The climate neutrality term has a more scientific basis in relation to the carbon neutrality term and it could be more precise by referring to all anthropogenic influences not solely to Kyoto-GHG emissions (Brovkin et al., 2013).

A more scientific perspective of the net zero term is that of net-zero energy systems, if we assume that an energy system is a set of energy sub-systems. A net-zero energy system is one that does not add any GHG emissions into the atmosphere (Davis et al., 2018). Research explains that there are technological and economic constraints to achieve net-zero energy systems during this century. Among others, there is a challenge for emissions-free electricity, electrified substitutes for most fuel-using devices, alternative materials, and carbon-neutral fuels. However, these technologies are still under development. Thus, it is crucial to keep researching and deploy any of the available technologies as soon as possible (Davis et al., 2018).

In recent years, the term *net negative emissions* is used predominantly from corporations that are ahead in their climate neutrality commitments. Specifically, the term net negative emissions refers to the result of human activities where more GHG are removed from the atmosphere than are emitted into it. The quantification of negative emissions depends on the climate metric chosen to compare emissions of different gases such as global warming potential, global temperature change potential and others as well as the chosen time horizon (Table 5.1) (IPCC, 2018). In other words, net negative not only reduces current GHG emissions but also reduces past GHG emissions via offsetting practices at the same time. While the term climate neutrality ‘trades’ emissions emitted for the emissions removed, the term net negative emissions compensates for past emissions and viable technological solutions can contribute to achieving climate neutrality by 2050. This research assumes that the definition of net zero GHG emissions is equivalent to the term climate neutral according to the European Commission (EC, 2018).

Moreover, all net zero definitions have a fundamental complication: the lack of a standard carbon emissions calculation (Murray and Dey, 2009). Thus, it is questionable how derivative calculations are estimated? Precisely, how is carbon reduction calculated or how is offsetting calculated? Recently, the IPCC delivered a consensus formula on estimating the GHG emissions in relevant fuel combustion activities (energy industries, manufacturing industries and

Table 5.1 Net zero definitions

Net Zero Definitions	Definitions	Author & Year
Carbon Neutral	Net zero carbon dioxide CO_2 emissions, that is emissions achieved when anthropogenic CO_2 emissions are balanced globally by anthropogenic CO_2 removals over a specified period.	IPCC, 2018
Climate Neutral	Achieving net zero greenhouse gas emissions for EU countries as a whole, mainly by cutting emissions, investing in green technologies and protecting the natural environment.	EC, 2018
Net Negative Emissions	The term net negative emissions refers to the result of human activities where more greenhouse gasses are removed from the atmosphere than are emitted into it.	IPCC, 2018

construction, transport, other sectors, non-specified) in Emission Factor Database (EFDB) (IPCC, 2021). On an aggregate level, this calculation can provide an estimation for sectoral GHG emissions (IPCC, 2021).

Globally, there is a lack of a standard GHG emission calculation at the corporate level. The GHG protocol provides optional calculation tools that enable corporations to ‘develop comprehensive and reliable inventories’ to assist nations to track their GHG emissions (Greenhouse Gas Protocol, 2021). This is a ‘cross-sectoral’ GHG emission calculation tool that applies to industries and business regardless of sector, it is free and Excel-based and was launched via GHG Protocol and WRI (Greenhouse Gas Protocol, 2021).

Previous research brings to light different net zero definitions as a function of decarbonization strategies and various climate metrics. Although there are different net zero definitions, the climate neutral term is more unitary than the carbon neutral as it takes into consideration all GHG emissions. However, any corporation making use of the term *net negative* would be perceived as sustainably advanced as it would not only curb current GHG emissions but also offset past GHG emissions.

Moreover, on a corporate-level, there is a need to establish an ‘agreed-upon’ definition that would limit companies from adopting whichever definition best suits their climate business strategy and hence reduces the risk of greenwashing. Thus, this study suggests the adoption of an ‘net zero protocol’. Of course, there are internal and external corporate factors to consider when developing a ‘net zero protocol’. Yet, it is impossible to overlook the lack of a standardized measurement system based on an agreed-upon common calculation of GHG emissions. Therefore, an optimal ‘net zero protocol’ should imply the implementation of such a standardized measurement system.

5.3 NET ZERO EMISSIONS IN TERMS OF SCOPES 1, 2 OR 3

According to the Greenhouse Gas Protocol, scope 1 refers to direct GHG emissions that the company makes, excluding GHG emissions that are not covered in the Kyoto Protocol CFCs and NOx that may be reported separately (WBCSD and WRI, 2012). Scope 2 refers to indirect GHG emissions of a company due to purchased electricity, thus emissions that occur on a company site (WBCSD and WRI, 2012). Scope 3 refers to all remaining indirect emissions resulting ‘from sources not owned or controlled by the company’ (WBCSD and WRI, 2012).

In order to comprehend what corporations define as net zero, it is vital to analyze scopes 1, 2 and 3. Reporting on scopes is considered a fundamental element of the net zero definition on a corporate level and hence analyzed accordingly to inspect its suitability for the implementation of a 'net zero protocol'. A gap in literature in relation to net zero and corporate accounting in scopes 1, 2 and 3 indicates the need for future research in this field. Yet, research on annual corporate reports and corporate announcements may assist to comprehend corporate net zero reporting on scopes 1, 2 and 3.

As of today, when a corporation commits to net zero target reports under scope 1, 2 and 3 voluntarily, if it has a serious net zero commitment, it should report on all scopes, whether the reduction on scope is meaningful in terms of emissions or not. For example, Microsoft has reported to be *carbon neutral* since 2012, committed to a *net zero* target in 2020 and aims to be '*carbon net negative* in all scopes by 2030' while reporting GHG emissions for scopes 1, 2 and 3 downstream since 2014 (Microsoft, 2016; The Official Microsoft Blog, 2020).

Yet there are corporations that use a net zero target as a marketing strategy to signal to investors a good environmental performance. It is often the case that companies report on scopes 1 and 2 and partially on scope 3 in terms of their emissions reductions. For example, Zalando claims to be *carbon neutral*, *net zero* and committing to a *net zero target* in 2019 (edie.net, 2019; Zalando, 2020). Here, there is confusion not only in terms of carbon accounting but also in terms of the 'net zero protocol' that the company is applying; that is both, *carbon neutral* and *net zero,* at the same time. Specifically, Zalando became *carbon neutral* on the 24th October 2019 and *net zero* on the 30th October 2019 (edie.net, 2019; Zalando, 2020). Relative to the *carbon neutral* term, the company reports more detail on scopes 1, 2 and partially 3 upstream while on the *net zero* term Zalando reports only refers to scopes 1 and 2 (edie.net, 2019; Zalando, 2020). Therefore, reporting on the net zero term is insufficient.

By analyzing corporate disclosures on scope 1, 2 and 3 emissions, one can deduct what organizations perceive as net zero and net zero target. Thus far, a lack of a mandatory carbon accounting framework creates lack of cohesion when evaluating total GHG and scopes 1, 2 and 3 of a corporation and brings further confusion in developing and setting a 'net zero protocol'.

In 2021, the EC proposed to amend the existing reporting requirements of the Non-Financial Reporting Directive (NFRD) through the development of the Corporate Sustainability Reporting Directive (CSRD), targeting medium-sized and large companies (EC, 2021). The proposal requires auditing of reported information, detailed reporting following mandatory EU sustainability standards and requires firms to digitally tag reported information on social media (EC, 2021). The EU plans to adopt the new set of standards by October 2022 (EC, 2021). Further, the European Financial Reporting Advisory Group (EFRAG) launched the public consultation process for the European Sustainability Reporting Standards (ESRS) Exposure Drafts on 29th April 2022, which shows some developments towards mandated disclosures about scope 1, 2 and 3 emissions (ESRS E1, 2022).

The lack of a mandatory carbon accounting framework in carbon accounting renders the evaluation of corporate carbon accounting somewhat confusing. In detail, the lack of a mandatory carbon accounting framework in scopes 1, 2 and 3 impedes the development and application of a corporate 'net zero protocol'. Even though there is a lot of discussion around what should be compulsory or voluntary in carbon accounting reporting, it is beyond the purpose of this analysis. Yet, it is vital to consider the implementation of a mandatory carbon accounting framework in scopes 1, 2 and 3 within the function of a 'net zero protocol'.

5.3.1 Case Study

Explaining the use of scopes 1, 2 and 3 within the net zero definition based on the corporate example of HSBC.

In recent years, many corporations have shown optimism with respect to their net zero scopes 1, 2 and 3 disclosures. Yet, at times the corporate net zero definition in use may not be sufficient to reduce GHG emissions in scopes 1, 2 and 3 by 2050. For example, a company claiming to become net negative by 2050 should apply a stricter environmental strategy to reduce emissions in all scopes by 2050 than a company that claims to become carbon neutral by 2050. Other times, various corporate net zero definitions are used to disclose scope 1, 2 and 3 emissions within the same company report or company official announcement. Another pattern in net zero carbon accounting is the discontinuity in the net zero definitions that a company claims in different years.

For instance, HSBC claims to have been carbon neutral since 2005 and remained carbon neutral until 2012 in scopes 1 and 2 (HSBC, 2006; HSBC-Holdings, 2010; HSBC-Holdings, 2011; HSBC-Holdings, 2012; HSBC Holdings plc, 2009). In 2011, HSBC announced that it will no longer be carbon neutral from 2012 due to a change in international carbon markets and instead use an eco-efficiency fund to use the funds previously allocated for HSBC's carbon neutrality program (HSBC-Holdings, 2011; HSBC-Holdings, 2012). For the period 2012–2018, HSBC makes no use of net zero definitions in its annual sustainability reports (HSBC, 2013; HSBC, 2018; Holdings, 2017; Holdings plc, 2015). Finally, in 2019, HSBC announced the ambition to become carbon neutral by 2050 and in 2020 announced its ambition to become net zero by 2050 in scopes 1, 2 and partially 3 downstream (Holdings plc, 2020; Quinn, 2019).

Among other company examples, this specific case study points out the most challenging issue in sustainability-net zero reporting, that is, the lack of a standard framework that a company should comply to follow in its environmental strategy and in scopes. In most cases, an ambiguous corporate sustainability practice affects corporate legitimacy and signals a greenwashing factor to investors.

5.4 NET ZERO OFFSETTING PRACTICES

The following section reviews how the 'net zero offsetting practices' term determines the amount of net emissions. The subtrahend of the net zero equation (i.e., emissions − net zero offsetting practices = net emissions) is commonly classified as either compensation or substitution.

Compensation is the final step to follow once all reduction and substitution efforts are exhausted. Here, compensation is equivalent with offsetting the emissions that a firm is not able to substitute via various offsetting options (Ziegler, 2016). Following the reasoning of this literature review, net zero offsetting practices is considered a vital element for the use of the net zero definition in the corporate setting and hence subject to analysis towards the application of 'a net zero protocol'.

Carbon offsetting 'occurs when an individual or an organization pays a third party to reduce emissions of greenhouse gasses on its behalf and so the offsetting takes place when an individual or an organization pays a certain amount towards a project in order to offset emissions from the atmosphere' (Dhanda, 2014). Carbon offsets can be either compulsory or voluntary, the former offsets are called certified emission reductions and the latter 'gourmet' offsets (Dhanda, 2014).

If corporate offsetting is used to decrease total emissions, then offsetting becomes an important process within the corporate climate strategy (Dhanda, 2014). In general, companies that commit to some kind of climate neutrality target rely on offsetting as a main constituent of their climate change strategy (Kreibich and Hermwille, 2021).

There are regulated and non-regulating offsetting mechanisms. For example, the European Union Emissions Trading Scheme (EU-ETS) is a regulated mechanism for trading emissions; where for each allowed CO_2 ton one buys the equivalent CO_2 permit (Haszeldine et al., 2018). With this kind of trading mechanism, the main incentive to reduce emissions is to reduce the cost of CO_2 emissions. Of course, a low price for CO_2 emissions would provide only a low incentive as a firm can buy as many permits as it wishes and continue to emit CO_2. For instance, a few companies in energy-intensive sectors bought offsets in emerging markets, causing a carbon-leakage effect (EC, 2021).

Another issue is that the EU-ETS is set up in a way that the price for CO_2 emissions is determined by the market and not by economic activities per se. As a consequence, during an economic recession, the price of CO_2 permits drops as it did during the Great Recession, resulting in a surplus of CO_2 permits with a very low CO_2 price. Recent research proposes the conditionality of carbon credits on the adoption of science-based targets in order to 'force' climate change mitigation activities within a firm's operations (Kreibich and Hermwille, 2021). Should the adoption of science-based targets for carbon credits and the deployment of offsetting technologies become commercialized, reaching net emissions by 2050 would become an attainable goal.

Carbon Capture and Sequestration (CCS) is a group of technologies that aims to reduce GHG emissions as a result of extraction, combustion, utilization of fossil fuels and carbon-containing resources (Haszeldine et al., 2018). Yet, in order to develop CCS, it can take years until there is clean mapping of the subsurface for geological storage and storage permits (Haszeldine et al., 2018). In essence the problem is not only scientific but also bureaucratic as most governments do not have precise knowledge of their surface storage potential. For proper deployment of CCS not only is policy intervention needed but also funding to render the technology available at the industrial level (Haszeldine et al., 2018). CCS is essential for further technologies to become available at an industrial scale such as Bioenergy with Carbon Capture and Storage (BECCS) and Direct Air Capture (DAC). For example, although there is reasonable research and development in the UK for BECCS, there is no CCS infrastructure, although the North Sea has great potential for offshore storage. There are only 23 large CCS projects worldwide (García-Freites, Gough and Röder, 2021). Therefore, CCS technologies are not yet deployed on a commercial scale to account towards 'netting' of emissions by 2050.

Both non-regulating offsetting mechanisms (e.g., EU-ETS) and offsetting technologies account towards compensation of emissions according to Ziegler's theory (2016). By contrast, substitution is the replacement of high-energy carbon with low-energy carbon. Nevertheless, Ziegler (2016) points out, there is a probability of additionality when applying substitution. For example, making use of the land for ethanol production does not necessarily account for substitution resulting in land-use change and biodiversity loss (Duden et al., 2020). Therefore, for transparent substitution, emissions accounting and sustainability criteria should be considered (Ziegler, 2016). Because there is no certainty in additionality, substitution should not account towards 'netting' of emissions.

If a company abstains from its carbon neutral claim, such an action could be interpreted as greenwashing (Dhanda, 2014). However, a possible greenwashing factor in substitution and compensation may render net zero by 2050 non-realistic.

In a way, substitution is equivalent to avoided emissions 'as emission reductions which occur outside of a product's lifecycle or value chain, but as a result of the use of that product' (WBCSD and WRI, 2012). The factor of substitution in greenwashing may be high as avoided emissions is to claim a benefit that does not occur to the company per se. Thus, it is vital that corporations provide voluntary detailed reporting on avoided emissions to limit possible boycotts and greenwashing risk.

The degree of greenwashing might be lower for compensation than for substitution due to the fact that a company has to account on the means of offsetting. Nevertheless, there are various studies that highlight the potential for greenwashing in compensation. For example, as part of a compensation scheme in Brazil, 23,100 eucalyptus trees were planted to make iron production feasible, at the same time the project was criticized for endangering the flora and fauna and contaminating the river (Ziegler, 2016).

While there is a plethora of net zero offsetting practices there are also social, economic and environmental challenges to overcome. Offsetting practices via carbon credits could be rewarding under high prices for CO_2 emissions. Offsetting via CCS technologies is not yet a viable solution on a commercial scale, due to social, economic and environmental restrictions as well as the time needed to invest in R&D. Moreover, substitution activities should not count towards offsetting due to possible additionality and the fact that a corporation could account for emissions that it does not own. Ideally, the consideration of employment of a financial independent body that aims to verify net zero offsetting practices can audit reporting on corporate information (Hoepner, Paliabelos and Rogelj, 2021). This can enable accuracy and transparency when accounting for annual net emissions and hopefully limit greenwashing.

5.5 NET ZERO TARGETS ON SECTORAL LEVEL

The scope of this section is to analyze the net zero definition at the corporate sector level. The rationale here was to gather data at the corporate level and consider sector level as the aggregate of *x* companies claiming net zero targets in a *y* sector. Due to limited net zero targets on a corporate level, only net zero targets on a sector level are taken into consideration. Technology innovation and policy alignment are fundamental for net zero transition to materialize by 2050.

As of October 2021, Net Zero Tracker recorded that 136 out of 198 countries, 115 out of 713 regions, 235 out of 1,777 cities and 681 out of 2,000 companies reported net zero targets (Net Zero Tracker, 2021). Over the last few years, various corporations have claimed net zero targets either on corporate annual reports or corporate announcements. But the Net Zero Tracker also reveals that many did not (yet) commit to net zero targets to achieve net zero emissions by 2050. Additionally, Nurdiawati and Urban (2021) propose that companies should not only commit to short-term net zero targets (e.g., 2030) but also to long-term net zero targets to avoid carbon lock-in assets and achieve full decarbonization.

It is vital to assess a corporate net zero target in terms of GHG emissions to evaluate a company's environmental performance. For example, many hotels and resorts use the term *carbon neutral* on various occasions and with various meanings, some do not report about their carbon offsetting practices and some firms seem to use the term *carbon neutral* for marketing purposes, which can be considered greenwashing (Dhanda, 2014).

A study that focuses on climate claims of the world's 35 largest meat and dairy companies, concludes that only four companies report net zero targets (Lazarus, McDermid and Jacquet, 2021). Moreover, one of the net zero companies, Fonterra, focuses solely on carbon dioxide reduction and lobbied the 47 percent methane reduction targets in New Zealand while arguing that there should be a 24 percent net reduction from the year 2017 (Fonterra, 2019).

The most emission-intensive sectors of power generation, transport and heavy industry (i.e., steel production) need to overcome key engineering and economic challenges (e.g., carbon pricing) in order to become net zero (Kaya, Yamaguchi and Geden, 2019). To realize carbon neutrality, it is necessary to undergo carbon replacement in electricity, heat and hydrogen, which is expected to reduce CO_2 emissions by 45 percent in 2050 (Zou et al., 2021). Electricity replacement refers to 'green' electricity (e.g., hydro or wind power) that can replace thermal power; heat replacement refers to photothermal and/or geothermal resources that can replace fossil fuel heating and hydrogen replacement refers to green hydrogen instead of grey hydrogen (Zou et al., 2021).

As cost-optimization scenarios show Carbon Dioxide Removal (CDR) deployment by 2100 would account for over 15 Gt of carbon dioxide on an annual basis (IPPC, 2018). Therefore, a different course of action is necessary to decarbonize high emitting sectors and achieve net zero by 2050. There is a general consensus for the development of a low-energy society, where CDR would contribute towards offsetting residual emissions that are either high-priced or impossible to mitigate (Kaya, Yamaguchi and Geden, 2019). In this scenario, CDR technologies would be deployed for the offsetting of net removals from agriculture, forestry and land-use (as cited in Grubler et al., 2018). However, recent research compares 29 industry transition roadmaps across 13 countries by analyzing policy, finance and technology to assess climate neutrality transition in heavy industry. It concludes that decarbonization options are practical only if a large part of an industry deploys them (Johnson et al., 2021).

The transport sector is one of the most emitting sectors, mobility accounting for 50 percent of the total emissions in Europe alone (Peksen, 2021). Since 27 percent of hydrogen derives from natural gas, only green hydrogen can support a climate neutral economy and thus cross-sectoral change is required to achieve CO_2 targets by 2030 (Peksen, 2021). There is a challenge to develop new energy vehicles that operate on green hydrogen (i.e., fuel cells, batteries) and simultaneously compensate for economic, social and environmental demands (Peksen, 2021). The transition to new energy vehicles is gradual and should be compatible with a feasible policy setting.

A 'cap and surrender' prototype policy much like the EU-ETS equivalent but a much more radical measure embedded with adequate policy strategy could pave the way to get to net zero by 2050 (Enzmann and Ringel, 2020). Here, car owners hold road transport allowances (RTAs) that are stored in an electronic alliance card (EAC); these are tradable emission allowances just like CO_2 emission permits, in other words one RTA is equivalent to 1 ton of CO_2 (Enzmann and Ringel, 2020). When buying fuel at a fuel station both money and emission allowances are 'surrendered'. Once exhausted drivers can buy RTAs on the secondary market.

An aggressive cap-and-surrender policy is to incentivize producers of CO_2 to emit less; in other words, high emitting vehicles pay higher costs for RTAs (Enzmann and Ringel, 2020).

Industry is the most challenging sector to commit to a net zero target. Although electrified industrial processes with zero-electricity can reduce GHG drastically when compared with fossil fuel industrial processes, there is little incentive to switch due to high electrification costs (Wei, McMillan and de la Rue du Can, 2019). Thus, decarbonization of industry will depend on future energy and environmental policies (Wei, McMillan and de la Rue du Can, 2019).

Finally, although the tourism sector is declared to be 'carbon-neutral' (2021 Glasgow declaration: to a Decade of Tourism Climate Action) there is no transition roadmap on how this sector will transit to net zero by 2050 or specific support in research (Scott and Gössling, 2021). For instance, comparative net-zero transition risk is higher for tourism companies found in Angola, Somalia, Chad and Mauretania, as they are carbon-intensive economies with a high percentage of GDP depending on tourism (Scott and Gössling, 2021).

A holistic approach would allow net zero targets to align a net zero strategy among governments, sectors and companies. For example, Sweden developed a climate policy which aligned local net zero targets with national goals along with innovations in technology. This renders decarbonization of energy-intensive industries feasible by 2045 (Nurdiawati and Urban, 2021).

Even though many countries, companies and sectors are setting net zero targets, there is a need for aligning net zero targets across sectors, as with Sweden's case, to scale up decarbonization in high emitting sectors. Low carbon transitional changes should materialize not only in high emitting sectors (power generation, transport, industry) but across all sectors. Carbon replacement is vital to realize carbon neutrality in electricity, heat and hydrogen. Overall, innovation in technology across different sectors is on the primary stage.

5.6 CORPORATE GOVERNANCE AND NET ZERO TARGETS

There is a gap in research as far as net zero targets and governance is concerned. Yet, following the assumption that net zero targets disclosure falls within the broader spectrum of sustainability disclosure, a few studies analyze the mappings between governance and sustainability disclosure as well as sustainability performance.

Charreaux (1997) defines corporate governance as 'the set of mechanisms that define powers and influence decisions of the chief executive' and thus includes boards, managers and shareholders (Charreaux, 1997). Good corporate governance and sustainability disclosure are complementary mechanisms that can assist companies to dialogue with stakeholders (Michelon and Parbonetti, 2012). Similarly, good corporate governance and disclosure on net zero targets can enhance the relationship of company-stakeholder. When we talk about corporate governance and sustainability disclosure, we normally refer to two theories: stakeholder theory and legitimacy theory. Stakeholder and legitimacy theories often explain the effect of corporate governance on sustainability disclosure (i.e., net zero targets) as this is important information that a firm should disclose or signal to its stakeholders in order to legitimize its operation to society.

While stakeholder theory refers to different interest groups related to a corporation and their roles in shaping management strategies, legitimacy theory refers to society as a whole (Hahn, Reimsbach and Schiemann, 2015). Meanwhile, legitimacy 'communicates information between the company and external organizations and commitment or support of a company's valuable stakeholders (Mallin, Michelon and Raggi, 2013). Therefore, disclosing net zero targets within the framework of sustainability disclosure can legitimize a firm's activities by signalling to stakeholders that the corporate governance model is in line with contemporary environmental values.

For the formulation and disclosure of net zero targets, corporate governance can play an important role. Corporate governance mechanisms can be used to avoid greenwashing by assuring that the definition of the net zero target or the net zero definition is transparently communicated and that this definition is consistent across the years. Furthermore, corporate governance processes might also be useful to internally assure that realistic targets are communicated and that the required actions to achieve these targets are carried out by the firm.

Overall, commitment to corporate social responsibility starts from investors and their representative on the board of directors and particularly for the board of directors of high-emitting industries (e.g., oil and gas) where there is a need to account for stakeholder's trust, firm reputation and public perception (Arena, Bozzolan and Michelon, 2015). Moreover, research demonstrates that board monitoring and stakeholder orientation influences the relationship between environmental disclosure and future environmental performance (Arena, Bozzolan and Michelon, 2015). Voluntary corporate governance mechanisms such as expertise in environmental committee members and corporate sustainability officers is positively correlated with voluntary GHG disclosure transparency (Peters and Romi, 2014). Sustainability expertise in the corporate governance model and GHG disclosure (i.e., sustainability disclosure) can improve the relationship that the firm has with its stakeholders (Michelon and Parbonetti, 2012). Moreover, gender diversity in the corporate governance model can also account towards enhanced sustainability disclosure. A recent empirical study demonstrates that Australian companies with multiple women on board have high quality and quantity of voluntary GHG emission disclosures (Hollindale et al., 2019). Furthermore, evidence from Arena, Michelon and Trojanowski (2018) concludes that CEO psychological traits can positively influence corporate environmental innovation. Yet, empirical research concludes that organizational context and external environment are significant factors to consider when measuring the effect of CEO traits on environmental innovation (Arena, Michelon and Trojanowski, 2018). Research also concludes that managerial environmental awareness and stakeholder's function are essential factors towards environmental performance and green production (Zameer, Wang and Saeed, 2021). Specifically, this study shows that following stakeholder's theory, stakeholders, that is, customers, regulators, managers, can pressure firms to implement business strategies to improve environmental performance and opt for green production.

Although one can expect that internal corporate characteristics and corporate governance models can affect the heterogeneity of sustainability disclosure, empirical study shows weak correlation among them. Findings conclude that the presence of independent directors on the board is not necessarily associated with better sustainability disclosure. Independent directors are more relevant in enhancing sustainability disclosure when they are community influencers at the same time. Community influencers can ameliorate sustainability disclosure according to the information they report on media, hence bring legitimacy as independent directors and improve stakeholder engagement (Michelon and Parbonetti, 2012).

On a regulatory level, regulatory stakeholders could impose penalties should a corporation fail to follow environmental regulatory guidelines and consumers could refuse to buy a product that is not aligned with environmental guidelines (Zameer, Wang and Saeed, 2021). Hence, a manager-stakeholder collaboration may endorse commitment to net zero emissions. Apart from climate policy, there are other external factors that can affect the relationship between corporate governance and sustainability disclosure such as investor engagement.

Recent analysis of investor reaction to social activist campaigns in the US for the years 2011–2015 on stranded assets demonstrates negative cumulative abnormal returns (CARs) from stock market investments in coal companies as a result of stranded asset risk reports and divestment campaign events on coal companies (Byrd and Cooperman, 2017). Significant research shows that institutional investor engagement on governance issues can reduce downside risk and create value for investors (Hoepner et al., 2022). Although, reductions on downside risk on institutional governance engagements are large yet not statistically significant due to the subjective nature of social topics and the time it takes to implement such changes within an organization (Hoepner et al., 2022). Furthermore, empirical results show that internal corporate governance influences corporate climate action; specifically intra-organizational factors such as organizational involvement and inclusion of climate change risk management impact the most corporate climate action (Damert and Baumgartner, 2017).

To summarize, both internal and external corporate characteristics can influence the relationship between corporate governance and sustainability disclosure. Internal corporate governance and intra-organizational factors can positively affect sustainability disclosure. For instance, internal managerial hierarchy, CEO physiological traits and managerial awareness can influence environmental disclosure, environmental innovation, environmental performance and green production (Arena, Michelon and Trojanowski, 2018; Delmas and Toffel, 2004; Zameer, Wang and Saeed, 2021). Research shows that sustainability disclosure and performance are influenced mostly from internal corporate governance characteristics and not external institutional setting (Damert and Baumgartner, 2017). On the contrary, external corporate governance factors such as community influentials and investor engagement can enhance sustainability disclosure and reduce downside risk in governance issues (Michelon and Parbonetti, 2012).

There is a gap in literature as far as net zero targets and governance is concerned. Future research may examine various aspects of net zero targets and governance. For instance, it would be worthy to understand internal and external pressures in corporate governance and net zero targets.

As a consequence, good corporate governance can channel efficient means to align with sustainability disclosure and hence with net zero target disclosure following proposed 'net zero protocol' of this meta review analysis.

5.7 CONCLUDING REMARKS

There is a consensus that the variety of net zero definitions is subject to ambiguity. Research shows that rather than talking about carbon neutrality, the focus should be instead on climate neutrality as its scientific rationale is sounder since it considers all GHG emissions. This literature review examines a range of factors such as scope, net zero offsetting practices, corporate-sectoral target level and governance that render a corporate net zero definition problematic and suggests the implementation of a 'net zero protocol'. Specifically, a 'net zero protocol' should consist of (1) a transparent and standardized calculation process for GHG emissions; (2) reporting on scope 1, 2, and 3 emissions; (3) employment of net zero practices;

(4) cross-sectoral net zero alignment and; (5) alignment of corporate governance with sustainability disclosure. To avoid misleading the use of net zero-labels and to mitigate greenwashing concerns, a number of economic, social, environmental and governance barriers are to be overcome. Standard setters and regulators can help by providing clear definitions and guidance (e.g., on the measurement of scope 1, 2 and 3 emissions).

Finally, the literature review identifies a gap in research, especially regarding the following issues: (2) net zero emissions in terms of scopes 1, 2 or 3; (4) net zero targets on sectoral level and; (5) the effect of corporate governance on net zero targets. Therefore, (2) can be analyzed only based on corporate reports and corporate statements. While (4) is evaluated only in terms of sector level due to limited published material on corporate level. Finally, (5) is addressed within the mappings among corporate governance, sustainability disclosure and sustainability performance as well as external corporate governance factors such as investors, shareholders and climate policy. These gaps in research signify the need for future research about the corporate use of net zero targets.

NOTES

1. I am grateful for the useful comments of Andreas Hoepner, Giovanna Michelon, Frank Schiemann and Michel Magnan. Appreciative to Carlo Carraro for introduction to related research topics. Also thankful to Sun Hwang for literature assistance.
2. The principles include: 'accelerate the clean energy transition', 'support consumer choices that reduce climate impact', 'carbon-free' transport, 'promote a sustainable bio-economy', 'innovation towards a digitalised and circular economy', 'strengthen infrastructure and make it climate proof', accelerate near-term zero-carbon research, innovation and entrepreneurship, 'mobilise and orient sustainable finance', 'invest in human capital', 'align structural policies with climate action and energy policy', 'ensure the transition is socially fair', 'bring all other major and emerging economies on board', 'prepare for geopolitical shifts', 'support to third countries in defining low-carbon resilient development through mainstreaming and investments' (EC, 2018).
3. The GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes'. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.
4. We follow the checklist of the Preferred Reporting Items for Systematic Reviews and Meta-Analysis Protocols (PRISMA-P) (Shamseer et al., 2015). This study assumes that the fundamental components of net zero are scope, net zero offsetting practices, net zero target claim (sectoral level) and corporate governance. The step-by-step description of the literature review process is provided in Appendix 5.1. Of course, there are other factors to consider that are beyond the purpose of this study and for simplification reasons are discounted.
5. Specifically, data items, outcomes and prioritization, risk of bias individual studies, data synthesis, meta-biases and confidence in cumulative estimates (items 12, 13, 14, 15, 16 and 17) have been eliminated.

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APPENDIX 5.1

The following section summarizes in six steps (Step 1. Eligibility Criteria; Step 2. Information Sources; Step 3. Search Strategy; Step 4. Study Records-Data Management; Step 5. Selection Process; Step 6. Data Collection Process) the Preferred Reporting Items for Systematic Reviews and Meta-Analysis Protocols (PRISMA-P) according to the Items that are relevant for this study and those that are not.

Step 1. Eligibility Criteria: In the following, I explain the paper selection process and the relevant eligibility criteria.

The systematic literature review focuses on published articles that correspond to the protocol designed for net zero (see Step 3) for the years 2009–2021. The search in Scopus was run on the 27th September 2021. The comprehensive literature search of papers was conducted in English.

Step 2. Information Sources: The information sources approach follows de Freittas Netto et al. (2020). In order to identify and retrieve all relevant publications for the purpose of this systematic literature review the search engine Scopus (https://www.scopus.com) was selected. Scopus search engine has been selected as it has better coverage of literature and detailed string search in comparison with other search engines (i.e., Google Scholar, Web of Science).

Step 3. Search Strategy: I build on a longer list of search terms to capture not only literature directly mentioning and addressing 'net zero', but to also identify literature, which is focusing on closely related terms such as 'carbon neutral', 'climate neutral', or 'net negative'. The search string is as follows:

(('net zero' OR 'carbon neutral' OR 'climate neutral' OR 'net negative') AND ('target' OR 'goal' OR 'objective' OR 'aim' OR 'focus' OR 'intention' OR 'commitment' OR 'ambition' OR 'claim' OR 'promise' OR 'pledge' OR 'path' OR 'trajectory') AND (LIMIT-TO (SRCTYPE , 'j') OR LIMIT-TO (SRCTYPE , 'p')) .

The search period is 2009 through 2021. The year 2009 was selected due to the Copenhagen Climate Change Conference in 2009. This is the 15th UNFCCC conference (COP 15) and the fifth Kyoto Protocol Conference (COP 5) (Unfccc.int., 2021). The Copenhagen Conference is a critical event in the history of climate change negotiations as it scaled up negotiations on the infrastructure, including the Kyoto Protocol Clean Development Mechanism and produced the Copenhagen Accord (i.e., constraining carbon for short and long term) (Unfccc.int., 2021).

Step 4. Study Records-Data Management: The algorithm on Scopus is applied for the studied years (see Search Strategy), resulting in 881 conference proceedings and journal articles, which are further filtered to 804 journal articles by eliminating conference proceedings. Further, the Scopus list of 804 papers is narrowed down to 35 selected papers from which only 16 papers are relevant after title and abstract analysis is concluded in the first phase of the selection process (see Step 5). As the number of identified papers is rather low, the literature review was extended to include literature cited in the papers identified and other relevant literature. Therefore, I added 34 references (published papers and sites that are accompanied with an asterisk (*) in the bibliography) in order to render this meta-analysis sufficient (see References).

Following the PRISMA-P checklist, a few PRISMA-P items have been omitted[5] as they were not applicable for the purpose of this study.

Step 5. Selection Process: Data selection is carried out in four phases. In the first phase data selection involves the analysis of title and abstract in line with de Freittas Netto et al.

(2020). The second phase involves downloading selected journals that meet the criteria of this study (see Steps 1, 2 and 3). The third phase consists of the analysis of Introduction and Conclusion of selected journals. Finally, the fourth phase includes the analysis of methodology per selected paper.

Step 6. Data Collection Process: Data collection has been carried out following the process explained above (see Step 5). Firstly, the reviewing process includes screening of titles and abstracts and further obtaining selected papers. Secondly, the reviewing process includes the analysis of Introduction and Conclusion of selected papers and finally the analysis of methodologies among selected papers.

6. The challenge of measuring CSR performance

Lies Bouten, Giovanna Michelon and Robin W. Roberts

6.1 INTRODUCTION

As we have seen in Chapter 2, defining corporate social responsibility (CSR) is a challenging task. At the same time 'measuring' the level of an individual firm's social responsibility is also difficult. Yet, stakeholders may wish to know whether companies effectively manage certain issues, like diversity and inclusion, whether they promote issues like health and safety sufficiently, if they appropriately manage their greenhouse gas (GHG) emissions or mitigate the impact of their business operations on flora and fauna, if they treat their suppliers equitably, or whether they have the necessary governance structures in place to ensure transparent and reliable reporting. These concerns are relevant for customers who may wish to purchase products with low environmental impacts, employees who wish to work for a thriving and nurturing company, suppliers who wish to be treated fairly and competitively, regulators who need to tackle climate change, and investors who may have non-financial preferences or wish to manage regulatory, operational, financial and reputational risks that may arise from social and environmental issues. Because how companies act responsibly is often not directly observable by stakeholders and unless firms provide CSR related information, CSR performance (CSRP) is hard to assess and measure.

Academics have shown a long-time interest in measuring CSRP to investigate various questions related to both the determinants and the effects of CSR and CSR reporting (e.g., Bouten et al., 2018; Gond and Crane, 2010). Academic studies often use CSR ratings purchased from rating providers to develop proxies for CSRP constructs[1] (Bouten et al., 2018). CSR rating providers are typically for-profit firms that specialize in measuring the CSRP construct by systematically evaluating the corporate governance, environmental, and social performance of publicly traded companies. The key clients of these rating providers are usually institutional investors, such as pension funds. The ratings were originally developed to fulfil the information needs of so-called socially responsible investors, interested in incorporating social and environmental considerations in their investment decisions, often on the basis of ethical norms or moral values (Eccles et al., 2020). However, in more recent times, ratings have been developed to meet the needs of mainstream investors, who are becoming more aware of financial risks arising from changing environmental and social conditions. We start the chapter by discussing challenges in defining and operationalizing the CSRP construct as well as how these challenges may lead different rating providers to assess the CSRP of the same company differently. For illustrative purposes we will make use of notions arising from three different datasets which have been influential in academic research (Bouten et al., 2018), namely: (1) MSCI KLD (ESG STATS, formerly known as KLD); (2) Thomson Reuters (ASSET4); and (3) Sustainalytics (ESG Indicators).[2] We then detail how the recent development of CSR ratings has further magnified these challenges. Next, the chapter concentrates our attention on the challenges related to assessing CSRP items. Some concluding thoughts and recommendations are offered in the final section.

6.2 CHALLENGES IN DEFINING AND OPERATIONALIZING CSRP

6.2.1 An Empirical Illustration of How Rating Providers Deal with this Challenge Differently

CSR rating providers collect information to build their CSR scores using numerous sources, which typically include corporate disclosures, but also surveys sent to rated firms and other documents such as press articles and government reports (Bouten et al., 2018; Chatterji et al., 2016). Within the rating providers, analysts work on this information base and rate companies on CSR categories, commonly divided into three main pillars: environmental, social and governance. However, the individual items that enter categories that comprise these pillars may differ across different rating providers because their ratings are the result of idiosyncratic, proprietary methods. CSR rating providers base their rating methods on different assertions, or to use the words of Chatterji et al. (2016), theorizations, about the meaning of CSR. They have different views on what 'good' governance looks like, which social or environmental issues are core to the business and/or how various rating elements interrelate. For example, mainstream governance features might be considered elements of CSR, for example, high proportion of independent directors; or good governance elements for CSR, for example, presence of a CSR board committee, might be required to embed social and environmental policies into the overall governance structure. Similarly, is board diversity a feature of good governance or an element to be considered to evaluate the diversity performance of a corporation? We will now illustrate the key differences among three CSR ratings which often serve directly as proxies for CSRP in academic studies or on the basis of which such proxies are created (Bouten et al., 2018), namely: (1) MSCI KLD (ESG STATS, formerly known as KLD); (2) Thomson Reuters (ASSET4); and (3) Sustainalytics (ESG Indicators).

While the methodologies adopted by these rating providers can change over time (Berg et al., 2022; Bouten et al., 2018), our discussion is based on the methodologies in place just before the wave of merger and acquisitions among CSR rating providers and mainstream financial research firms (i.e., in 2019 VE (Vigeo Eiris) was acquired by Moody's and in 2020, Sustainalytics was acquired by Morningstar) and the upsurge of ESG investing (OECD, 2020). As CSR rating providers are typically for-profit organizations, their different views about CSR represents their competitive advantage, in that they compete to provide the 'best' product on the market (this implies that the same company may get different ratings across rating providers). Our discussion aims at pointing the reader towards those factors that may explain key differences in how rating providers define and operationalize the CSRP construct.

6.2.1.1 Three rating providers – three different methodologies

KLD Research and Analytics is one of the oldest players in the field – founded in 1988 by Peter Kinder, Steve Lydenberg and Amy Domini. It was subsequently acquired by RiskMetrics in 2009, which was then acquired by MSCI in 2010 (Avetisyan and Hockerts, 2017; Waddock 2008). According to Waddock (2009), the goal of KLD was to provide systemically gathered and consistent data to socially responsible investors.[3] KLD has been the most used database to proxy for CSRP in academic research (Bouten et al., 2018; Eccles et al., 2020), perhaps because it was the first to cover an extensive number of U.S. firms over a long period of time.

It is noteworthy that although MSCI stopped providing KLD data to their clients in 2012, they continued to provide this data set to academics (Eccles et al., 2020).

In the 2000s more CSR rating providers emerged, notably ASSET4, provided by Thomson Reuters (now Refinitiv), and Sustainalytics (ESG indicators). Sustainalytics resulted from the merger between the Canadian Jantzi Research (founded in 1992), and the European Sustainalytics, formed in 2008 from the dissolution of the SiRi Company and the merger of Dutch Sustainability Research (The Netherlands), Scoris (Germany) and Analistas Internacionales en Sostenibilidad (Spain). Since 2020, Sustainalytics is a Morningstar company.

6.2.1.2 MSCI KLD (ESG STATS)

The MSCI KLD (ESG STATS) database gathered data across multiple areas of CSR, including negative screens (controversial issues), and both negative (concerns) and positive (strengths) practices in specific CSR categories. The ESG indicators were grouped into seven areas: (1) environment; (2) community; (3) human rights; (4) employee relations; (5) diversity; (6) product; and (7) corporate governance. Strength and concern scores in each of the seven areas of CSR were based on an assessment made by KLD and later MSCI analysts. Their database indicated the presence or absence of strengths and weaknesses in each of the seven areas of CSR. A close look at the descriptions of strengths and weaknesses seems to suggest that 'strength' scoring was mainly based upon 'strategy-related' indicators while 'concerns' scoring was mainly based on 'performance' indicators. For example, MSCI KLD (ESG STATS) measures the environmental strength on climate change (ENV-str-D) by assessing a 'firm's policies, programs, and initiatives regarding climate change' (MSCI ESG Research, 2013, p. 7). The environmental concern titled Climate Change (ENV-con-F) 'measures the severity of controversies related to a firm's climate change and energy-related policies and initiatives. Factors affecting this evaluation include, but are not limited to, a history of involvement in GHG-related legal cases, widespread or egregious impacts due to corporate GHG emissions, resistance to improved practices, and criticism by NGOs and/or other third-party observers' (MSCI ESG Research, 2013, p. 8).

Table 6.1 provides an overview. It is important to note that MSCI KLD did not provide an overall CSR score, rather the sums of strengths or concerns for each category in the seven areas. Also, MSCI KLD did not normalize its rating across industries, but provided screens for controversial business issues (e.g., alcohol, gambling, tobacco, weapons, nuclear power).

6.2.1.3 ASSET4

ASSET4's collection of information included several hundred individual data points, subsequently combined into over 250 key performance indicators, based on a default equal-weighted framework. After gathering the data points, analysts transformed any qualitative data into consistent units of quantitative data. The key performance indicators (KPIs) were then aggregated into a framework of 18 categories (see Table 6.2) grouped within four pillars (Economic, Social, Environmental and Governance) and then integrated into an overall single score. Importantly, each category consisted of driver indicators and outcome indicators, with driver indicators capturing the information about availability of policies and processes that companies have committed to, and outcome indicators measuring the results of the policies and company actions. Controversies were considered outcome indicators. Finally, ASSET4 provided standardized scores (z-scores) for indicators, categories, pillars, and the overall

Table 6.1 *MSCI KLD ESG components*

	Environment	Social	Governance
Strengths	Environmental Opportunities	**Community**	Reporting Quality
	Waste Management	Innovative Giving	Corruption & Political Instability
	Packaging Materials & Waste	Community Engagement	Financial System Instability
	Climate Change		
	Environmental Management Systems	**Human Rights**	
	Water Stress	Indigenous Peoples' Relations	
	Biodiversity & Land Use	Human Rights Policies & Initiatives	
	Raw Material Sourcing		
	Other Strength	**Employee Relations**	
		Union Relations	
		Cash Profit Sharing	
		Employee Involvement	
		Employee Health & Safety	
		Supply Chain Labor Standards	
		Compensation & Benefits	
		Employee Relations	
		Professional Development	
		Human Capital Management	
		Diversity	
		Board of Directors – Gender	
		Women & Minority Contracting	
		Employment of Underrepresented Groups	
		Product	
		Quality	
		Social Opportunities	
		Access to Finance	

	Environment	Social	Governance
Concerns	Regulatory Compliance	**Community**	Reporting Quality
	Toxic Spills & Releases	Community Impact	Governance Structures
	Climate Change		Controversial Investments
	Impact of Products & Services	**Human Rights**	Business Ethics
	Biodiversity & Land Use	Support for Controversial Regimes	Other Concerns
	Operational Waste	Freedom of Expression & Censorship	
	Supply Chain Management	Human Right Violations	
	Waste Management	Other Concerns	
	Other Concerns		
		Employee Relations	
		Union Relations	
		Employee Health & Safety	
		Supply Chain	
		Child Labor	
		Labor-Management Relations	
		Diversity	
		Workforce Diversity	
		Board of Directors – Gender	
		Board of Directors – Minorities	
		Product	
		Product Quality & Safety	
		Marketing & Advertising	
		Anticompetitive Practices	
		Customer Relations	
		Other Concerns	

Source: Authors' adaptation from MSCI ESG Research (2013).

Table 6.2 ASSET4 components

Environmental Performance	Social Performance	Governance Performance	Economic Performance
Resource Reduction	Employment Quality	Board Structure	Client Loyalty
Emission Reduction	Health & Safety	Compensation Policy	Performance
Product Innovation	Training & Development	Board Functions	Shareholder Loyalty
	Diversity	Shareholder Rights	
	Human Rights	Vision & Strategy	
	Community		
	Product Responsibility		

Source: Authors' elaboration from Thomson Reuters (2013).

score, using all underlying data points and comparing them across all companies covered (the benchmark being the ASSET4 company universe). ASSET4 did not use sector screens.

6.2.1.4 Sustainalytics (ESG indicators)

The analysts of Sustainalytics evaluated, scored, and weighted a set of core and sector specific metrics to determine a company's overall CSRP. Each category, for example supply chain monitoring, was granted a raw score (between 0 and 100). Both the raw score and the weighted scores of the different categories of each of the three domains (governance, environmental and social) were available to users. Their proprietary rating system included between 60 and 100 indicators weighted according to the industry in which firms operate. For each material aspect, it developed (i) measures of preparedness to assess the organization's capability to deal with ESG aspects by looking at policies, management systems, programs and targets; (ii) measures of disclosure to evaluate the company's transparency on preparedness and performance via sustainability reporting and the implementation of key reporting and verification standards; and (iii) quantitative performance measures to contemplate a company's performance based on environmental, social and governance metrics, including both absolute and relative terms (see Table 6.3). A fourth element of assessment – qualitative performance measures – was utilized for the controversy assessment.

Table 6.3 Sustainalytics ESG scores

Environmental Score	Social Score	Governance Score
Operations	Employees	Business Ethics
Supply Chain	Supply Chain	Corporate Governance
Products and Services	Customers	Public Policy
	Community and Philanthropy	

Source: Authors' elaboration from Sustainalytics (2014).

6.2.1.5 Focusing on one CSR item

It is important to point out that when focusing on a particular item of the CSRP construct, for instance carbon emissions, notable differences across the rating providers are common. MSCI KLD (ESG STATS) viewed efforts invested in carbon reduction as climate change strengths and controversies related to climate change and energy-related policies and initiatives as climate change concerns. On the contrary, ASSET4 reported specific data points on carbon emissions (as collected from corporate disclosures). Through a standardization procedure, this information was subsumed under the 'emission reduction' dimension and reported in a company's overall environmental score. Under the same dimension, ASSET4 also provided a company's disclosure of its general emission management policies, implementation, monitoring, and improvement processes. Similar to MSCI KLD (ESG STATS) and contrary to ASSET4, Sustainalytics at that time, did not provide specific data points and evaluated carbon emissions (under a dimension labelled 'Operations' which was subsumed in the environmental score) on the basis of the company's performance against the industry's, that is, a rating of 100 (0) is given if the company's carbon emission intensity was well below (above) the industry average. Furthermore, each indicator was weighted according to the industry in which the firm operates.

CSRP is what academics refer to as an 'umbrella' construct, that is a construct in which various categories are loosely connected (Bouten et al., 2018; Hirsch and Levin, 1999). Our empirical illustration documents how different rating providers not only define these categories and their items differently, but also operationalize them differently and then combine their operationalizations differently into an overall score if one is provided. Chatterji et al. (2016) suggest that differences in how CSR ratings operationalize this umbrella construct may emerge from differences in their 'theorization' of the CSRP construct. Relatedly, Bouten et al. (2018) suggest that an analysis of CSR rating providers' theorization requires an examination of the elements of its operational definitions: (i) which categories, subcategories, and items they take into account; (ii) whether they screen out particular industries; and (iii) whether ratings are normalized across industries. More specifically, Bouten et al. (2018) suggest that the fact that the accountability or normative view towards CSR dominated most heavily the theorization of MSCI KLD (ESG STATS) explains why MSCI KLD did not provide an overall score nor normalized its ratings by industry, focused more on absolute rather than relative measures and used industry screens. We will now document how recent trends in the CSR ratings field may have augmented differences in how rating providers operationalize the CSRP construct.

6.2.2 Recent Developments in the CSR Ratings Field

While socially responsible (or ethical) investment remains a niche market, in which investors associate *values-oriented* goals with their investment policy, the so-called mainstream investors have in recent times become interested in integrating environmental, social, and governance considerations into their investment decisions (i.e., ESG investing; OECD, 2020). The idea behind ESG investing is that considering ESG factors allows investors to better manage risk and create sustainable long-term returns. Since collecting ESG data is time-consuming, mainstream investors and analysts have turned to CSR rating providers to gather this type of information. Because mainstream or value ESG investing is an investment strategy that puts emphasis on financial returns and value, CSR rating providers serving this market strive to provide investors with an assessment on how companies are managing ESG risks and opportunities that might affect their financial performance. On the other hand, CSR ratings serving the original SRI market convey information about how companies contribute to (or are detrimental for) a more just and sustainable world (Eccles et al., 2020; Mehrpouya, 2014). Hence, this evolution makes differences with regards to how these raters define what they intend to measure even more significant. Referring to the terminology used in Chapter 1, while CSR ratings developed for the SRI market tend to focus on an assessment of corporate social and environmental impacts and externalities, CSR ratings developed for ESG integration tend to

Table 6.4 Conceptual spectrum of CSR ratings

	Values-driven purpose	Value-driven purpose
Audience	Socially responsible and ethical investors (e.g., who embed in their decisions moral ideals of justice, fairness, equity)	Mainstream investors who integrate ESG factors in their investment decisions
Objective	Capturing social and environmental externalities (e.g., positive and negative impacts whose costs and benefits do not have immediate financial implications for the business)	Capturing social and environmental dependencies (e.g., risks and opportunities with financial implications for the business)
Underpinning materiality concept	Impact materiality	Financial materiality

Source: Authors' own elaboration.

focus and capture the environmental and social dependencies a firm is exposed to and how these are managed. As some rating providers may want to serve both markets, it is possible that even within the same rating provider, different rating products lead to different assessments of the same company (Eccles et al., 2020).

These developments imply that nowadays CSR ratings conceptually may differ because they target the information needs of different types of audiences and as such, their ratings may differ in terms of which CSR related issues they consider as 'material'[4] for the audiences' decision-making system. CSR ratings developed to assist the information needs of value-oriented investors attempt to capture the performance of companies in managing their impact on stakeholders and the natural environment. In other words, they appeal to an impact materiality perspective outlining that all corporate ESG issues that impact a broad set of stakeholders are material for their investment decision-making and therefore should be captured by the ratings. An impact materiality perspective therefore requires considering the impacts that the business has on various stakeholders and whether these impacts could affect the stakeholders' decision-making processes.

On the contrary, CSR ratings developed to fit the information needs of value-driven investors tend to be based on a different notion of what is material for their decision-making process, that is 'financial materiality'. Financial materiality implies that only ESG issues affecting corporate performance and enterprise value should be captured by the CSR ratings, in other words, rather than focusing on externalities, ratings that adopt a financial materiality perspective tend to measure the exposure of the business to environmental, social and governance risks and opportunities – that is dependencies.

Table 6.4 provides a summary of the above discussion. The discussion of values- vs. value-driven CSR ratings is presented as dichotomous for simplicity, but it is not unusual that CSR ratings may embed nuanced aspects of both purposes and focuses, and therefore consider ESG issues that are material from both a financial and impact perspective (e.g., they are underpinned by a double materiality notion; Eccles et al. 2020). Hence, the parameters described in Table 6.4 should be considered as opposite ends of a conceptual spectrum, which we hope is useful to interpret CSR ratings.

Based upon the purpose for which they develop their CSR rating, each rating provider develops its own theorization of CSR and subsequently promotes its own operationalization of CSR. This implies that the measures to be used to quantify the same features may be different across different rating providers (a problem known in the academic literature as a lack of commensurability across different CSR ratings).

Understanding what CSR ratings are capturing and/or how their purpose evolves over time is important not only for firms and investors or stakeholders, but also for academic research which often develops proxies using this data provided by third parties. If CSR ratings serve different purposes, one cannot expect that they will be measuring similar constructs. In recent times there has been a plethora of studies analyzing if and how CSR ratings diverge (e.g., Berg et al., 2020; 2022; Christensen et al., 2022; Dorfleitner et al., 2015), questioning the validity of their use in academic research. While these studies mainly focus on mining quantitative data, they may thus benefit from studying more deeply the methodologies of these ratings directly as well as how these evolved. Whether the CSR ratings are used in an investment decision, by the boards of directors to monitor the reputation of their own company or by scholars in an empirical study as a proxy, one needs to know which categories, subcategories and items they take into account, whether they screen out particular industries, whether ratings are normalized across industries and how certain features and aspects are measured.

6.3 CHALLENGES IN ASSESSING CSRP ITEMS

A further challenge for assessing CSRP and whichever items various rating providers consider and combine, is the quality of the underlying data that builds into the scoring system. As mentioned, stakeholders are unlikely to be able to observe firms' practices, policies, and behaviours. To assess the CSR performance, it is essential that firms provide relevant information and that this information is reliable and accurate. Ultimately, regardless of which conceptualization and operationalization of CSR the rating providers use, their assessment is often based on data that the company itself provides, either privately or publicly, in their corporate filings or stand-alone CSR or sustainability reports, leading to a potential reporting bias (Drempetic et al., 2020). Often, it is quite complicated to infer the CSRP on a certain component if the firm does not provide information. While perhaps there are now statistical models able to accurately predict carbon emissions for firms similar in size and business sector (see Griffin et al., 2017; Matsumura et al., 2014), for other issues it is not possible to infer what is the social or environmental performance of a company. Although one can use external sources to investigate instances of safety hazards or accidents or violation of human rights, these external sources do not tell us much about which control systems were (or were not) in place to prevent them. Further, other specific information, for example, about employee training and development, or the adoption of specific codes of conduct are private in nature and if not reported publicly they will remain unknown.

To some extent, this issue is not so different from that for financial performance. Financial performance is measured using accounting information, which is mandated and prepared according to specific standards, validated by auditors and enforced by financial market regulators. When it comes to CSR, reporting and assurance practices are still lagging behind due to three major factors. First of all, CSR reporting has only been recently mandated (at least in Europe). Yet the regulation (Non-Financial Reporting Directive (NFRD)) which is currently in effect does not mandate the adoption of specific standards which guide corporate disclosures (Breijer and Orij, 2022). This implies that firms often have considerable discretion in what they report, whether it is narrative or quantitative and perhaps includes financial information (e.g., provision for clean-up costs). On this front, there are several institutional developments that might eventually lead to more standardization and harmonization of CSR reporting, but at present it seems that fragmentation and diversity in practice is still quite common.

Second, and in relation to the last point, CSR reporting standards are still developing. While the GRI Standards have been around for about 25 years, several new initiatives are emerging. Examples include the work carried out by the EFRAG (European Financial Reporting Advisory Group) for the development of the European Sustainability Reporting Standards (ESRS) and by the IFRS Foundation via the newly constituted International Sustainability Standard Board. Unfortunately, these organizations do not currently have a convergent and harmonized view of what firms need to report, perhaps because of the different users of information they have in mind. While the GRI has a focus on corporate impacts and externalities, the ISSB has been adamant that environmental and social reporting should inform investors' decisions and as such have a strong focus on dependencies. The European Union (EU), on the other hand, sits in the middle by declaring that social and environmental information should be about both externalities and dependencies. As discussed in section 2, these different types of reporting serve different purposes and may lead to the measurement and disclosures of not necessarily the same issues and aspects, potentially leaving some important aspects of CSRP undisclosed or reported only when having direct financial implications. Depending on the reporting standard (reflecting an impact or financial material perspective; Adams and Abhayawansa, 2022; Cooper and Michelon, 2022) mobilized by firms to guide their CSR disclosures, CSR ratings which target a specific investor demographic, may face more difficulties gaining access to the information they need to adequately construct a relevant rating.

Third, assurance practices on social and environmental information are still immature (Boiral et al., 2020; Michelon et al., 2019) and relatively less regulated than financial audits. Currently there are two main professional services that offer assurance of CSR information: auditing firms (in the case of BIG4 firms, it is however often the consultancy business that delivers this assurance) and business/technical consultants (Channuntapipat et al., 2019; 2020). The literature suggests that auditing firms offer professional international standards, ethics, independence, and strong control mechanisms, while consultants have strong technical expertise but may lag in terms of standards of conduct and independence. Further, although increasingly aligned, there are two assurance standards being used: the ISAE 3000 (developed by the International Auditing and Assurance Standard Board) provides guidance on conducting non-financial engagement to auditors, the AA1000 Assurance Standard (developed by AccountAbility) is often the reference for consultants. The key difference between these two assurance providers lies in their opinion and reporting. Auditing firms provide limited levels of assurance and tend to focus on those social and environmental items that somewhat fit with their conventional testing procedures (that is numerical indicators). Consultants generally provide higher levels of assurance while focusing on recommendations for improving information systems and reporting (IFAC, 2021). In addition, assurance is typically not provided on the entire report, but just on a particular section of the report (Farooq and de Villiers, 2020). Hence, the fact that non-assured disclosures can paint a very positive picture of the company's CSR efforts, is another reporting bias that rating analysts need to keep in mind. Overall, the need for transparent and accurate corporate reporting systems, the lack of common standards and strong enforcement, and the immaturity of assurance practices all contribute to making the measurement of CSRP a challenging task.

6.4 CONCLUDING THOUGHTS: IMPLICATIONS FOR ACADEMICS, BOARDS AND INVESTORS

Our chapter provides several useful insights for academics, boards of directors, and investors. In the past, many academic studies have used a proxy for CSRP based upon the scores of CSR ratings without considering what was actually being measured. Thus, they may have used a rating from a CSR rating provider who attempts to serve value-driven investors to operationalize their CSRP construct when, in fact, a values-driven rating was much more appropriate for their research. Unfortunately, as explained above, these ratings nowadays mainly focus on CSR items that are linked to financial value creation and may thus not be so suitable to measure CSRP. More broadly, as rating providers did not create their CSRP umbrella construct within a theory, these proxies may be of less use for theoretical development. Researchers may need to more thoughtfully look at what is beyond the scores provided by CSR rating providers and then, drawing on theories, develop their own constructs. In particular, the categories linked to externalities such as controversies and materialized risks may be useful categories from a legitimacy perspective, while the categories linked to dependencies and reputational risks may be useful to study the business case of CSR as well as the financial implications of CSR. Importantly though, when academics develop specific constructs and proxies based upon data provided by CSR rating providers, they have to provide a rationale outlining their 'theorization' so that other readers understand what they hope their proxy represents. In addition, they have to provide sufficient details on how they constructed their proxy so that others can judge whether their definition matches their operationalization (Eccles et al., 2020; Gond and Crane, 2010). Lastly, as some CSR items as operationalized by CSR rating providers reflect biased disclosures, it may be important to exclude some disclosure-driven items when developing CSRP proxies.

Boards of directors must gain sufficient knowledge of the foundations for CSRP performance and of the various CSR rating processes in order to guide their CSR governing efforts. Ad hoc approaches to CSR management will become less effective in managing impressions as mandated disclosures and more sophisticated, double-materiality informed CSR scoring methodologies more extensively reveal the scope and effectiveness of CSR strategies, inputs, and outcomes (Christensen et al., 2022). Embedding CSR within the major operational functions of the organization, rather than viewing CSR as merely a post-hoc reporting of unorganized actions, will encourage the development of management control systems and performance incentives that assign responsibilities to various hierarchical levels to better manage both short-term and long-term CSR impacts and dependencies. Investors need to better understand the role of corporate CSR activities in generating firm value and in promoting their shared environmental and social values. By understanding the overlaps and differences between financial materiality and impact materiality, investors can become better positioned to use their capital for the purposes they intend.

NOTES

1. The term 'construct' is used when a certain variable cannot be directly observed and measured.
2. The MSCI KLD ESGSTATS dataset was dismissed in 2017. ASSET4 was acquired by Refinitiv in 2018. Sustainalytics launched its revised product 'ESG Risk Ratings' also in 2018. Hence, the methodological details about these three datasets which we mobilize illustrative purposes do not

correspond to what these rating providers are offering nowadays. The use of these 'old' CSR ratings is conceived to tease out which aspects one should pay attention to rather than provide an overview of current practices. Regardless, the users of these or other ratings should be concerned with understanding what these ratings attempt to capture, and the methodological details used by the rating providers to build their scores.

3. EIRIS, the UK equivalent of the KLD database, was established in the 1980s as the UK's first independent research service for ethical investors. EIRIS in 2015 merged with the French rater Vigeo. In 2019, Vigeo-Eiris was acquired by Moody's.
4. The materiality principle is borrowed from financial reporting, in which it guides management in decisions about recognition and measurement, but also in the presentation and disclosure of information. The purpose is to make sure that any information that could influence investors' decision is included in the financial reports and/or communicated to the market.

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PART II

ENVIRONMENTAL RESPONSIBILITY

7. Internal carbon pricing: Origins, determinants, and the impact of governance

Mathieu Gomes, Hania Khursheed and Sylvain Marsat

7.1 INTRODUCTION

Businesses today are experiencing immense pressures to develop and improve stakeholder-related practices and their impacts on the natural environment. Recent studies have examined the adoption of environmental management practices by organizations and show that companies are increasingly paying attention to their environmental impact and adopting practices to reduce their negative impact on the environment (Sarkar, 2008; Wahba, 2008; Welford et al., 2008; Williamson et al., 2006). Environmental concerns have thus become a critical issue for companies, all the more so because stakeholders are now increasingly sensitive to these elements (Flammer, 2013). Among the chief concerns regarding environmental protection, the reduction of greenhouse gas (GHG) emissions seems to have been given priority. With that in mind, governments around the world have been considering putting a price on carbon dioxide emissions as a means of bringing them down (Nordhaus, 2007). Specifically, governments have implemented two main carbon pricing schemes to reduce emissions: emissions trading systems (ETS) and carbon taxes. An ETS – sometimes referred to as a cap-and-trade system – caps the total level of GHG emissions and allows those industries with low emissions to sell their extra allowances to larger emitters. A carbon tax directly sets a price on carbon by defining a tax rate on GHG emissions or – more commonly – on the carbon content of fossil fuels. It is different from an ETS in that the emission reduction outcome of a carbon tax is not pre-defined but the carbon price is. The choice of the instrument will depend on national and economic circumstances.[1]

7.2 INTERNAL CARBON PRICING

On top of government carbon pricing schemes, many companies around the world have also instituted their own internal price on carbon. An internal price places a monetary value on GHG emissions, which businesses can then factor into investment decisions and business operations. Companies use internal carbon pricing (ICP) as a strategy to manage climate-related business and regulatory risks and prepare for a transition to the ‘low-carbon’ economy many governments and institutions call for. Weinhofer and Busch (2013) argue that the extent to which companies actually start managing climate-related risks depends on management’s risk beliefs and interpretations. Some sectors such as oil and gas, minerals and mining, and electric power have been using ICP as part of their risk mitigation strategy since the 1990s.[2] Some companies use internal pricing to help them prepare for future policies restricting carbon emissions. The Carbon Disclosure Project (CDP) data on ICP shows continued growth worldwide. In 2020, 853 companies disclosed the use of an internal price on carbon, a 43 percent increase since

2018 (Bartlett et al., 2021). According to Bui and De Villiers (2017), companies move toward the adoption of proactive and creative strategies to manage their carbon performance when climate change risk exposure and market opportunities increase. Drawing on a survey of managers of Italian manufacturing companies, Todaro et al. (2021) also identify climate change awareness and perceived exposure to climate risk as factors behind corporate responses to climate change concerns. According to McKinsey & Company's report on ICP, growing interest and high variability is found across companies and sectors. Out of 2,600 companies, 23 percent of the firms use an internal carbon charge, and another 22 percent plan to do so in the next two years. Of the top 100 companies in the global CDP data set (based on 2019 revenue), the ones that most frequently reported using ICP were those in the energy, materials, and financial industries, followed by the technology and industrial sectors.[3]

7.2.1 Types of ICP Programs

ICP generally takes one of three forms. Companies generally rely on these three different approaches, either in isolation or in combination, to report on ICP programs:

- An **internal carbon fee** is a monetary value on each ton of carbon emissions, which is readily understandable throughout the organization. The fee creates a dedicated revenue or investment stream to fund the company's emissions reduction efforts.
- An **implicit price** is based on how much a company spends to reduce GHG emissions and/or cost of complying with government regulations. For example, it can be the amount a company spends on renewable energy purchases or on compliance with fuel economy standards. It helps companies identify and minimize these costs, use the information gained from this to understand their own carbon footprint. For some companies, an implicit carbon price can set a benchmark before formally launching an ICP program.
- A **shadow price** is a theoretical price on carbon that can help support long-term business planning and investment strategies. This helps a company prioritize low-carbon investments and prepare for future regulation. Most companies use a shadow price higher than current government carbon price levels. A company incorporates an internal price for carbon in each of its investment plans with the objective to study the impact of GHG emissions on the company's return on each investment. In addition to its use in guiding capital investment projects, a company may also use a shadow carbon price as a proxy for future regulatory scenarios as well as states of the world to model its impact on its business operations and resource mix. Thus, shadow carbon pricing can assist a firm with risk management as well as strategic planning. Firms may also use a range of prices depending on the carbon exposure of a project in a highly regulated market. The shadow prices used by businesses tend to be higher than the carbon fee prices. The shadow price of carbon might be based on observed/forecasted carbon prices for established carbon trading schemes. Shadow prices may also be based on other government policies that implicitly price carbon, including the price of renewables or taxes on certain commodities (Ahluwalia, 2017).

7.2.2 ICP Levels

The key question in setting the ICP is the choice of mechanism to determine the price level. It is estimated that the social cost of carbon ranges from US$25 to more than US$200 per metric ton of carbon, depending on the types of damage considered. Based on its 'Methodological Convention 2.0 for Estimates of Environmental Costs' (2012), the German Environment Agency[4] recommends a carbon price of 159€ per metric ton of GHG emissions (2016 prices; inflation-adjusted), which reflects the damages supposedly caused by climate change. The carbon price required to successfully comply with a 2°C target represents another external point of reference. The High-Level Commission on Carbon Prices, a think tank made up of economists and headed by Lord Nicholas Stern and Joseph E. Stiglitz, estimates the carbon price consistent with achieving the Paris <2°C temperature target to be US$40–$80 per ton of CO_2 up to 2020, and US$50–$100 per ton of CO_2 to 2030. However, to be in line with the 2°C limit, this carbon price level would have to be adopted worldwide. The higher the company's target for carbon emission reductions, the more measures with relatively higher mitigation costs will need to be considered (Gagern et al., 2019). When it comes to determining a firm's own internal or shadow price, prices currently vary significantly by region and sector. Figure 7.1 shows average internal carbon prices at worldwide level and its increase over time.

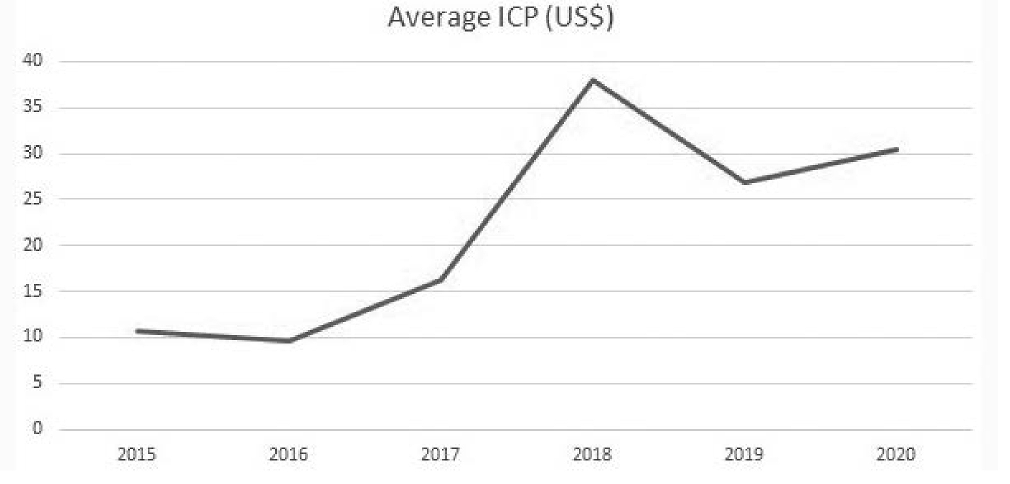

Figure 7.1 Average internal carbon prices

7.3 THE CARBON DISCLOSURE PROJECT ICP DATA

Studies focusing on ICP generally use data compiled by the CDP. CDP is an international non-profit organization that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Nearly 20,000 organizations disclosed their environmental data in 2022. In 2021, globally, 1,077 companies reported using an ICP, and 1,601 reported that they plan to use an ICP in the next two years (CDP, 2022). Moreover, the number of global companies that have adopted an ICP is growing rapidly, from less than 200 in 2014 to more than 800 in 2020 (Ben-Amar et al., 2022).

Table 7.1 *Sector distribution for ICP adopters from 2015–2020*

Industry	2015	2016	2017	2018	2019	2020	Total
Services	48	60	53	79	335	413	988
Manufacturing	34	43	42	70	331	313	833
Infrastructure	17	28	23	33	75	103	279
Materials	10	15	16	18	44	161	264
Fossil Fuels	28	32	32	30	49	52	223
Retail	10	12	9	11	42	107	191
Power generation	22	26	18	21	57	46	190
Food, Beverage, Agric.	10	11	7	12	66	82	188
Biotech, Healthcare, Pharma	4	5	6	11	64	81	171
Transportation services	9	10	9	13	44	54	139
Mineral extraction	8	8	10	10	10	-	46
Hospitality	1	1	2	3	10	18	35
Apparel	2	3	2	3	9	13	32
Others (Mining, Utilities, Tech, Real estate, Conglo.)	-	5	5	4	1	3	18
Total	203	259	234	318	1,137	1,446	3,597

Source: CDP data, authors' calculations.

According to the CDP Report on Putting a Price on Carbon, companies unveil a variety of reasons for using an ICP: to reveal hidden carbon risks and opportunities, to inform decisions about capital investments or even as a deliberate tool to transition to a low-carbon business model. ICP has been adopted or being planned to adopt by all the regions and industries. Table 7.1 shows the growth in ICP adoption by industries over the years.

Many companies use different prices in different circumstances, that is, the price varies according to the characteristics of the business unit to which it is applied (e.g., geographic location, risk exposure) and it may evolve over time (Bartlett et al., 2021). Vast heterogeneity has been seen in the price levels (Ben-Amar et al., 2022). Some companies price carbon as low as one cent per ton, while others assess it at well above $100 per ton. Such variance reflects the idea that the application of ICP is unique to each business. For example, Danone, the French food and beverage company, has implemented an ambitious static and uniform price, and notes in its disclosure:

> The internal price of carbon implemented by Danone is uniform and static, meaning a single price is applied throughout the company independent of geography and business unit, and constant over time. Danone updated its internal price of carbon and decided to set it at a relatively high level, 35€/t, to internalize potential future costs of carbon in the long term. It enables the management to arbitrate between different options, to choose the most virtuous and efficient ones to achieve the goals of Danone's Climate Policy.

Rather than establishing a company-wide price on carbon, Sony Corporation uses a differentiated price which is 'decided and reviewed separately for each business unit, according to their business condition and status, such as the degree of environmental impact, energy pricing, business size, budget and management status.'

In its 2020 climate change disclosure to CDP, Delta Airlines stated the use of 'Evolutionary pricing that assumes the cost of carbon increases with time. Various sources are used to do sensitivity analysis around this: published information on future cost of carbon (IEA), analysis on supply and demand of offsets or other instruments'.

7.4 ICP: AN EMERGING FIELD OF STUDY

There has been considerable research aimed at understanding the internally driven perspective of proactive environmental strategy (Aragón-Correa, 1998; Sharma, 2000; Sharma and Vredenburg, 1998). Corporations are encountering external pressures from different stakeholders to act responsibly towards the environment (Flammer, 2013). Proactive environmental practices are intangible managerial innovations and routines that require commitments by organizations towards improving the natural environment (Hart, 2005). However, there is very limited research on one of the internal tools aimed at reducing emissions, that is, ICP, and we know little about the drivers of its implementation.

First, firms could set up ICP to reach their emissions reduction targets more effectively. Carbon emissions reduction is most likely to be effective when corporations adopt proactive and creative strategies (Bui and de Villiers 2017). Second, an increasing number of firms are using ICP as a strategy to proactively manage climate-related business risks, since government carbon pricing regimes have come into play. When corporations are exposed to or foresee higher regulatory and financial risks related to climate change potentially affecting their businesses, they attempt to quantify, model, and address such risks. Third, firms can also look to obtain a competitive advantage in a future in which climate policies could affect operating conditions or technical systems. Finally, ICP adoption could trigger and drive investments toward low-emissions technologies, identifying new markets and factoring ICP into capital allocation decisions among investments generating significant GHG emissions (Abe, 2015; Bianchini and Gianfrate, 2018).

Empirical investigations show that ICP reduces carbon emissions per employee and carbon emissions per revenue by 13.5 percent and 15.7 percent, respectively (Zhu et al., 2022). It also appears that firms using carbon pricing reduce emissions more quickly based on both revenue intensity and employee-intensity measures (Byrd et al., 2020).

While recent research works have mostly started to look at the impact of ICP on financial performance (e.g., Ma and Kuo, 2021), the precise drivers of ICP adoption are still largely underexplored. The few studies that have focused on ICP include Bento and Gianfrate (2020) and Bento et al. (2021). ICP is an emerging practice by firms to embed GHG emissions in operations and business models. Bento and Gianfrate (2020) explore the factors that explain ICP setting and specifically test whether the macroeconomic, regulatory, industry and firm-specific characteristics affect the disclosed level of ICP. The role of country characteristics, that is, the level of economic development (captured by GDP per capita) and the presence of a national carbon price mechanism were found to be positively associated with internal carbon prices. Internal carbon prices were reported to be significantly higher for companies in countries with higher GDP per capita (Bento and Gianfrate, 2020). Similarly, companies whose headquarters are in countries which have a national carbon pricing system in place (carbon-tax or cap-and-trade) had significantly higher prices set for carbon internally (Bento and Gianfrate, 2020; Bento et al., 2021).

Firms operating in industries most exposed to carbon and climate regulation risks, particularly companies in the energy sector have, on average, higher ICPs than other firms. The size of the firm (as proxied by revenues) and corporate governance independence (board independence and percentage of females on board) have a positive impact on ICP (Bento and Gianfrate, 2020). Contextual variables on the economy and regulation were found to explain more of the carbon pricing behavior of companies than industry and firm's characteristics put together.

7.5 CLIMATE EXPOSURE AND ICP ADOPTION

One of the most frequently stated reasons for adopting climate change mitigation policies is to manage increased carbon emissions and climate-related business risks. As such, it would make sense for exposure to climate change risk to influence ICP adoption. However, it is only recently that the question of whether exposure to climate risk is a driver of ICP adoption has been addressed at the empirical level.

7.5.1 Climate Change Risk Exposure and ICP Adoption

In a recent study (Ben-Amar et al., 2022), we examine whether firm-level exposure to climate change has an impact on firms' decision to put in place an ICP program. More specifically, we use two proxies for firm-level climate change exposure. First, in line with the literature (Jung et al., 2018; Seltzer et al., 2022), we use GHG emissions at the firm level as a proxy for firm exposure to carbon risk and climate-related regulatory risks. Second, we take advantage of the newly developed measure of Sautner et al. (2020) as a proxy for firm-level exposure to climate change business effects (*Climate Change Exposure*). Using a sample of 3,170 firm–year observations covering 1,362 global firms reporting on their ICP programs to the CDP from 2016 to 2018, we show that firm-level exposure to climate-related risks is a significant driver of ICP adoption. The details regarding variables construction are featured in Appendix 7.1. Our results show that each unit increase in GHG emissions and climate change exposure at firm level (*Climate Change Exposure*) increase the odds of adopting an ICP program by 6.3 percent and 14.9 percent, respectively (results are confirmed when using shadow prices instead of internal carbon prices, with odds ratios of 1.056 for *GHG* and 1.062 for *Climate Change Exposure*).

These results therefore indicate a clear link between climate change risk exposure and the likelihood of ICP adoption. However, they do not tell us which dimensions of climate change risk matter. The three main dimensions of firm-level climate change risk are 1) exposure to climate change opportunities (*Climate Change Exposure*$^{\mathrm{Opp}}$); 2) exposure to climate change regulatory risk (*Climate Change Exposure*$^{\mathrm{Reg}}$); and 3) exposure to climate change physical risk (*Climate Change Exposure*$^{\mathrm{Phy}}$). To better disentangle the relationship between climate change exposure and ICP adoption, we thus specifically assess the impact of these three dimensions.

Further findings in Ben-Amar et al. (2022) show that firm-level exposures to climate change opportunities and regulatory risks are positively related to the likelihood of ICP adoption. Specifically, we find that each unit increase in opportunities exposure (*Climate Change Exposure*$^{\mathrm{Opp}}$) and regulatory risk exposure (*Climate Change Exposure*$^{\mathrm{Reg}}$) increase the odds of adopting an ICP program by 22.2 percent and 263.1 percent, respectively. In contrast, firm-level exposure to physical impacts of climate change does not appear to affect the decision to adopt ICP. These results suggest that corporations respond to increasing regulatory pressure, in the form of either carbon taxes or cap and trade mechanisms, through the voluntary adoption of ICP programs to guide corporate investment assessments.

7.5.2 The Role of Board Independence

Given that climate change exposes corporations to material financial risks, it would make sense for effective governance mechanisms to foster the implementation of proactive adaptation strategies, such as ICP programs, as part of their risk oversight and management roles. One measure often used as a proxy of effective governance is board independence (e.g., Ben-Amar and McIlkenny, 2015; de Villiers et al., 2011; Haque, 2017; Liao et al., 2015). The reason is that independent boards are expected to perform effective monitoring over management, which, in turn, mitigates agency costs and enhances firm performance (de Villiers et al., 2011). With respect to climate-related matters, several studies reveal a positive association between board independence and climate change disclosures (Aggarwal and Dow, 2012; Ben-Amar and McIlkenny, 2015; Liao et al., 2015). Haque (2017) also shows board independence to be positively linked to the implementation of emissions reduction initiatives such as participation in emission trading schemes or initiatives to reduce, recycle, substitute, or compensate for GHG equivalents in their manufacturing processes. As a result, it is interesting to assess whether board independence moderates the relation between climate change exposure and ICP adoption. This is what we do in Ben-Amar et al. (2022) and we show that board independence plays a significant role as a moderator between climate change exposure and ICP adoption. Specifically, our results show that the odds ratio for *GHG* (*Climate Change Exposure*) when a firm has an independent board is about 1.047 (1.116) times the size of the odds ratio for *GHG* (*Climate Change Exposure*) when a firm does not have an independent board.

These findings highlight that effective corporate governance in the form of an independent board increases the likelihood of ICP adoption when the corporation faces material climate change exposure.

7.6 CONCLUDING REMARKS

ICP implementation plays a key role in firms' proactive strategies to address the business risks related to climate change (Bento and Gianfrate, 2020). Our results show that firm-level carbon exposure as well as climate change exposure positively influence the likelihood of ICP adoption. These findings are in line with the work of Bui and De Villiers (2017), who suggest that corporate strategies change in response to increased climate change risk exposure. Firms with higher emissions and greater climate change risk exposure are more likely to actually put a price on carbon to guide their investments and strategies toward the 'low carbon' economy advocated by many governments and institutions. Interestingly, we show that it is not the physical risks associated with climate change that matter for companies adopting an ICP but instead, regulatory risk (as well as opportunities, to a lesser extent).

Our analysis also reveals that board independence has a moderating impact on the climate change risk – ICP adoption relationship. Indeed, we show that board independence increases the odds of climate change risk exposure leading to the adoption of ICP. These findings highlight that effective corporate governance in the form of an independent board increases the likelihood of ICP adoption when firms face material climate change risk exposure. Our analysis shows that governance characteristics have an impact on the way firms respond to risks associated with GHG emissions.

Even though ICP is rapidly spreading among firms and has been the subject of various academic studies, it is still a nascent field offering many future research avenues. The pros and cons associated with ICP adoption should be explored in depth, since ICP could be an opportunity to gain competitive advantage for some firms, but a mere cost for others. It would also be interesting to look at how other governance mechanisms influence or interact with ICP adoption as well as ICP levels. This latter point is especially relevant given the vast heterogeneity observed among firms in terms of actual internal carbon price levels.

NOTES

1. https://www.worldbank.org/en/programs/pricing-carbon.
2. Source: Center for Climate and Energy Solutions. URL: https://www.c2es.org/content/internal-carbon-pricing/.
3. https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-state-of-internal-carbon-pricing.
4. https://www.umweltbundesamt.de/sites/default/files/medien/376/publikationen/methodological_convention_2_0_for_estimates_of_environmental_costs.pdf.

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APPENDIX 7.1

Table A7.1 Variables, descriptions and sources

Variable	Variable description	Source
ICP Adoption	Dummy variable taking 1 if ICP is adopted, 0 otherwise	CDP
GHG	GHG-Total Impact Ratio (%) Greenhouse Gas Emissions at firm level The total external environmental costs of the company (direct and indirect) divided by the company's turnover/revenue	Trucost
Climate Change Exposure	Climate Change Exposure at Firm Level	Data source: osf.io; Variable developed by Sautner et al., (2020)
Climate Change Exposure^{Opp}	Climate Change Exposure at Firm Level specifically opportunities related to climate change	Data source: osf.io; Variable developed by Sautner et al., (2020)
Climate Change Exposure^{Reg}	Climate Change Exposure at Firm Level specifically regulation shocks related to climate change	Data source: osf.io; Variable developed by Sautner et al., (2020)
Climate Change Exposure^{Phy}	Climate Change Exposure at Firm Level specifically physical shocks related to climate change	Data source: osf.io; Variable developed by Sautner et al., (2020)
Size	Log of total assets	Worldscope
Leverage	Total company debt/shareholder's equity	Worldscope
ROA	Return on Asset	Worldscope
Board Independence	Percentage of independent board members as reported by the company	Asset4
Female	Percentage of females on the board	Asset4
GDP	Natural log of GDP per capita of the country of the firm	World Bank
NCP	National Carbon Price Dummy variable = 1 if the country where company is headquartered has a national carbon price in place, 0 otherwise	World Bank
Year	ICP Adoption and other data taken for year 2016–2018	CDP
Sector	Firms' sectors classification	CDP

8. Multi-stakeholder climate action partnerships: What do we 'really' know about business partner contributions to partnership goals?

Adriane MacDonald and Alireza Jahandideh

8.1 INTRODUCTION

Cross-sector partnerships (CSPs) are an important corporate social responsibility (CSR) strategy in which private sector companies partner with organizations from the public or civil society sectors (Pedersen et al., 2021). Multi-stakeholder partnerships (MSPs) are one type of CSP that involve organizations from each of the private, public, and civil society sectors and have been identified by the United Nations (UN) as being effective at mobilizing the knowledge, expertise, and resources required to address complex sustainability problems, including those identified by the UN Sustainable Development Goals (SDGs) (Clarke & Crane, 2018; MacDonald et al., 2018). However, the validity of this, as well as other popular claims about the benefits of MSPs, have come into question as the failures of many MSPs to achieve their goals are becoming more apparent to partnership researchers and practitioners (Bäckstrand & Kylsäter, 2014; Mert, 2014). Given these contrasting assertions, there is a need for further scrutiny of whether MSPs are an effective mechanism for mobilizing resources that translate into meaningful progress on the SDGs (Bäckstrand & Kylsäter, 2014; Dentoni et al., 2018; Googins & Rochlin, 2000).

The purpose of this chapter is to review the existing literature on climate action (SDG#13) MSPs to establish what is known about business partner involvement in and contributions to these partnerships. Understanding the inputs provided by specific types of partners (e.g., businesses, governments, non-profit organizations) is important because partners from each sector are theorized to contribute distinct capabilities and resources that play a pivotal role in a partnership's performance (van Tulder et al., 2016). One stakeholder group that has become increasingly involved in climate governance over the last two decades is business (Andonova et al., 2009; Reed & Reed, 2008). On the one hand, there is excitement around the potential for attracting private financing (i.e., financial inputs) to climate action projects (Gannon et al., 2021). On the other hand, there are concerns that actors, such as business, with disproportionate access to resources, may attempt to consolidate power and bring corporate money to projects that could potentially serve as greenwashing (La Viña et al., 2003; Pattberg & Widerberg, 2016). The conflicting views regarding the inclusion of businesses raises questions about how and to what extent business partners contribute to partnership goal attainment.

In this chapter, we describe what climate action MSPs are, and the different strategies they adopt to tackle climate change and its impacts. We then provide an overview of the roles that business partners can play in MSPs and the rationale for why business partners are encouraged to participate in these partnerships. Following this we present three illustrative examples of climate action MSPs to compile and present what is known about business partner involvement in three well-documented partnerships. Finally, we synthesize our review findings to discuss the potential implications and future research directions.

8.2 MULTI-STAKEHOLDER PARTNERSHIPS FOR CLIMATE ACTION

MSPs are an organizational form which enables collaboration among actors from different sectors (i.e., private, public, and civil society) to find solutions to complex and multifaceted problems, such as those targeted by the UN SDGs (Bäckstrand, 2006; Dentoni et al., 2016; Selsky & Parker, 2005). MSPs started to gain attention in the field of sustainability when the concept of *type II partnerships* was introduced during the 2002 World Summit on Sustainable Development (WSSD) in Johannesburg, South Africa (La Viña et al., 2003), and continued to gain popularity over the last two decades due to a prevailing belief that they are an innovative approach to overcoming the regulatory, implementation, and participation deficits in environmental governance (Parthan et al., 2010; Szulecki et al., 2010). As climate change is particularly vulnerable to such governance deficits, MSPs have become fundamental to climate governance (Andonova et al., 2009; Pattberg & Widerberg, 2016).

Specific to the climate change issue-area there are two broad strategies that MSPs can pursue: (1) mitigation, and (2) adaptation (Averchenkova et al., 2016). MSPs that focus on mitigation aim to reduce or stabilize greenhouse gas (GHG) emissions (Sovacool & Van de Graaf, 2018). Whereas adaptation MSPs aim to respond to the realized or anticipated impacts of climate change by taking steps to reduce harms or exploit opportunities (Klein et al., 2005; Pinkse & Kolk, 2012). Notably, there are some important differences between mitigation and adaptation as their impacts correspond to different spatial and temporal scales (Pinkse & Kolk, 2012). These differences have implications for MSPs as they influence the types of issues that the partnership will focus on, and consequently the types of stakeholders that will be involved (Klein et al., 2005). For example, MSPs that focus on mitigation tend to be global in scale, have undefined time horizons, and involve international actors, such as industrialized nations, multinational corporations, and international non-governmental organizations (NGOs). This is because the impacts of reducing GHG emissions by addressing deforestation or investing in renewable energy, for example, are experienced on a global scale and only apparent in the long term (Klein et al., 2005; Pinkse & Kolk, 2012). In contrast, adaptation is tied to locally situated issues related to land use, urban planning, and agriculture, and so MSPs that adopt this strategy tend to operate at the local level, have predetermined time horizons, and engage local stakeholders (Klein et al., 2005).

8.3 THE ROLE OF BUSINESS PARTNERS IN CLIMATE ACTION PARTNERSHIPS

Broadly speaking there are three possible roles that business partners can have in MSPs: (1) agenda setting, (2) implementing, and (3) rule-setting (Pinkse & Kolk, 2012; Zelli et al., 2017). The extent to which business partners will exercise these roles is largely determined by the mandate of the partnership. For example, partners will participate in *agenda setting* when the purpose of the partnership is to diffuse 'information, knowledge, and norms' (Pinkse &

Kolk, 2012, p. 198). In such partnerships, knowledge and information from different stakeholders are combined to inform climate action strategies, plans, or best practices (Andonova et al., 2009). Involving diverse stakeholders in the co-creation of agenda-setting outputs (e.g., climate action plans) is thought to enhance their legitimacy, thus increasing the chances that they will be taken up by partners and other relevant actors (Andonova et al., 2009). For example, community climate action plans, often formulated by MSPs, set climate goals, targets, and action plans for a municipality or region (Sun et al., 2020). These plans, created by integrating information and ideas shared by partners, aim to establish a sense of ownership that will ultimately garner community support for the plan's implementation (MacDonald, Clarke, & Huang, 2019).

Business partners will play an *implementing* role when the purpose of the partnership is to 'provide resources (finance, expertise, labor, technology, or monitoring) to enable action' (Andonova et al., 2009, p. 64). Here the function of the partnership is to enable the implementation of climate policies, projects, or initiatives by providing resources or building capacity. Studies have shown that in these partnerships, business partners contribute tangible resources to support implementation efforts (e.g., Pattberg, 2010; Sardonis & Lee, 2022), or leverage the support and resources provided by the partnership to implement a climate project (e.g., Gannon et al., 2021; Pauw & Chan, 2018). The BioCarbon Fund partnership, is an example of the former, as large companies, including Tokyo Electric Power, Sumitomo Chemical, and Suntory, support implementation by providing financing for partnership projects that 'sequester or conserve carbon in developing countries' (Pinkse & Kolk, 2012, p. 189). In the case of the BioCarbon Fund, as well as other high-profile climate mitigation partners (such as Noel Kempff Mercado Climate Action Project (NKCAP) discussed below), the relationship between the business partners and the partnership is primarily transactional, as these partners receive exceptional returns on their investments, in the form of carbon credits or reduced barriers to market entry (Bäckstrand & Lovbrand, 2006; Pattberg et al., 2010). As an example of the latter, the Conservation Agriculture for Food Security partnership, with a mandate to 'build the resilience of smallholder farmers and other SMEs' used grants and cost-sharing to help their business partners gain access to 'climate-smart agricultural technologies and markets' (Gannon et al., 2021, p. 6).

Finally, while there is little evidence of business partners playing an active role in *rule setting* it is a possible role as there are climate action MSPs that serve this function (Pinkse & Kolk, 2012). Rule-setting MSPs 'contribute to climate change governance by validating a set of norms and establishing rules intended to guide and constrain constituents' (Andonova et al., 2009, p. 65). An example of a rule setting MSP is the Gold Standard, a standard created to ensure the 'credibility of carbon offset credits' (Andonova et al., 2009, p. 65). In this MSP, the NGO partners are responsible for setting standards (i.e., rule setting), whereas the business partners contribute to implementation by participating in Gold Standard Working Groups to pilot new schemes and initiatives (Gold Standard, 2022). In most cases, where the partnership has a rule-setting function, business partners are more likely to voluntarily adopt the rules as part of their role in implementation than they are to create them.

8.4 WHY INVOLVE BUSINESS PARTNERS IN CLIMATE ACTION PARTNERSHIPS

Business partners are invited to participate in climate action MSPs for two key reasons: (1) business partners can *directly support* the achievement of the MSPs goals by providing important resources; and (2) business partners can *indirectly support* the achievement of the MSPs goals by leveraging partnership resources to pursue corporate mitigation or adaptation initiatives.

First, the impetus to include businesses in MSPs in order to gain access to their resources stems from the belief that grand challenges, such as climate change, necessitate collaboration across sectors because no single organization or sector possesses the full compliment of resources needed to adequately respond to such issues (Selsky & Parker, 2005). From this resource centered perspective, MSPs provide a way for organizations from different sectors to pool diverse and complementary resources that are required to develop and implement viable solutions to climate-related challenges (Pauw & Chan, 2018). Consequently, MSPs are expected to increase their problem-solving capacity when they involve partners from the private, public, and civil society sectors as organizations from each sector provide unique resources and capabilities that help to 'achieve the partnership's mission' (van Tulder et al., 2016, p. 9). For example, business partners have access to distinctive networks, such as chambers of commerce (Googins & Rochlin, 2000), possess specialized knowledge and expertise that have the potential to improve efficiency (Slawinski et al., 2017) or produce innovative solutions (Burch et al., 2013), and offer the possibility of private financing for partnership projects (Gannon et al., 2021). In other words, business partners are theorized to play an important role in MSPs by virtue of the unique *inputs* (e.g., money, expertise, networks) that they can provide to the partnership's projects or initiatives (i.e., direct support) (van Tulder et al., 2016).

Second, MSPs are thought to be an effective mechanism for garnering business commitment and participation in addressing climate change (Ordonez-Ponce et al., 2021). This is accomplished when business partners use the resources and capacity building opportunities provided by the partnership to implement corporate initiatives that ultimately contribute to the partnership's mitigation or adaptation goals (Clarke & MacDonald, 2019). For example, in partnerships, such as the Climate Group, that have a mandate to increase awareness and adoption of environmental best practices, business partners can contribute by taking advantage of the resources and training opportunities provided by the partnership to reduce the environmental impacts of their business operations (Andonova et al., 2009). As another example, in a climate action MSP in Canada, nearly 100 SMEs partners received training in GHG management and ongoing technical assistance (Burch et al., 2013). We also found a few examples of business partners leveraging financial and other resources accessed via the partnership to develop new products or services. In one such example, SME partners of the HortIMPACT partnership in Kenya have access to funds that they can use to develop new products or services that support adaptation with value chains (Gannon et al., 2021). The business partners in these examples, mostly SMEs, help to implement partnership goals by investing resources (e.g., staff time, money, commitment) into internal initiatives that will have a positive impact on mitigation or adaptation (i.e., indirect support).

8.5 CHALLENGES OF INVOLVING BUSINESS PARTNERS IN CLIMATE ACTION PARTNERSHIPS

There are also potential challenges related to involving business partners in climate action partnerships. Namely, there are possible challenges linked to resource asymmetries that could give some business partners more power and influence in the partnership than other partners (La Viña et al., 2003; Zammit, 2003). For example, in general, large businesses have more access to financial resources than SME or civil society partners, this means that certain business partners are more likely than other partners to provide a partnership with much needed access to financial resources. This naturally places well-resourced business partners, such as large multi- or trans-national business partners in a position of power within the partnership. Besides deteriorating trust among partners from different sectors (Pattberg & Widerberg, 2016), these power asymmetries are even more a cause for concern when considering the inherent conflict between business interests and climate action (Böhm et al., 2012). Specifically, that business success (i.e., profits, continuous expansion, and uninterrupted economic growth) is inextricably tied to the exploitation of the natural environment (Wright & Nyberg, 2015). In other words, the demands of the climate crisis are fundamentally at odds with what is economically necessary for businesses to exist (Harvey, 2014; Nyberg et al., 2022).

Given this important contradiction, it is expected that businesses will seek interventions that do not limit economic growth or their ability to self-regulate (Wright & Nyberg, 2015). Indeed, the fact that many climate action MSPs rely on self-regulation and market-based interventions (see illustrative examples described in the following section) provide insight into how business interests are guiding partnership directions (Mert, 2009; Zammit, 2003). Such interventions have been criticized as enabling 'business as usual' at the expense of alternatives that might address issues at the heart of the climate crisis, such as overconsumption or reliance on fossil fuels (Bäckstrand & Lovbrand, 2006; Böhm et al., 2012; Leonard, 2014). Likewise, in preparatory meetings leading up to the 2002 World Summit on Sustainable Development, governments and civil society actors expressed concerns that the influence of corporations could result in the development of partnerships 'that would serve to "greenwash" – superficial instruments of public relations aimed at establishing credibility with little concrete action' (La Viña et al., 2003, p. 58). In sum, the combination of the undue influence of large corporate actors and their conflicting interests with environmental actions that limit economic growth have the potential to undermine the effectiveness of MSPs to realize their climate action goals.

8.6 THREE ILLUSTRATIVE EXAMPLES OF BUSINESS PARTNER INVOLVEMENT IN CLIMATE ACTION PARTNERSHIPS

This section gives an overview of three exemplar MSPs in the context of climate change, including the Renewable Energy and Energy Efficiency Partnership (REEEP), NKCAP and the Global Methane Initiative (GMI). A summary table comparing business partner involvement as well as the successes and challenges of these three partnerships appears at the end of this section in Table 8.1. These partnerships were selected as illustrative examples based on three criteria: (1) they involve private companies as partners; (2) have climate change as their primary issue of interest; and (3) were finalists in the Roy Award program, meaning they were recognized 'as having high effectiveness potential at the time of their evaluation' (Sardonis & Lee, 2022, p. 207). These partnerships were also selected because their activities and outcomes have been documented by at least two separate research projects, providing a sufficient base of information to inform and develop this section.

8.6.1 Renewable Energy and Energy Efficiency Partnership

REEEP was initiated in 2002 by the U.K. government during the World Summit for Sustainable Development in Johannesburg, South Africa (Pattberg, 2010; Pinkse & Kolk, 2012; Sanderink & Nasiritousi, 2020). This *type II partnership* is a global platform that engages stakeholders at multiple levels from a variety of sectors. It is composed of 350 global and local partners from the private, public, and civil society sectors and receives its funding from 'various governments, international organizations, NGOs, and foundations' (Sanderink & Nasiritousi, 2020, p. 2). REEEP aims to 'make clean energy and energy efficiency technology accessible and affordable to all' (REEEP, 2018a, p. 1). It does this by providing financial assistance and capacity building for clean energy, energy efficiency, and energy access projects, often led by SMEs, in 'low- and middle-income countries' (REEEP, 2018a, p. 1). In general, REEEP's focus is on promoting market-based solutions that reduce regulatory and financial barriers to clean energy access (Pinkse & Kolk, 2012). As such, many of its projects are designed to encourage business investment in renewable energy and energy efficiency (i.e., mitigation) (Pinkse & Kolk, 2012).

Studies have evaluated the performance of the REEEP in terms of both internal efficiency and external effectiveness in promoting climate mitigation (Cf. Pinkse & Kolk, 2012; Sovacool & Van de Graaf, 2018). On the one hand, REEEP has been recognized as an exemplary MSP, having several important features that contribute to the partnership's performance over the last two decades (Sanderink & Nasiritousi, 2020). For example, in their evaluation of REEEP's performance Sovacool and Van de Graaf (2018) assigned REEEP positive ratings in the areas of clarity of purpose, institutional formality, and resilience (i.e., ability to adapt to changes in the partnership's membership). On the other hand, REEEP has also received some criticism. Namely, critics argue that REEEP has not been successful at developing a mechanism for reliable financing (Poocharoen & Sovacool, 2012) and that it prioritizes its market transformation goals (i.e., removing policy and financial obstacles to renewable energy and energy efficiency) over its climate mitigation and poverty alleviation goals (Pinkse & Kolk, 2012). A study conducted by Pattberg and colleagues (2010) provides compelling evidence in support of the latter critique as their finding reveals that 65 percent of REEEP's projects focus on achieving their market transformation goals, while only 13 percent are aimed at achieving their mitigation and poverty alleviation goals.

Previous studies noted that private companies have contributed to REEEP in two important ways. First, some studies note that companies contribute to REEEP by providing financial resources (Newell et al., 2009; Poocharoen & Sovacool, 2012). However, the specific amount of funding provided by private companies is not disclosed in the reviewed studies nor in REEEP's audit reports. Second, it is also possible that REEEP's business partners contribute to agenda setting as this partnership seeks to involve its partners in decision making (Sovacool & Van de Graaf, 2018) and gives its partners the latitude to decide what low-carbon technologies they want to adopt (Parthan et al., 2010). On the other hand, private firms benefit from engaging in REEEP in several ways. First, REEEP provides the companies (mostly SMEs) access to new markets by reducing regulatory barriers and facilitating their access to financial resources (Pinkse & Kolk, 2012). For example, REEEP's Private Financing Advisory Network (PFAN) provides financing and free business coaching to entrepreneurs who want to launch clean energy projects (REEEP, 2018b). Private companies also experience learning benefits from interacting with other REEEP network members (REEEP, 2020) and reputational gains from their association with a climate action partnership (Pattberg et al., 2010).

8.6.2 Noel Kempff Mercado Climate Action Project

Established in 1996, NKCAP was one of the first MSPs to implement a Reducing Emissions from Deforestation and Degradation (REDD) project (Virgilio, 2009). This MSP was formed between the Government of Bolivia, an international NGO (The Nature Conservancy), a national NGO (Fundación Amigos de la Naturaleza Bolivia), and three large energy corporations (American Electric Power, PacifiCorp, and British Petroleum (BP) America) (Brown et al., 2000; Pereira, 2010). The NGO partners were responsible for developing and managing the partnership's projects and the business partners provided a significant portion of the funding (Virgilio, 2009). NKCAP's primary objective was to double the size of the Noel Kempff Mercado National Park by acquiring logging rights from timber companies in order to protect the expanded area from deforestation and degradation (Sardonis & Lee, 2022). In doing so, the partnership aimed to prevent millions of tons of CO_2 emissions, protect biodiversity, improve the livelihoods of local communities, and reduce soil erosion (Pinkse & Kolk, 2012; Sardonis & Lee, 2022; Virgilio, 2009). NKCAP is our only partnership example, with projects that simultaneously contribute to adaptation (e.g., protection of biodiversity) and mitigation (e.g., avoided CO_2 emissions) (Klein et al., 2005). While it was expected to operate for 30-years, NKCAP formally announced its early termination in 2016 (Sardonis & Lee, 2022).

Evaluations of NKCAP's performance have produced mixed results (Pinkse & Kolk, 2012). In the first decade of NKCAP's operations there were some notable achievements, such as third-party verification that the project had prevented CO_2 emissions and recognition for improvements in the national park's biodiversity management (Virgilio, 2009). It also produced positive social outcomes, for example project funds were invested in community development projects for improved health and education, local economic development initiatives for sustainable logging and ecotourism, and legal consultation that enabled indigenous communities to obtain official land title (Pereira, 2010; Sardonis & Lee, 2022; Virgilio, 2009). In contrast, NKCAP, like other similar collaborative forestry projects in South America, has been criticized for prioritizing economic gains from its carbon sink project at the expense of meaningful engagement with local stakeholders (Bäckstrand & Lovbrand, 2006; Densham et al., 2009). For example, NKCAP did not involve local communities in the 'initial design phase or decision-making processes' (Pereira, 2010, p. 180) and this oversight contributed to a lack of local support (Bäckstrand & Lovbrand, 2006). Further, the premature ending of this partnership is partly attributable to escalating tensions among the project stakeholders (Sardonis & Lee, 2022). Ultimately, many aspects of NKCAP's projects suffered or collapsed, and as a result this partnership was unable to fully realize its sustainability goals (Sardonis & Lee, 2022).

The primary role of NKCAP's three business partners was to provide financing for the partnership's projects, including for the acquisition of logging rights from local forestry companies (Pereira, 2010). Combined American Electric Power, PacifiCorp, and BP contributed

$8.2 million USD to NKCAP (Virgilio, 2009). These companies engaged in NKCAP because of the opportunity to invest in a low-cost project that would yield carbon offsets in a short period of time (Bäckstrand & Lovbrand, 2006). Indeed, their investment guaranteed them the majority (51 percent) of the project's certified carbon offsets (Sardonis & Lee, 2022, p. 199). At the same time, engaging in NKCAP offered these companies an opportunity to present as good corporate actors while continuing with business as usual (Bäckstrand & Lovbrand, 2006; Densham et al., 2009).

8.6.3 Global Methane Initiative

The GMI[1] is a voluntary, non-binding MSP that promotes methane abatement, recovery, and reuse as a source of energy in the biogas, coal, and oil and gas sectors (Leonard, 2014; Shikwambana et al., 2022). GMI's governance structure is composed of a Steering Committee, Secretariate, three Subcommittees (one for each sector), and the Project Network (Global Methane Initiative, n.d.-a). While GMI's Steering Committee is primarily composed of national governments, its Project Network has partners from industry, universities, NGOs, and financial institutions (Global Methane Initiative, n.d.-a; Hopkins et al., 2016). The GMI has adopted a mitigation strategy to address climate change as its projects focus on avoiding or reducing methane emissions. In doing so, GMI's aim to 'reduce greenhouse gas (GHG) emissions, improve air quality, increase energy security and enhance economic growth' (Shikwambana et al., 2022, p. 4).

Since its inception in 2004, GMI's projects have 'reduced methane emissions by approximately 500 million metric tonnes of carbon dioxide equivalent (MMTCO2e)' (Global Methane Initiative, 2020, p. 1). It has also helped in disseminating knowledge and best practices in methane capture methods to different sectors (Global Methane Initiative, 2020). However, like the other two partnership examples, GMI is criticized for its market-based approach to methane mitigation. For example, GMI has been criticized for providing incentives for large-scale industrial methane capture projects without paying attention to their potential for negative environmental impacts, such as water pollution from the extraction of methane from coal mines (Leonard, 2014). There are also concerns that GMI's reliance on voluntary, non-binding agreements creates opportunities for powerful partners, such as large industrial polluters to continue business-as-usual without needing to adhere to additional regulations or taking concreate steps that address the root of environmental problems (Bäckstrand, 2006; Leonard, 2014). For example, large industry actors have turned methane captured from the leaking pipes into a commodity instead of working collaboratively to develop long term solutions to the leakage problem (Leonard, 2014).

There was very little discussion in the reviewed articles that focused on the role of business partners in the GMI. While Leonard (2014) noted that the main role of business is to share information, knowledge, and expertise, no other article directly considers businesses' involvement in the GMI's activities. However, some articles and GMI produced materials describe the activities of the Project Network, which as mentioned, includes business partners; thus while it is difficult to determine the specific activities and inputs of business partners, we can describe the activities of network partners as a proxy (Talkington et al., 2014). For example, according to GMI's website, network partners 'share their technical expertise, experience, and financial resources and are encouraged to attend subcommittee meetings and participate in developing sector-specific Action Plans' (Global Methane Initiative, n.d.-a, p. 1). Thus, it is possible that business partners participate in agenda setting by contributing knowledge and expertise to the formulation of sector-specific Action Plans. It is also possible that some business partners contribute to implementation by providing financial resources to support GMI activities. In terms of outcomes to business partners, according to the GMI website, private sector actors join subcommittee meetings and workshops to extend their networks, become aware of new market opportunities, and enhance their learning (Global Methane Initiative, n.d.-b). Additionally, the GMI offers their business partners important reputational advantages as they can brand themselves as a firm that cares about sustainability by promoting their activities under the GMI label (Global Methane Initiative, n.d.-b).

8.7 DISCUSSION AND CONCLUSIONS

This chapter sought to review existing literature on climate action (SDG#13) MSPs to establish what is known about business partner involvement in and contributions to these partnerships. Our initial review of the MSP literature revealed that while several studies have examined why businesses partner for sustainability and how they benefit (Cf. Clarke & MacDonald, 2019; Gray & Stites, 2013; LaFrance & Lehmann, 2005; Lin & Darnall, 2015), there are only a handful that consider business involvement in MSPs beyond a business case perspective (Cf. Burch et al., 2013; Gannon et al., 2021; Ordonez-Ponce et al., 2021). Further, while such studies provide additional insights into what business partners do in MSPs, they do not examine the particularities of the inputs provided by these partners nor how such inputs might contribute to the attainment of MSP goals. Necessitated by the lack of existing research and the need to provide further elucidation on our chapter topic, we refined our approach by also reviewing research articles and other available resources on three specific climate action MSPs (i.e., REEEP, NKCAP, and GMI). In doing so, we aimed to compile and synthesize information from various sources to construct a better understanding of business involvement in three illustrative examples. In this section, we discuss our findings from our review of the literature and illustrative examples and consider them in relation to the earlier described resource centered rationale for inviting businesses to partner for climate action (Pauw & Chan, 2018; Selsky & Parker, 2005).

Our review of available materials on REEEP, NKCAP, and the GMI found evidence of business partners contributing to these partnerships in two ways: *implementation* and *agenda setting*. As expected, we did not find evidence of business partner involvement in *rule setting*. First, for all three illustrative examples, there were reports of business partners providing *direct support* to implementation with financial inputs (Leonard, 2014; Pereira, 2010; Pinkse & Kolk, 2012). However, the specifics of these inputs, such as the amount and purpose of financial contributions were only explicitly discussed in the NKCAP example (i.e., \$8.2 million USD to acquire logging rights). In contrast, while some authors alluded that business partners contribute financially to REEEP and GMI, we were unable to locate information regarding the amount, purpose, frequency, or impacts of these inputs. Similarly, our broader review of the MSP literature yielded very few accounts of specific dollar amounts provided by business partners to partnerships. While some authors noted the possibility of obtaining private financing for mitigation and adaptation projects by partnering with businesses (Gannon et al., 2021), we found little evidence of such investments manifesting and when examples were presented, as with REEEP and GMI, the details were not disclosed. Consequently, it is

Table 8.1 Illustrative climate action partnership examples: Business partner involvement, partnership successes, and partnership challenges

	Renewable Energy and Energy Efficiency Partnership	Noel Kempff Mercado Climate Action Project	Global Methane Initiative
The role of business partners	– Agenda setting – Implementation	– Implementation (via financing)	– Agenda setting – Implementation
Inputs from business	– Information – Financial	– Financial	– Information – Financial
Benefits to business partners	– Access to new markets – Lower barriers to accessing markets (reduced regulatory and financial barriers) – Knowledge and learning – Improved image/reputation	– Low-cost carbon offsets – Improved image/reputation	– Relationship building with external stakeholders – Knowledge and learning – Improved image/reputation
Partnership successes	– Met market transformation goals – Produced knowledge dissemination outputs (e.g., policy briefs, research reports, trainings)	– Met goal to add acquired land to the national park – Produced positive outcomes in all three sustainability categories (i.e., environmental, social, or economic)	– Met some environmental goals (i.e., reductions in CO_2 emissions) – Produced knowledge dissemination outputs (e.g., workshops, webinars, trainings)
Partnership challenges	– Failure to secure reliable financing – Evidence of prioritizing market transformation goals over mitigation and poverty alleviation goals	– Evidence of greenwashing – Internal conflict among partners – Conflict between the partnership and local communities – Did not fully realize its sustainability goals in any category due to the premature termination of the partnership	– Evidence of greenwashing – Failure to address negative environmental impacts of methane capture projects (e.g., water pollution)

difficult to determine whether the anticipated opportunities of obtaining meaningful private financing from partnering with business are realized in climate action MSPs. These findings point to important but overlooked research opportunities to deepen understanding of the actual amounts, functions, and impacts of financial inputs provided by business partners. From a pragmatic perspective, understanding how and to what extent financial inputs contribute to partnership goal attainment is important to justifying the legitimacy of these resource investments.

There was also some evidence that business partners may provide *indirect support* for implementation in two of the three illustrative partnership examples. While not explicitly discussed in the reviewed research articles, information on the websites of REEEP and the GMI suggest that some business partners, primarily SMEs, may also contribute to implementation by leveraging the resources provided by these partnerships. Both REEEP and the GMI have initiatives that focus on building the capacity of business to mitigate emissions and so it is possible that business partners who participate in these initiatives indirectly contribute to partnership goals by implementing their own climate action projects (e.g., REEEP's PFAN initiative). In theory, business partners can help to implement partnership climate goals by investing resources (e.g., staff time, money, commitment) into internal projects that will have a positive impact on mitigation or adaptation (MacDonald, Clarke, Huang, et al., 2019). However, none of the reviewed studies on REEEP or GMI examined whether or what types of resources business partners were investing into internal climate projects, nor did they assess the environmental impacts of such projects.

Our broader review of the MSP literature also failed to shed light on the magnitude of business partner resource investments into corporate climate projects and the impacts of these projects. We found a handful of case studies where business partners initiated new climate projects because of their involvement in a climate action MSP (Cf. Clarke & MacDonald, 2019; Gannon et al., 2021). However, these studies focused on the outcomes to business partners (e.g., access to new markets), without documenting the effectiveness of these projects or their upstream impacts on intended beneficiaries or the environment. In other words, our findings indicate that the extent to which capacity building is an effective strategy to achieve a MSP's goals is only partially understood. On the one hand, there is some evidence that capacity building results in positive outcomes to business partners (e.g., access to grants, financing, new technologies) (Clarke & MacDonald, 2019; MacDonald, Clarke, & Huang, 2019). While on the other hand, there is surprisingly little evidence that these same efforts contribute to the mission of climate action partnerships, such as meaningful emissions reductions (i.e., mitigation) or improved resilience to the negative impacts of climate change (adaptation). This provides additional support for assertions by partnership researchers that there is a need for more evidence-based insights on the social and ecological impacts of MSPs (van Tulder et al., 2016).

Business partners in REEEP and the GMI may also play a role in *agenda setting*. For example, business partners in GMI may participate in agenda setting as they are encouraged to contribute to the development of Action Plans (Global Methane Initiative, n.d.-a). Likewise, business partners may participate in planning REEEP's future directions and areas of focus (Sovacool & Van de Graaf, 2018). As with the role of business in *implementation*, there was also little explication on the extent of businesses' contributions to the *agenda setting* role. For example, we were unable to find additional information to illuminate the type of information shared, how it was used, nor its influence on the advancement of partnership goals. This lack of attention to the quality and impact of informational inputs provided by business partners was also reflected in the other reviewed articles on climate action MSPs.

In conclusion, our review revealed partial support for the assertion that business partners provide unique resources and capabilities that help to advance partnership goals. Namely our review found that while some business partners provide resource inputs to partnerships, the quality, quantity, or characteristics of these inputs is largely unknown. This has implications for assessing whether and what resource inputs contribute to achieving a partnership's mission. For example, there has been much speculation that businesses possess specialized knowledge with the potential to either improve efficiency (Slawinski et al., 2017) or produce innovative solutions (Burch et al., 2013). However, we could not locate a single instance, in the reviewed articles or illustrative examples, of information inputs from business partners leading to efficiencies or innovations. This is not to say, that business partners do not contribute to MSPs in this way, rather that there is a need for research on the specificities of information, as well as other inputs from business partners, in order to determine, for example, their quality, and thus eventual contribution to partnership performance (van Tulder et al., 2016). In other words, based on the existing evidence we can conclude that some business partners provide inputs, but whether those inputs are uniquely valuable and contribute to the realization of a partnership's mission is an area that requires further investigation.

NOTE

1. Formerly known as the Methane to Market (M2M) Partnership.

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9. Responsible investment, integrating the SDGs, corporate reporting and governance by an asset owner: The case of the Construction and Building Industry Superannuation Fund (Cbus)[1]

Carol Adams[2] *and Rod Masson*

9.1 INTRODUCTION

The Construction and Building Industry Superannuation Fund (Cbus) is one of the largest superannuation funds in Australia and the leading Industry Super Fund for the building, construction and allied industries with more than 775,000 members and managing over $68 billion of members' money (as of 31 December 2021).[3] Cbus is a profit-to-members Fund governed by a Board made up of an equal proportion of member and employer representatives drawn from the building and construction industry, plus independent directors. The Cbus heritage emphasises acting in the best financial interests of members. In addition to earning healthy returns for their retirement savings,[4] Cbus serves members' needs whilst they are in the workforce, addressing concerns about their well-being and contributing to a sustainable world into which they will retire. Responsible investment or Environmental, Social and Governance (ESG) and, later sustainable development, was recognised by Cbus as essential to its investment strategy.

Cbus established a wholly owned commercial and residential property development company, Cbus Property,[5] as one of several means of serving members whilst in the workforce. Cbus Property facilitates a unique way of investing back into the industry, delivering strong investment returns while creating employment for people in the construction industry.

9.2 EVOLUTION OF CORPORATE REPORTING AT CBUS[6]

The commitment to transparency and accountability had long been a hallmark of Cbus operations and reporting. For example, in its Annual Report 2010/2011, the then Chair of the Fund, The Hon. Steve Bracks AC, noted in his foreword:

> As the super industry matures, it brings with it a greater responsibility for more accountability and openness, and the need for a commitment to even higher standards in environment, social and corporate governance. Cbus aims to be at the leading edge of this challenge.[7]

Some requirements of integrated reporting were contained in the Fund's Annual Reports before using the integrated reporting framework. For example, the 2012 Annual Report made significant advances in articulating Cbus' sound management and governance oversight, with the Fund's strategy articulated and connected to the strategic objectives. However, these traditional reports were largely a retrospective account of the Fund's performance over the previous 12 months.

Adams had been engaged as a paid consultant[8] initially to assist with adopting the Global Reporting Initiative (GRI) sustainability reporting guidelines led by Kerry Lindupp.[9] In early 2013, Adams noted the alignment of Cbus' culture and approach, including its long-term focus, with the principles of the then prototype framework for integrated reporting. Adams discussed this with the Chief Executive Officer (CEO), David Atkin at the time, who sat on the Board of the Principles for Responsible Investment (PRI),[10] and arranged a meeting in Melbourne between him, ESG Investment Manager, Louise Davidson[11] and Paul Druckman, then CEO of the International Integrated Reporting Council (IIRC). David Atkin then made the decision to begin integrated reporting.

The Cbus approach to integrated reporting was influenced by its heritage, its involvement in the PRI and its commitment to GRI reporting. Cbus used the GRI 3.1 guidelines (Global Reporting Initiative, 2011) in the 2013 Annual Report. In providing feedback on a draft of that report, Adams commended the statement about the relevance of sustainability issues to Cbus at a time when asset owners globally were just beginning to recognise the significance. Adams noted the need to integrate responsible investment considerations, to develop a suite of policies and to signify their importance in the CEO Statement.

The 2015 Annual Report[12] used the GRI G4 guidelines (Global Reporting Initiative, 2014) and highlighted the material issues identified by stakeholders. The relevance of these material issues identified through the GRI reporting process to value creation, facilitated the development of Cbus' first report informed by the integrated reporting framework. In 2016, the Annual Report became the Annual Integrated Report.[13] The internal reporting team for the 2016 report was led by Masson, then Head of Corporate Affairs, who has continued to play a significant part in developing the report and gaining internal buy-in for the reporting strategy. His connections across the organisation were invaluable in this regard along with the ongoing support of the CEO. Adams continued to guide report development, including drafting sections, providing technical input and reporting strategy expertise.

The key components in the early development of integrated reporting included the need for timely, accurate data and additional information. Some data, such as member satisfaction, was collected and reported for the first time during the transition to integrated reporting. Functional leaders had to adopt a more concise style that aligned with the Cbus definition of value creation and the value creation process. The submissions were edited by the reporting team and went back and forwards between them and the functional leads several times. Adams developed a template aligned with the integrated reporting framework for submissions to assist the reporting process in the future.

Particularly significant in the development of the 2016 report were the internal discussions about *what* value was created for *whom* and who were the main providers of finance to Cbus. Adams prepared initial drafts of the value creation statement and process from her knowledge of internal documents, particularly strategy documents while Masson tested them with the senior executive, governance staff and the reporting team. These discussions highlighted a range of views on what value Cbus created and for whom that were brought into alignment through the process. As a result, the 2016 report demonstrated greater confidence and shared understanding of the value creation process. It provided links to additional information in its

GRI G4 report and on the website. However, the organisation's strategy still did not fit well with the report structure.

The discussion of *how* value was created, and the role of multiple capitals led to a rethink of the approach to strategy development at management and board level. Adams advised on the need to further align communication and action around the agreed value creation statement, gain greater board ownership of some of the content and develop more quantified, time-bound targets. Overall, however, the report was of a high standard and Adams recommended Cbus submit it to reporting awards.[14]

Development of the 2017 Annual Integrated Report was significantly facilitated by the greater alignment of the strategy with the integrated report. The Integrated Reporting Framework had provided a structure around developing strategy which in turn improved reporting. As confidence in the reporting approach grew, it became clear that controls over data, some of it reported for the first time externally, needed attention and Adams suggested that data gathering, and development of data protocols should fall under the purview of the CFO. The reporting team had struggled with non-financial data and written input being received late and a general lack of rigour relative to the process of collecting and maintaining financial data. Further, there was also room for improvement in the development of quantified goals and targets against which performance could be assessed.

At Adams' suggestion, the 2017 Annual Integrated Report included a timeline demonstrating the significant shift in thinking and action on responsible investment by Cbus.[15] These shifts were common across the sector, but Cbus was at the forefront. From little or no activity prior to the turn of the century the consideration of ESG investment risks was now embedded within policy and investment considerations. Key Cbus policy initiatives included a Climate Change Position Statement and measurement of the carbon exposure of the equities portfolio in 2016. Further initiatives included developing a strategy in 2017 for a long-term net zero target at Cbus Property whilst also expanding the active engagement strategy.

Following the publication of the 2018 Annual Integrated Report, Adams advised that the report quality had plateaued. The Executive Team struggled to engage with the reporting process as the organisation went through significant structural changes. This was reflected in a lack of connectivity (in Adams' view) between the Annual Integrated Report and the separate Corporate Responsibility Report that followed the GRI Standards and the TCFD recommendations. Both reports contained a CEO Statement with different messages and the audience for each report was unclear.

Cbus had embarked on a process of increasing direct control of fund investment decisions and member services, moving away from its historical outsourcing arrangements. As in the previous year, Cbus increased its staff headcount by well over 100 people. With a significant increase in staff to follow in the subsequent year, Cbus focused on culture. The CEO's statement in the 2018 report notes:

> With so many new staff joining, we have taken steps to embed our culture and holistic approach to creating value for members. I emphasise that it is a team effort and that we take a whole-of-organisation approach through a collaborative and supportive culture that respects individual points of view.[16]

This work on culture sought to refresh and embed the pre-existing (prior to the structural changes) culture at Cbus. The work on culture assisted the further development of integrated reporting and the mainstreaming of responsible investment practices. The Executive sponsorship of the Annual Report was later strengthened with the appointment of Robbie Campo as Group Executive of Brand, Engagement, Advocacy and Product. Under Campo's leadership the Fund extended its integrated thinking, giving consistency and amplification to the representation of its heritage and culture and communication of strategic direction across multiple channels, with the Integrated Annual Report as the corporate communications flagship.

The connectivity issue across the reporting package was addressed in 2019 by making the annual integrated report the key report for all stakeholders with additional 'supplements' for those who wanted more information on: responsible investment; governance; people, culture and remuneration; and stakeholder engagement and materiality. The reporting team had more oversight of these supplements in comparison to the prior year to ensure key information was included in the annual integrated report. The supplement approach remains at present.

Over this period the key to improving reporting was a genuine reflection on the process of collecting information, the level of engagement around the organisation in the development of the report and the extent to which it reflected the Cbus heritage and aspirations. This was facilitated by internal debriefings and one-on-one conversations with Executives and key contributors led by Masson and Jeana Vithoulkas. Further, Adams wrote annual letters to the CEO and the reporting team on what had gone well and areas for further consideration to which the reporting team added their own reflections. In 2019 the CEO invited Adams to present on the purpose and benefits of integrated reporting to senior managers making his commitment clear. This helped increase the knowledge and commitment to integrated reporting and thinking across the organisation and increased senior staff involvement in developing the report.

9.3 THE ROOTS AND EVOLUTION IN BOARD AND FUND THINKING

The sole purpose of the Cbus Board of Directors, made up of equal numbers of representatives nominated by member and employer organisations from the construction and building industry as well as independent directors, is to act in Fund members' best financial interest. As Trustees of working peoples' retirement savings, the Board recognises their obligation to keep members informed about the Fund's decisions and activities.

The adoption of the Integrated Reporting Framework in 2015 demanded even greater transparency about how the Board managed risk, viewed the Fund's external environment, responded to material issues for stakeholders and how it created value in the short, medium, and long term. It also influenced the integration of ESG issues into strategy and decision making. It demanded disclosure of matters that did not go to plan and that at times did not reflect Cbus in a positive light but had a material implication for the Fund's strategy and stakeholders. For example, in 2019 Cbus did not realise a key strategic priority stating that:

> Although we have seen growth in employer numbers, we did not achieve the level of growth that we targeted for 2019. We recognise that our product range and service capability have not enabled us to compete particularly at the larger end of the market. To address this, we are currently undertaking significant work on our growth strategy, capability and our product offer.[17]

The Integrated Reporting Framework provided an impetus for reporting performance against adopted objectives and targets and how remedial or divergent strategies could be adopted in response to changing stakeholder needs or external circumstances.

Soon after the decision to adopt integrated reporting, Cbus embarked on a substantial period of significant change in its business model in pursuing its strategy of delivering greater value to members and other stakeholders. Building internal capability and ownership of its investments and member services, mentioned above, saw the Fund grow from around 100 employees at the adoption of integrated reporting to over 600 by 2021.

Alongside these internal changes, Cbus, both directly and as part of the industry superannuation sector in Australia, faced an increasingly hostile conservative Federal Government seeking to impose widescale regulatory change aimed at disrupting the sector's governance, distribution, product and investment models. These matters occupied the Board and were reflected in its integrated reporting.

Industry super funds in Australia (indeed the system of compulsory, preserved and transportable superannuation) were the product of the country's industrial relations system. Industry funds such as Cbus had been established by construction and building union members through their wage claims of the 1980's. Compulsory superannuation was introduced by the Keating Labour Government for all Australians in the early 1990's.

With their all-profit-to-members business model, access to strong cash flows and long-term, risk adjusted investment approach, industry super funds were able to diversify their investments to include unlisted assets such as property and infrastructure. All these elements resulted in industry super returns on investment outperforming the for-profit sector over sustained periods.

Conservative politicians' ideological views differed markedly from the key cornerstones of Australia's superannuation system. They did not support the introduction of compulsory superannuation, arguing that individuals should decide what to do with their earnings and should not be forced to preserve it for retirement. They have supported, in policy and legislation, the individualisation of superannuation and promoted the for-profit sector (largely Australia's private banks) as the market vehicle for directing people's savings (financial capital) in the economy. Perhaps, most abhorrent to conservative politics, is the idea embodied in industry super funds, that workers and their representatives should have a say in directing the investment of growing pools of capital. This world view has also resulted in conservative politicians criticising industry funds' responsible investment approach, particularly where it does not align with their views. For example:

> Some of these funds have got very big and very influential and they seem to forget their job isn't to rebuild the economy or create jobs or reframe the climate debate or require industrial relations changes at companies they invest in. (Senator Jane Hume, Minister for Superannuation, quoted in the Sydney Morning Herald September 18, 2020)[18]

The growth in funds under management in superannuation has brought increased Government policy intervention. Non-Government Organisations (NGOs) have also become increasingly active in holding superannuation funds to account on ESG issues ranging from investee company action on climate change, governance issues, corporate culture, indigenous recognition and labour rights.

Adopting the Integrated Reporting Framework facilitated Cbus' ability to discuss broader external policy and regulatory risks in a way that connected them to the Fund's core value creation purpose and responsiveness to stakeholders' needs. It would allow for the amplification of the Fund's narrative, values and culture, making it a great reference point for potential and existing employees. However, it also placed greater scrutiny on management to demonstrate how the Fund was directing the various capital inputs in a manner consistent with delivering the strategic value creation objectives set by the Board.

It was determined that the annual Board and Executive planning offsites of 2017 at which the strategic direction of the Fund is debated, tested and broadly set, be conducted using multiple capitals as discussion anchor-points. Changes in board decision making following the adoption of integrated reporting was also a finding in Adams' (2017a) research.

The Board would now probe a little deeper around the themes and contents of the report including seeking to know that the report reflected the strategy and performance accurately, was aligned with their position on the external environment (including policy and advocacy, competition, responsible investment considerations), that it had robustly captured the material issues for stakeholders (primarily fund members and employers, but also steering cultural and value alignment for Cbus employees) and was disclosing how the Fund was responding. The Board's engagement played a part in the 2017 Annual Integrated Report, setting a high-water mark for Cbus. This engagement is reflected in the Board Chair's statement in the 2017 Annual Integrated Report:

> Following the Integrated Reporting Framework has enabled us to explicitly focus on our inputs and outcomes for multiple capitals. As a Board we acknowledge our responsibility to ensure the integrity of the Integrated Report. We considered how the Integrated Report is prepared and presented at our meeting on 22 August 2017.[19]

9.4 EXTERNAL ASSURANCE

In 2017 Masson and Adams began to discuss the state of development of external assurance over integrated reports. There was a desire to improve the rigour in data collection processes, including internal controls and internal audit, and provide the broader readership with confidence in the report's rigour, particularly regarding Cbus' stated approach to value creation for members.

Adams and Vithoulkas worked on the request for tender for the assurance engagement. Emphasis was placed on assuring processes and ensuring that Cbus worked to create value according to its value creation statement, that is, for members. None of the providers who submitted tenders had conducted engagements previously with a scope of this nature, although one large provider noted that their firm had done a similar engagement in another country.

The document calling for tender submissions also specified that the assurance statement should describe in some detail the assurance work done and evidence collected. Adams knew that practice in this regard varied considerably, with large accounting firms tending to be more conservative than specialist firms providing sustainability assurance (Farooq and de Villiers, 2017). However, this detail was felt to be essential if the assurance report was to inspire confidence in Cbus' reporting and stated emphasis on transparency and accountability.

Responses to the tender document varied in the extent to which they addressed the criteria and further information was sought from tenderers. Some suggestions by tenderers were concerned more with report preparation than assurance, for example, that they do a 'gap analysis' against the framework. Along with Adams and Vithoulkas, the interview panel included the Chief Financial Officer and Senior Risk Manager. Tendering firms expressed discomfort at assuring processes relevant to the Integrated Reporting Framework (as opposed to data). This is in line with prior research, but Simnett et al. (2022) argue that the examples of evidence of sound processes provided in the SDGD Recommendations (Adams et al., 2020), 'is an example of a low-cost credibility enhancing technique which can either supplement or replace traditional assurance approaches'. The two large accounting firms, a medium sized accounting firm and sustainability assurance firm differed in approach. There were differences in opinion amongst the selection panel about the relative merits of different type and size of providers, which largely coincided with the findings of Farooq and de Villiers (2019).

The limited assurance over the Cbus 2018 Annual Integrated Report would initially drive further engagement with the Board. The assurance providers engaging directly with those Directors who chaired the Audit and Risk and Member and Employer Services Committees to explore their knowledge of integrated reporting and test their views on the veracity of the report. The final assurance report was also presented to both the Audit and Risk Committee and the Board for noting.

In 2021, Campo extended the scope of the assurance engagement to include limited assurance on the Responsible Investment supplement. Cbus had reflected that much was written, opined, and claimed by companies and investor peers in relation to ESG considerations and sustainability that the audience could not test. It was determined that Cbus should adopt a leadership position on this to provide further confidence to its stakeholders about the veracity of its responsible investment activities and to encourage the companies it invests in, and the investor partners it works with, to do likewise.

9.5 THE SUSTAINABLE DEVELOPMENT GOALS (SDGs)

The SDGs were first mentioned in Cbus' 2016 report which identified six SDGs to which Cbus contributes. The 2017 Annual Integrated Report took this a step further and sustainable development issues were considered in the identification of risks and opportunities posed by the external environment.

During that year, Cbus joined the Principles of Responsible Investment (PRI) Advisory Group for the SDGs and David Atkin was on the Advisory Group for Adams' (2017b) report *The Sustainable Development Goals, Integrated Thinking and the Integrated Report* published by the International Integrated Reporting Council (IIRC) and Institute of Chartered Accountants of Scotland (ICAS). Further, Cbus was invited to contribute to a group of Dutch pension funds on developing an SDG taxonomy for investors. This was an important step as some concern had been signalled by the investment team not to overstate the role that SDGs were playing in investment decision making.

The SDGs were developed for governments not investors although the role that investors needed to play alongside governments was acknowledged and accepted by the Fund. However, without rigorous measurements and agreed taxonomies for investors, actual impact and contribution claims created real concerns about greenwashing. Whilst it could be acknowledged in general terms that some investments, such as those in infrastructure, renewables, social housing and construction aligned with some SDGs, the actual investment impact was not quantifiable nor was the contribution to the SDGs a key driver of investment decisions.

Adams took the view that concerns about measurement should not delay action and that the progress could be addressed through narrative disclosures of process. Cbus did identify several SDGs that it could contribute most to (through the process set out in Adams, 2017b) through both its investment practices and operations. Adams was of the view that Cbus could initially set out its process of selecting SDGs aligned with its business model and strategy to making a contribution to these specific SDGs prior to then measuring the impact on contribution. Stakeholders could then form a view of the strategy and process of selection of key SDGs (which could also be externally assured). The point being to ensure that steps were being taken to increase alignment of (investment) strategy with sustainable development. Cbus submitted a response[20] to the consultation informing the *Sustainable Development Goal Disclosure (SDGD) Recommendations* (Adams et al., 2020). The response argued they had not been drafted with investors in mind, while the authors argued they were relevant to all types of reporting organisations and that corporate reporting aligned to the recommendations could be used by investors 'seeking reliable and credible information relevant to long term value creation' (Adams et al., 2020, p. 6).

It is worth reiterating that there is no common or agreed methodology of measuring SDG contribution or impact from an investment portfolio perspective. However, the GRI Standards, which Cbus has been using for several years, include indicators of performance on matters that are included in the SDGs. The *SDGD Recommendations* (Adams et al., 2020) recommend their use in measuring performance.

While Cbus continued to acknowledge SDG alignment with its activities in its reports, the period between 2019 and 2021 did not see further advancement of SDG contribution or impact reporting. However, throughout 2021 the Responsible Investment Team reviewed third party SDG data analytic providers from the myriad of emerging consultants and methodologies. Following the selection of a data analytic group, Cbus' future objective is to report the investment contribution based on linking the percentage of revenue derived by the companies Cbus invests in from activities they undertake that are deemed to be aligned with the SDGs. This will be done for the equities and private markets components of the investment portfolio, initially establishing a benchmark that can then be used to consider greater impact investment.

9.6 BENEFITS OF INTEGRATED REPORTING: THE CEO'S PERSPECTIVE

The following is a summary of points made by CEO, David Atkin, to the International Integrated Reporting Council on Cbus' experience with integrated reporting:

- Initial implementation responsibility rested with our Communications Group, but over time, it moved to the Office of the CEO to make sure all the strategic dots in the organisation are being connected.
- Board involvement is critical. The Integrated Reporting Framework helps the Board identify material stakeholder wants and needs, connects those wants and needs to our business model, to how we measure performance and compensate people, and to how we look ahead in setting strategy.
- Integrated Reporting has raised stakeholder trust in Cbus. This stakeholder trust has been bolstered by subjecting our reporting to an independent external assurance process.
- The bundle of standards and metrics we measure and report on has helped us identify our data needs.
- In many corporations now, 'value' can no longer be measured by adding up their physical and financial capital. This means non-financial disclosures have become increasingly

> important. The <IR> Framework helps define what those corporate disclosures should be and helps organise them into an investor-friendly narrative. As a result, we ask companies to use the <IR> Framework. We would have no credibility doing that if we did not use the <IR> Framework ourselves.

Further, integrated reporting at Cbus, conceived as an account of value created for Cbus members and society, highlights the importance of responsible investment and creating sustainable value.

9.7 REPORTING AWARDS AND WIDER INFLUENCE

Cbus annual integrated reports have had a broader influence on corporate reporting through winning awards and other forms of recognition. The Cbus Annual Integrated Reports 2016, 2017 and 2019 won the Australian Institute of Superannuation Trustees best corporate reporting award and the 2017 report was one of eight commended out of 2,500 researched in the Global Responsible Investor awards.

In 2021 and 2022, Chant West, a leading Australian ratings, research and data company for superannuation and financial advice, awarded Cbus Best Fund: Integrity.[21] In doing so, Chant West stated:

> …the Annual Report shows how it's going on meeting its sustainability goals together with all its PRI material. Its integrated annual report shows how the fund is delivering on its promises across areas such as member and employer satisfaction, member engagement, risk management, complaints, and insurance claims. Metrics are shown for each area, along with targets, and where targets are not met these are highlighted.

9.8 DISCUSSION AND CONCLUSIONS

Cbus did not adopt integrated reporting as a means to demonstrate enterprise value creation in contrast to the IIRC (2021) purpose of value creation. Cbus's commitment to integrated reporting was borne out of its roots and its commitment to its members including, through responsible investment.

The future of the Integrated Reporting Framework is uncertain. In practice many organisations, like Cbus, that have committed to integrated reporting, were already reporting using GRI G4 guidelines, which formed the basis of the GRI Standards published in 2016. Like Cbus, these organisations engaged with a broad range of stakeholders to identify material issues and articulated value creation as something that benefited them. In contrast, the revision of the Integrated Reporting Framework (IIRC, 2021) maintained the focus on enterprise value and value creation for providers of finance. Following the absorption of the Value Reporting Foundation by the IFRS Foundation, this focus appears likely to continue given the direction set out in IFRS Foundation Trustees *Consultation Paper on Sustainability Reporting* (IFRS Foundation, 2020) and subsequent publications, and in particular the focus on financial materiality, enterprise value and cash flows. (See Adams and Mueller (2022) for a critique of this approach by the scientific community in the field through their responses to the *Consultation Paper on Sustainability Reporting*.) Cbus' interpretation of its fiduciary duty has recognised the dependency of long-term investment returns on integrating responsible investment practices, climate change risks, greenhouse gas (GHG) emissions and sustainable development considerations into its investment practices.

The manner in which Cbus adopted integrated reporting was cognisant of its pre-existing culture. Through its integrated reports, Cbus has sought to demonstrate how it creates value for a broad range of stakeholders. Cbus has sought to demonstrate to members that it is committed to creating value through their lives, including their working lives through employment creation (by investing in property through its wholly owned subsidiary) and the provision of services (such as insurance which is particularly relevant in an industry where injuries are high). Further, Cbus has sought to demonstrate that it invests funds in a manner compatible with the concerns of members for their children, grandchildren, and future generations. Cbus has also reported on its advocacy work on behalf of members. External reporting at Cbus involved the Board and has, as the literature suggests, influenced board strategic decision making (Adams, 2017a; de Villiers and Dimes, 2022).

Through its awards and wider recognition of its corporate reporting Cbus has influenced other asset owners. It has also intended to influence the reporting of companies it invests in.

The further development of Cbus future reporting strategy is likely to involve continued use of GRI Standards (see GRI 2021) developed by the Global Sustainability Standards Board (GSSB) and the TCFD recommendations (Taskforce on Climate-related Financial Disclosures, 2017), the latter of which are now incorporated into an Exposure Draft of the IFRS Foundation's International Sustainability Standards Board (ISSB). Enterprise value creation is facilitated by the creation of value for a broad range of stakeholders, including future generations through investment practices.

Our key reflections, having been intimately involved in the integrated reporting process are:

- The prior involvement of Cbus in the PRI and with GRI sustainability reporting was critical to the appreciation of the importance of responsible investment and of the impacts of Cbus on society and the environment to long term value creation.
- This approach to long term value creation, its connection with the organisational culture and its articulation through the annual integrated report acted as an anchor through a period of significant staff growth.
- Cbus' definition of 'value creation' and its approach to integrated reporting facilitated broader thinking about strategy at board level.
- Both GRI reporting and integrated reporting highlighted the need for: new data, better data controls and a broader consideration of risk, opportunity, and context.

However, the limitations of integrated reporting include:

- Its lack of credibility without assurance over processes (e.g., materiality determination, governance oversight) as well as content elements.
- Its inability to shift the organisational focus to sustainable development and achieving the SDGs, unless accompanied by impact reporting (e.g., by following GRI Standards).
- The focus of the Integrated Reporting Framework on enterprise value creation something Cbus interpreted as being beyond financial value.

NOTES

1. The authors have sought confirmation from Cbus that no confidential information has been disclosed. Atkin, Campo and Vithoulkas have confirmed the accuracy of the account of their role.
2. Declaration – Adams received payment from Cbus for advisory services in connection with the development of annual reporting.
3. Media Super is now a division of Cbus, offering Media Super products. For more than 30 years Media Super has been the industry super fund for Print, Media, Entertainment and Arts, and broader creative industries. As of 31 December 2021 Media Super provided superannuation and retirement accounts to 72,000 members and managed $7 billion.
4. Cbus – Growth (MySuper) fund was ranked fourth best Australian balanced fund on ten-year average returns by SuperRatings as reported in the Australian Financial Review at https://www.afr.com/policy/tax-and-super/revealed-only-three-super-funds-made-money-this-year-20220715-p5b1v6 (accessed 8th August 2022).
5. Cbus Property Pty Ltd is a wholly-owned subsidiary of United Super Pty Ltd, and is responsible for the development and management of Cbus' direct property investments.
6. Cbus Annual (Integrated) Reports, currently dating back to the 2011 report, are available at https://www.cbussuper.com.au/about-us/annual-report (Accessed 4 March 2022).
7. Cbus Annual Report 2010/2011, page 3, at www.cbussuper.com.au/annualreport (accessed 15 July 2022).
8. Adams continued to advise Cbus until 2021 by which time internal skills and know-how were well developed.
9. Kerry Lindupp subsequently served as a member of the GRI Stakeholder Council. She retired as Head of Investor Relations and Reporting at Cbus in 2021.
10. In 2021 Atkin was appointed CEO of the PRI.
11. Louise Davidson subsequently joined the IIRC Board in 2015.
12. Key features of the 2015 report are discussed at https://drcaroladams.net/cbus-superannuation-fund-publish-first-report-in-a-3-year-journey-towards-integrated-reporting/ (accessed 15 July 2022).
13. See discussion at https://drcaroladams.net/cbus-superannuation-fund-annual-integrated-report-2016/ (accessed 15 July 2022).
14. Adams had previously served as a judge for ACCA reporting awards in the UK, Australia, and Malaysia.
15. See pages 14 and 15 of the 2017 Annual Integrated Report at https://www.cbussuper.com.au/content/dam/cbus/files/governance/reporting/Annual-Integrated-Report-2017.pdf (accessed 6 September 2022).
16. Cbus Annual Integrated Report 2018, page 7 at www.cbussuper.com.au/annualreport.
17. Cbus Annual Integrated Report 2019, page 55.
18. See https://www.smh.com.au/politics/federal/not-your-job-superannuation-minister-says-super-funds-forget-their-role-20200918-p55wyd.html (accessed 6 September 2022).
19. Cbus Annual Integrated Report 2017, Message from the Chair, page 9 at www.cbussuper.com.au/annualreport.
20. Available at https://drcaroladams.net/the-consultation-responses/ (accessed 4 March 2022).
21. https://www.cbussuper.com.au/campaigns/awards.

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10. An overview of the circular economy

Michelle Rodrigue and Andrea Romi

Loop Mission[1] is a Montreal-based start-up food and beverage manufacturer organized around a unique operating model and mission. As a self-proclaimed "food waste fighting powerhouse," it sources its raw materials from the rejected goods and by-products of other organizations. For example, its juices and smoothies are made from "imperfect" fruits and vegetables – the perfectly healthy ones that do not make it to supermarket shelves due to their odd shape, size, and/or limited shelf life. To make its probiotic sodas, the company adds plant hydrosols (a nutrient-rich water discarded at the end of essential oils production) to its base juice product. To make gin and beer, it repurposes the potato cuttings from a potato chip factory and day-old bread from a bakery, respectively, in addition to their signature imperfect fruit and vegetable ingredients. It also handcrafts soap by mixing its fruit base with old cooking oil. At the back end of their production, Loop Mission sells their own by-product, a high-fiber pulp, to another organization that uses this input to produce natural, hypoallergenic, high-quality dog treats. More than simply reducing food waste, Loop Mission's operational model intends to maximize the various (human, natural, financial) resources invested upstream in food production. In a nutshell, Loop Mission adopts a circular economy (CE) model, which will be the focus of our chapter.

This chapter aims to provide directors, managers, and shareholders an overview of the CE phenomenon, in terms of its purpose, implications, and considerations.[2] We start by defining the CE and providing a brief overview of its historical roots. We then discuss the benefits of a CE, in terms of environmental, social, and economic implications, in addition to the challenges of transitioning to a CE model. We conclude our chapter by highlighting some elements that directors, managers, and shareholders should consider in the transition to a circular model. Loop Mission recognizes they cannot stop food waste on their own, instead working to develop a movement in their industry by building relationships to enable every food manufacturer to source raw materials based on a CE model. However, it does not need to stop there – all businesses can and should adopt a more circular business model, to support the continuation of our planet. Therefore, we are reaching out to directors, managers, and shareholders to start a movement of our own.

10.1 INTRODUCING THE CIRCULAR ECONOMY

The CE emerges from a willingness to transform the current linear, economic model of production and consumption, in which resources are extracted, transformed into products, and then purchased, used, and discarded. To many, this linear approach is known as the "take-make-waste" model (Singer, 2017, p. 5), signaling its inefficient and unsustainable usage of limited natural and human resources. Etymologically, the term CE formed in opposition to this linear model and calls for greater attention to and care for the ways organizations conduct economic activities, aiming toward utilizing resources more productively, responsibly, and sustainably.

While the existence of a universal CE definition in the scientific literature remains debated (Kirchherr et al., 2017; Korhonen et al., 2018b), academics and practitioners alike must rely on a particular CE definition to guide their reflections and actions. For this chapter, we adopt the definition offered by Murray et al. (2017, p. 377):

> An economic model wherein planning, resourcing, procurement, production and reprocessing are designed and managed, as both process and output, to maximize ecosystem functioning and human well-being.

With this definition, Murray et al. (2017) stress several key aspects of the CE (our bolding to emphasize important concepts):

- *A systemic approach*: Attention to socio-environmental issues throughout the production process, from resource extraction to post-consumption disposal, requires adopting a systems mindset. In such a system, firms are connected through **networks of production and consumption**, where responsibilities are diffused and shared among suppliers, producers, and consumers. This mindset highlights the importance of a **multi-level** approach in the deployment of a circular model, including micro (individual organizations), meso (industries, regions), and macro (nations, societies) levels (Kirchherr et al., 2017). **Stakeholder cooperation** throughout these connected networks and across these multiple levels is central (Geissdoerfer et al., 2017) for optimizing the system, rather than concentrating on any individual component (Murray et al., 2017).
- *Considerations for social and environmental issues in the transformation of the economic model*: Some researchers note that too many definitions of the CE cast aside social considerations such as human rights, (in)equalities, and employee safety and well-being (Korhonen et al., 2018b; Moreau et al., 2017; Murray et al., 2017). Similarly, we argue that adopting a CE approach requires **attention to both social and environmental issues**, given their interconnectedness (Rodrigue and Romi, 2022). Focusing solely on environmental issues would risk creating (potentially unnoticed) detrimental social consequences.
- *A focus on maximization*: In a CE model, a key concern is **minimizing raw natural resource extraction** (thereby encouraging the re-use and recycling of materials) while **maximizing the utilization of each resource** (raw or recycled) in the production and usage phases. These processes should be accomplished in the most socially responsible way, ensuring the well-being of humans. Simply put, a product is produced with the least amount of virgin resources, the utmost social concern, the goal of maximizing the useful life of the product by consumers, and a plan to facilitate the product's responsible post-consumption transformation into another product (or by-product), thereby minimizing waste and maximizing well-being throughout the entire economy. Central to accomplishing these goals is "adopting a system of preference which prioritises reducing, reusing, repairing over recycling (…) in order to reduce the overall environmental impact of the [CE]" (Wishart and Anthéaume 2021, p. 253).

Below we provide examples of the unique ways in which specific organizations are implementing some of these key aspects of the CE.[3]

Table 10.1 Aspects of the circular economy – examples

Location on the value chain and objective	Company	Process	(Most dominant) CE aspects
Support product disposal and recycling: Facilitating increased recycling in a heavy waste industry	Resortecs – Founded in 2017 (Ghent, Belgium)	Currently, less than 1 percent of garments are recycled at a "high-quality" level – most are downcycled, incinerated, or discarded in a landfill. One reason is due to the costly, yet necessary, process of disassembling the discarded garments prior to recycling. Resortecs developed a unique thread for use in clothing which dissolve at certain temperatures accomplished by as little as a commercial oven.	Facilitate the product's responsible post-consumption transformation.
Rethinking the value chain: Europe's first dedicated CE factory for vehicles and mobility	Groupe Renault Re: Factory – Established in 2020 (Flins, France)	This new facility will work toward CE innovations across the entire life cycle of vehicles, in the following ways: ● "Re-trofit" – extending the life of vehicles by reconditioning old vehicles, converting, and reducing their carbon emissions, and utilizing 3-D printing services to build rare parts no longer available. ● "Re-energy" – developing solutions for the production, storage, and management of green energies by optimizing initial battery life, providing a second life for used batteries, and researching alternative energy sources independent of batteries. ● "Re-cycle" – creating processes for optimizing resource management to support the ecosystem by developing ways to dismantle end-of-life vehicles, to remanufacture their parts, and to maximize the reuse and recycling of materials. ● "Re-start" – promoting innovation and sharing knowledge by accelerating research and disseminating knowledge about the CE.	Systemic approach; Focus on maximization.
Creating a food system network that tackles social inequality and supports regenerative farming	Connect the Dots – Founded in 2013* (São Paulo, Brazil)	An organization focused on creating a CE for food by financially and technologically supporting local famers as they transition toward more regenerative farming practices, resulting in: building healthier soil, promoting biodiversity, tackling climate change, and reducing farmer reliance on synthetic fertilizers and pesticides. The organization connects small farmers across the region with urban food buyers (through municipality connections, initially paying farmers 30 percent more than market value), including socially and environmentally conscious restaurants, and so on. This process develops healthy, high quality food products that people want to buy, while also creating a fair and equitable income source for family farmers geographically isolated from food purchasing points. To close the loop, composting yards were developed within cities, returning composted materials to the farmers for use within their sustainable farming strategies.	Building connected networks of production and consumption; Focus on both social and environmental issues.

Source: Examples excerpted from The Ellen MacArthur Foundation's website.
Note: * The earliest date we could identify from public documents.

The social and environmental considerations embedded in the CE underscore its association with the notion of sustainability (Geissdoerfer et al., 2017). These considerations can also be tied to the concept of planetary boundaries (Rockström et al., 2009). Planetary boundaries represent the quantitative thresholds of nine ecological processes (e.g., stratospheric ozone depletion, ocean acidification) regulating the stability and resilience of the Earth system (i.e., allow current and future generations to thrive) that we should avoid crossing so as not to risk inciting irreversible environmental disturbances.[4] The boundaries themselves are tied to the fundamental social issues in Raworth's (2017) Doughnut Economics. In this framework, 12 key aspects of human well-being (e.g., housing, social equity, peace, and justice) are set as the minimum social thresholds we should aim to provide (and hopefully exceed) for all humanity, with the nine planetary boundaries representing (in line with Rockström and colleagues) the ecological ceiling not to surpass. Between the social thresholds and the ecological ceilings lies the safe and just operating space for human activities. One could maintain that the CE model should aim to operate within this space.

The focus on transforming the current economic model lies at the heart of the CE, implicitly attributing the responsibility for its deployment to businesses, given their position in the network, their resources, and their capabilities (Geissdoerfer et al., 2017).[5] It is therefore important that shareholders, directors, and managers understand the circular mindset to approach the circular transition adequately.

10.2 A BRIEF HISTORY OF CIRCULAR ECONOMY

The multidisciplinary nature of CE makes challenging any attempt to briefly summarize its historical roots. Nevertheless, in this section, we hope to provide an overview of the antecedents of the phenomenon, aiming to highlight the key points of interest for our audience.

The CE is a relatively recent term adopted to designate a movement that has been gaining traction for over 50 years (Larrinaga and Garcia-Torea, 2022). Antecedents of the concept are found in engineering, economics, and environmental streams of literature. They shared the ambition to envision an economy wherein waste would, ideally, be eliminated, and the value of natural resources would be maximized. As such, an important influence underlying the phenomenon emerges in the waste-as-food concept, literally highlighting how one's waste may become another's valuable input. Skene (2018) traces the origins of this concept to prehistoric times and the first scientific writing in this respect to the mid-1800s. However, most of the literature (e.g., Geissdoerfer et al., 2017; Korhonen et al., 2018a; Skene, 2018) agrees that a key modern influence on circular ideas is Boulding's (1966) seminal work. Concerned by the ever-increasing production and consumption of modern society overlooking the benefits of building durable (rather than expendable) products, Boulding presents the Earth as a closed and circular system facing limits in terms of its ability to absorb pollutants without further detrimental effects, calling on humanity to "find [its] place in a cyclical ecological system which is capable of continuous reproduction of material" (pp. 7–8).

Subsequently, many research streams developed, identified only later as relating to the CE, including "e.g., ecological economics, industrial ecology, cradle-cradle design, restorative economy or performance economy, biomimicry, ecoefficiency, resilience science, natural capitalism, cleaner production, etc. All these agree on the importance of material cycles and regenerative use of resources although using different concepts and methodologies"

(Korhonen et al., 2018b, p. 549). While scientific work initially focused on environmental protection, in recent years some authors initiated the integration of social considerations into circular thinking, in an attempt to both ensure that issues of equity (race, gender, economic, religious, inter- and intra-generational, etc.) would be considered, and to support the development of institutional and political enabling mechanisms (Korhonen et al., 2018a; Moreau et al., 2017; Murray et al., 2017).

During this same time, the CE also gained momentum in policy and regulation, as shown in Box 10.1. Additionally, non-governmental organizations (NGOs) became actively engaged in the promotion of circular ideas in many countries. For example, in Canada, the Council of Canadian Academies assembled the Expert Panel on Circular Economy in Canada "to examine the potential economic, environmental, and social impacts of advancing a [CE]"[6] in the country. However, one of the most active NGO proponents of the CE is the UK-based Ellen MacArthur Foundation. Founded in 2010, this international organization places CE at the center of its mission. It engages with a vast array of stakeholders, providing them with research, resources, and guidance to encourage a circular transition at the individual, sectorial, and policy level. The Foundation also supports cross-sector partnerships aiming to facilitate the global development of CE through the coordination of a network of governments, corporations, and other interested parties.

BOX 10.1 CIRCULAR ECONOMY PRINCIPLES IN POLICY MAKING

Germany and Japan were among the first to integrate circular ideas into national laws (Geissdoerfer et al., 2017), with China often being mentioned as the first nation to embrace CE principles more holistically, with the Circular Economy Promotion Law taking effect in 2009 (Murray et al., 2017; Scarpellini et al., 2020). In the 2010s, European countries such as Denmark, France, Finland, and The Netherlands also outlined their respective vision for the CE (Singer, 2017). At the supranational level, the European Union adopted a circular policy in 2014 (Towards Circular Economy: A zero waste program for Europe), followed by two action plans (in 2015 and 2020) supporting this policy.[7] In North America, Canada has also implemented several social and environmental strategies to encourage and facilitate a CE transition.[8]

With its roots in multiple research traditions, attracting the attention of policy makers and NGOs around the globe, the CE undoubtedly gained increasing traction over the years. The business world is not idle, with many practitioners, businesses, and their representatives becoming intrigued by circular ideas (Singer, 2017; WBCSD, 2022). In this context, it is important to turn our attention to the benefits and challenges associated to the CE model.

10.3 THE BENEFITS AND CHALLENGES ASSOCIATED TO TRANSITIONING TO A CIRCULAR ECONOMY

In its utopian version, the CE is viewed as a win for sustainability and for all the world's participants – it aims to reduce environmental degradation, increase global economic values, and improve societal conditions. As often has been the case, many are calling on the business community, in cooperation with stakeholders at multiple levels, to stimulate and provide the foundation for the CE transition. However, as with all utopias, "no representation of complex interactions between entities, societies and environments can ever hope to be entire and offer equal representation from many different points of view" (Milne and Gray, 2013, p. 21). With this caveat in mind, we attempt to summarize (rather than exhaustively document) both the benefits and challenges associated with the CE transition, focusing on the key aspects relevant for directors, managers, and shareholders interested in the CE. In doing so, we rely on a sustainability lens inspired by the safe and just space for human activities we discussed in the introduction. Aligned with the spirit of circular ideas, these aspects will be discussed not only at the corporate level, but also, and more importantly, from a systems perspective. We also wish to highlight that transitions to CE models are still in their infancy, relatively speaking, and that research on its benefits and challenges, although substantial, is far from complete or convergent. It is a testimony to the complexity and multi-disciplinary nature of the field, and a reminder of the importance to draw on multiple sources of information when designing a CE project.

10.3.1 Benefits

One of the most immediate and easily observable (given more advanced metric development) benefits associated with the CE is that of its potential decreased impact on the environment. Whether focusing on the reduction in virgin material and energy inputs in manufacturing, the reduction in non-renewable resource extraction, or reduced waste and carbon emission outputs, and so on, the ecosystem conceivably benefits (e.g., Dey et al., 2020; Ormazabal et al., 2018). While reducing environmental degradation could help improve the availability and accessibility of resources in the future for business organizations, it is also a natural extension, when the environment benefits, that the lives of humans inhabiting the environment also benefit.

While the social ramifications of CE receive far less attention (e.g., Geissdoerfer et al., 2017), often attributed to under-developed metrics (Padilla-Rivera et al., 2020), the potential societal benefits from CE, albeit uncertain (Corvellec et al., 2022), remain important. As CE activities continue to reduce environmental degradation, health and well-being potentially increase (all else equal), if as an extension of nothing more than reduced air and water pollution (Rodrigue and Romi, 2022). Additionally, CE is hoped to further develop more people-centered healthcare systems and public health capacities and deal better with major diseases (Padilla-Rivera et al., 2020). Another possible social benefit of CE is the reduction in unemployment and social inequality (e.g., more equitable distribution of system benefits, alleviating poverty, and improving human rights), based on the potential increase in new, substituted, or redefined employment opportunities (Korhonen et al., 2018a; Padilla-Rivera et al., 2020). These new jobs would not only include those directly associated with CE activities, but also in the service areas associated with the need for new skills training and education. Additional foreseen benefits may include increased citizen participation, increasing food security, and improving gender equality, among others (e.g., Padilla-Rivera et al., 2020).

Socioeconomic inequality would also potentially be reduced through the CE development of more sustainable consumption, transitioning from an owned to a shared economy, one in which society shares in the use of services instead of individual ownership and consumption of physical properties.[9] Here, more value is extracted from the physical resources, while increasing community and cooperation among society. For example, a digitally coordinated economy provides use of abandoned office spaces as shared housing or cars available for shared benefit (Korhonen et al., 2018a; Padilla-Rivera et al., 2020). Finally, due to the reestablishment of localized processes, and necessary coordination among the complex web of production and consumption, an increase in more participative and democratic decision-making will likely result in greater community empowerment and pervasive social prosperity (Dey et al., 2020; Korhonen et al., 2018a).

Rounding out the sustainability benefits from CE, is the increased economic expectation for both producers and consumers of goods and services. While there are certainly significant initial investments for first movers in the CE transition, an anticipated net economic benefit results from several things, including, but not limited to, more efficient use of resources by reducing energy, landfill, and materials costs from incorporating recycled materials (Korhonen et al., 2018a, 2018b; Piila et al., 2022); assistance in the form of collaborations (Lacy et al., 2021) and governmental subsidies and tax incentives (Korhonen et al., 2018a); and enhancing customer engagement to distribute the workload more evenly across the supply chain (Ormazabal et al., 2018). Additionally, for those businesses with CE-minded leadership, taking the lead and driving the CE transition, greater revenues are expected as a consequence of improved reputational effects (Dey et al., 2020), greater brand recognition from marketing CE products and services (Korhonen et al., 2018a, 2018b), resilience against a changing business climate demanding greater attention to sustainability issues (Piila et al., 2022), improved competitiveness (Lacy et al., 2021), and improved productivity efficiencies resulting from less arduous employee recruiting strategies for sustainably-conscious employees (Singer, 2017) and a more productive workforce due to improved working conditions. Another, and likely a more significant increase in revenues, will result from the expansion and creation of new markets to provide the necessary products and services to fulfill the needs of the CE (Moktadir et al., 2020), including markets for new CE innovations (Lacy et al., 2021), CE consulting services, and so on. In fact, estimated revenue increases from new markets range from the upper billions to mid-trillions (McKinsey & Company, 2016).

10.3.2 Challenges

It is easy to see the impulse to celebrate these potential benefits to the environment, society, and to the economic prosperity of nations, its business organizations, and its citizens. While the modern CE's proposition began in the mid-twentieth century, we remain far from its full implementation (Ritzen and Sandstrom, 2017). In instances of partial implementation, the CE does not appear to be replacing the linear economy, but instead is operating parallel to it, allowing organizations to profit from two economies (Cline, 2020) without society realizing its full potential benefits. Complacency in pursuing CE as an end in itself provides us with a false sense of security against environmental and social destruction, potentially exacerbating the detrimental outcomes of our anthropogenic way of life (Geissdoerfer et al., 2017; Larrinaga and Garcia-Torea, 2022). In fact, that is commonly how organizations approach CE, by attempting to embed its fundamental ideals into unaltered institutional structures (Moreau et al., 2017). In order to truly engage in a CE, all things must undergo tremendously challenging cultural changes (Padilla-Rivera et al., 2020). To date, CE views have privileged economic solutions to material and energy-related problems, rather than a sustainability paradigm, which would require a complete mapping of CE to the three sustainability dimensions (Padilla-Rivera et al., 2020).

The world currently consumes 1.75 times more resources annually than the Earth naturally generates (Lacy et al., 2021; Stanislaus, 2018). With the industrialization of developing countries like China and Brazil, the expansion of the global middle class is expected to result in an explosion in our current rates of consumption in the near future (Adu-Gyamfi, 2016; Stanislaus, 2018). The inextricably linked issues of consumerism, inequality, and undemocratic power structures will all need to be addressed if we desire the benefits proposed from the CE (Moss, 2019; Narberhaus and von Mitschke-Collande, 2017). Traditional CE frameworks or conceptualizations tend to ignore socioeconomic effects, focus almost exclusively on the economic aspects, and simplify the environmental issues (Geissdoerfer et al., 2017; Murray et al., 2017). This means that an in-depth cultural change is necessary for CE experiments to be more closely aligned with the (less traditional) CE definition we provided above. Approaching CE through a perception of sustainability as a form of risk aversion (Ritzen and Standstrom, 2017; Rodrigue et al., 2022), where growth and stockholders are the primary focus (Cline, 2020), and decisions are made solely based on economic cost-benefits (Moreau et al., 2017) disassociated from the value of CE initiatives among their employees and customers (Singer, 2017), would not result in viable CE transitions. Instead, a cultural shift requires organizational engagement in understanding consumer interests in environmental and social issues (Ormazabal et al., 2018), hiring and training executives and employees in sustainability management positions (Dey et al., 2020), developing new profitability structures and new business models prioritizing people and planet above the accumulation of capital and profits (Moreau et al., 2017), and a transition in leadership where executives and board members remain committed to organizational change (Dey et al., 2020; Moktadir et al., 2020; Ormazabal et al., 2018; Singer, 2017). Such cultural shifts would embrace more closely the systemic, socio-environmental maximizing aspects of the CE (Murray et al., 2017).

While the aforementioned challenges are associated with both the environmental and social aspects of the CE, as previously mentioned, the social challenges accompanying the CE transition are significantly more difficult to overcome, and therefore the social benefits of the CE more difficult to achieve (Corvellec et al., 2022). This is due to a lack of awareness and comprehensive understanding on the part of business professionals and a lack of clear and measurable constructs or appropriate (conceptual) frameworks for considering social issues resulting from academic literature (Moreau et al., 2017; Padilla-Rivera et al., 2020). Even when issues such as ever-growing income inequality, recurring financial crises, and food shortages are recognized and addressed, the cost bearers of these social externalities are shifting. With the state failing to successfully address social issues, the private sector is facing increasing policy-related accountability demands to step up (Moreau et al., 2017). Moving forward, grappling with institutional and social issues will remain a necessary and imperative condition for a proper CE transition (Corvellec et al., 2022).

None of this would be easy. CE is a very ambiguous concept that is difficult to translate into practice (Cline, 2020). We currently do not have the proper technology to support a complete transition to the CE (Dey et al., 2020; Piila et al., 2022; Ritzen and Standerstrom, 2017). The popularity associated with zero waste and the CE is high yet, somewhat ironically, achieving such is currently resource-intensive (Cline, 2020); we do not have the capabilities to operate an economy without primary resource extraction (Bocken et al., 2017). Additionally, solving problems such as "leakage" (i.e., hazardous substances embedded in material cycles – think toxins in treated wood) is poorly tracked and non-removable, leading to the potential contamination of other cycles (Bocken et al., 2017). Nor do we currently have the operational processes necessary to overcome these issues. We need to be thinking about developing and implementing reverse logistics practices (Moktadir et al., 2020), information management systems (Wang et al., 2014), new strategic enterprise management systems (Moktadir et al., 2020), updated organizational and national facilities to handle waste recycling and reuse (Moktadir et al., 2020), heightened collaborative practices between departments, among management oversight (Ritzen and Standerstrom, 2017), supply chain management infrastructure (Ritzen and Standerstrom, 2017), and throughout collaborative networks, and so on. Additionally, we previously mentioned the CE benefits associated with the creation of new jobs. However, some of the jobs created through CE initiatives are low-income and health hazardous, thereby failing to tackle some important social issues. Working conditions in some Asian recycling facilities are a case in point. In parallel, CE will also eradicate traditional jobs individuals are currently trained for (Adu-Gyamfi, 2016), requiring "up-skilling" employees to meet new job requirements or face potential increases in income inequality. And, along with the creation of new jobs requiring different skill sets, other jobs will also be eliminated, altering the location of new jobs and potentially causing increased dislocation in geographical regions that already suffer from low job opportunities (Moss, 2019).

The tremendous costs associated with these technological and operational changes are not supported by the current economic decision-making paradigm, meaning businesses will not fully engage until they determine it profitable (Adu-Gyamfi, 2016). While we previously mentioned the long-term net economic benefit associated with CE, we also mentioned the significant initial investment for first movers in the CE transition. These initial costs and lack of funds, both externally (e.g., government subsidies) and internally (e.g., R&D), create a tremendous barrier toward motivating full implementation (Dey et al., 2020; Moktadir et al., 2020; Moss, 2019). The most often discussed means to overcome such barriers is through governmental incentives (Adu-Gyamfi, 2016). However, regulation also remains a significant obstacle to the CE.

Without increased attention by regulatory bodies, necessary conditions for the CE (e.g., recycling technology and infrastructure), will remain at unacceptably low levels (Moreau et al., 2017) despite the progress documented in Box 10.1. Not only do most national governing bodies lack strong legislation towards CE activities (Moktadir et al., 2020), when regulation does exist, it is often unrealistic or provides inconsistent guidelines (Piila et al., 2022), and results in detrimental effects toward CE progression (Adu-Gyamfi, 2016). In fact, there are instances when policy actually incentivizes wasteful behavior among organizations and consumers – think of the problem of product expiration date confusion and the resulting early discarding of food (Stanislaus, 2018). And, when supportive policy does exist, it remains significantly inconsistent across borders, often eroding any potential benefits to multinational organizations (Moreau et al., 2017).

Regardless of policy, one concern with the current CE is that of the unintended organizational and individual responses to the potential increasing cost efficiencies associated with a stronger CE. More specifically, reduced costs from CE are often met with increased consumption (commonly referred to as rebound, Jevons Paradox, etc.) for multiple reasons (Ekvall, 2000; Greening et al., 2000; Owen, 2020; Zink and Geyer, 2017; Zink et al., 2016). First, as CE becomes more efficient, commodity prices are likely to decrease, making it more economical to build and buy new products from virgin resources, than to invest in recycled waste materials or products manufactured from recycled materials (Adu-Gyamfi, 2016). Further, the lower per unit cost results in more economically affordable products, stimulating consumer demand, driving increased focus on organizational economic growth, increasing individual consumption, and further harming the social and environmental aspects of our current crises (Narberhaus and von Mitschke-Collande, 2017). Additionally, as consumers save personal energy costs, they find more discretionary income which they use toward increased consumerism, countering much of the initial benefit from CE (Borenstein, 2013). Or, consumers may justify trade-offs, experiencing positive emotions from resource savings in one area (e.g., donating old clothes in support of the CE), offset by their motivation to negatively influence the CE in another area (e.g., restock closet with new clothes) (Moss, 2019). Finally, there is an assumption that secondary materials (i.e., repair at the product level, remanufacturing at the component level, or recycling at the material level) displace virgin materials at a 1:1 ratio (Zink and Geyer, 2017), but this is often not the case. These secondary materials often lower prices, which also lead to increased demand and only delay deposits into landfills, sometimes actually increasing resource extraction (Zink and Geyer, 2017; Zink et al., 2016).

Table 10.2 provides an overview of the benefits and challenges documented in this section. In line with our intent, the table summarizes, rather than exhaustively documents, these elements and serves to emphasize the complexity of the CE endeavor. Table 10.2, in particular the last column (far right), is a stark reminder of the numerous multi-level challenges associated with a CE transition. At the same time, its fourth column (from the left) highlights the all-encompassing macro-level, grand benefits that may arise from a serious engagement in such a transition.

10.4 WHERE DOES THIS LEAD US? KEY TAKEAWAYS

Many observations derive from the prior section. Our knowledge of the necessary conditions toward developing the CE continues to be fragmented (Moreau et al., 2017; Piila et al., 2022), resulting in inadequate infrastructures. Sharing an understanding of CE remains a challenge among network members. This leads to many shortcomings: gaps into necessary organizational and individual competencies (Piila et al., 2022), uncoordinated strategies and unclear responsibilities among departments and within the supply chain (Ritzen and Sanderstrom, 2017), a lack of adequate and reliable information systems (Ormazabal et al., 2018) – including scarcity of strong and reliable methodologies or key indicators for CE success and benefit determination (Linder et al., 2017); too few adequate collaborative partnerships among the networks of actors involved; and limited end-user support (Piila et al., 2022). Rather than discouraging our readership, we hope they will, like us, see these observations as reflective of the difficult socioenvironmental context we face and of the complexity of any circular endeavor. Beyond merely reminding us of the importance of systemic thinking when considering circular ambitions, these observations are also useful to introduce and circumscribe several takeaways for directors, managers, and shareholders. Our intention with this section is thus to highlight some key elements that may facilitate a transition to a more circular economic approach.

Table 10.2 Overview of the potential benefits and challenges of the CE transition

Categories	Potential benefits in each category	Challenges in each category	Potential benefits across categories	Challenges across categories
Operational	• Reduce extraction of non-renewable resources • Reduce use of virgin material • Reduce energy inputs • Reduce waste • Reduce pollution • Improve human health conditions • Improve employment opportunities and conditions • Reduce inequalities • Effective responses to rapidly changing business environment expecting greater attention to climate change issues	• Lack of proper technology and operational facilities for the transition • It can be resource intensive to reduce waste • Cross-contamination in material cycles from the presence of non-removable hazardous substances • New trainings necessary for employees with some risking increase in socio-economic inequalities • Working conditions of some new jobs are hazardous • New trainings necessary for governance and leadership • Lack necessary information management systems • Inefficient supply chain management infrastructure	• Facilitate and encourage innovation, collaboration and renewal • Facilitate citizen participation • Improvements to (some of) Earth's environmental systems • Improvements to (some of) humanity's social issues (e.g., poverty, food security)	• Partial implementation of CE • Organizations benefiting economically from operating parallel in both linear and CEs • Cultural shift required • Neglect of social issues, with important social externalities remaining • Oversimplification of environmental issues • Overfocus on economic criteria for decision-making • Fundamental change needed in strongly embedded institutional structures • False sense of security against socio-environmental destruction limiting further (needed) initiatives • CE education
Economic	• Increase in revenues (improved reputation, improved competitiveness, new markets) • Decrease unemployment • Cost savings from more efficient resource use, increased productivity, collaboration, customer engagements • Decrease in the costs of products • More productive workforce	• Job loss in traditional fields in certain sectors/geographic areas accentuating socio-economic inequalities • Significant initial investments required throughout the network (equipment, training, communications, systems) • Initial cost reduction to virgin materials reverts production away from recycled materials • Increased consumerism paradox accentuates further socio-environmental harms		

Categories	Potential benefits in each category	Challenges in each category	Potential benefits across categories	Challenges across categories
Regulatory/ governmental	● Stimulate the CE transition – subsidies and tax incentives	● Inadequate regulation pre-empting some transformative practices ● Lack of sufficient financial support from regulators ● Inconsistent guidelines to guide CE transitions		
Network of collaborators	● Accelerated learning ● More participative decision-making ● Greater community empowerment	● Hurdles in setting up the network ● Resistance to information sharing ● Inconsistent policies across borders can paralyze some initiatives		

10.4.1 Highlights for Managers and Directors

While this section may appear to primarily offer observations for managers, the important interplay between directors and management in the development and deployment of strategic orientations suggests our present discussions is likely to benefit both parties.

10.4.1.1 Alternative measures of success

> Long-term thinking, cumulative environmental impacts, multi-level analysis, and a proper understanding of the "economic organization" as located within wider ecological and cultural systems, suggests that we need radically different notions of "success" as an important step towards what we might term "control for sustainability". (Milne and Gray, 2013, p. 24)

As evidenced by this quote, there is no escaping it, a transition to a circular economic model, if it is to have any chance of socio-environmental success, requires redefining what is meant by organizational success, valuing and recognizing the importance of social and environmental factors in and of themselves, rather than as a means to greater economic gains.

10.4.1.2 Vision and experimentation

Depending on the nature of organizational activities, there are many ways to adopt circular principles (Svensson and Funck, 2019) and embrace a circular cultural shift. Simply put, a one-size-fits-all approach would be unwise. This relates to the significance of sharing the organization's CE vision with all organizational members in order to channel democratic energy toward circular solutions and strategies (e.g., making sure that social, and not only environmental, issues are considered). Significant focus, creativity, and persistence will be required, as CE researchers emphasize the importance of nurturing a culture of experimentation (Svensson and Funck, 2019), where exploration, reflection, adaptation, and setbacks are viewed as learning opportunities. Experimenting with new processes that initially appear contrary to traditional practices may be challenging but will likely play an important role in the transformation of corporate culture.

10.4.1.3 Collaboration

The fundamental altering of the current linear business model towards a circular model requires transforming ways of thinking, organizing, and operating. We must move away from traditional business boundaries in order to facilitate collaboration among the multi-level network of actors partaking in production and consumption of products and services (suppliers, producers and consumers, industry, regional and national governments, etc.). Identification of the network is therefore pivotal, as well as the subsequent collaboration among network members. The cooperation of stakeholders throughout the multi-levels network is central to the system's (rather than its individual components) optimization (Geissdoerfer et al., 2017; Murray et al., 2017).

Among collaborative activities, information sharing is essential. This is a challenge as it requires moving away from traditionally secretive practices aiming to protect proprietary information and competitive advantages, in favor of a more transparent, collaborative, open way of doing business, aiming to improve the entire system (Patala, 2019). Underlying this challenge is a call to openness and redefinition of competition, and more importantly, stakeholder relationships and partnerships. Naturally, collaboration is also important to identify barriers to change or issues to resolve, as they will facilitate the collective identification of solutions and the feedback from current operations. A circular model also requires customers to significantly change their patterns of consumption (Larrinaga and Garcia-Torea, 2022), from discarding to repairing, for example. Such a transformation is more likely to be successful and lasting if driven by actors among the network rather than by a single entity.

10.4.1.4 Training

The previous section identified gaps in organizational and individual competencies (Piila et al., 2022) as considerable barriers to CE transitions. The importance of training organizational and network members on circular ideas – in particular, the importance of systemic thinking – and to train sufficiently and regularly, cannot be overemphasized. Knowledgeable and experienced CE champions within organizations and on the board may be valuable in this respect.

10.4.1.5 Information systems

To support most of the above, the development of reliable, up-to-date information systems seem indispensable. Among other things, they may support information sharing and collaboration, facilitate follow-ups on the evolution of circular projects, and orient efforts towards systemic transformation through the measurement of key performance indicators (KPI), more reflective of a systemic approach (Parisi and Bekier, 2022).

10.4.2 Additional Highlights for Boards of Directors

10.4.2.1 Strategic and monitoring responsibilities

Needless to say, the support of the board of directors is essential to the circular transition, both in terms of strategic and monitoring responsibilities. At the strategic level, the board plays a key role in setting the vision for the CE transition, including instilling the required systemic mindset, identifying novel ways of measuring success, motivating the hiring of proper leadership, and encouraging openness to stakeholders and innovative partnerships. In other words, the board has an important role to play in supporting the cultural shift necessary for a CE transition. At the monitoring level, regular follow-ups on the strategic circular objectives, feedback, and support to adaptation are likely to play a key role, as well as enforcing accountability to circular commitments via systemic KPIs (Parisi and Bekier, 2022).

10.4.2.2 Structuring governance

To fulfill its responsibilities, the board needs to ensure sufficient attention and resources are dedicated to the CE transition. This speaks to the importance of having a process in place to ensure regular conversations on the matter, most likely including the discussion of circular projects and KPIs at the board level. Board and management responsibilities should be clearly defined, along with accountable groups and individuals. Managerial incentives geared toward circular transition should be aligned with these responsibilities. In parallel, the board is responsible to approve the resources that will be channeled into circular activities, which emphasizes the importance of ensuring that the approved budgets are adapted to provide the significant investments required for the circular transition (Singer, 2017; Svensson and Funck, 2019).

10.4.3 Additional Highlights for Shareholders

We believe the above discussion would be insightful to shareholders, as it facilitates a better understanding of circular transitions through its contextualization of the issues at stake. All that remains for us to emphasize is the need for patience with respect to the outcomes of a circular transition, especially in light of the significant investments required to transform the current, inadequate linear business model. Also essential is shareholders' openness to initiatives that may be less economically beneficial in the short term, from a traditional market perspective.

10.5 PARTING THOUGHTS

There is still a lot to reflect on, learn, and do in the CE, and the subject is likely to remain lively and debated (Kirchherr, 2022; Kirchherr and van Santen, 2019; Larrinaga and Garcia-Torea, 2022) for quite some time. Given its limitations, the CE is not the panacea that will solve all our sustainability issues, but it will likely contribute to combatting many of them (Geissdoerfer et al., 2017; Murray et al., 2017). We see value in its inspirational strength (Korhonen et al., 2018a), as there is certainly merit in thinking about ways to transform business models to systematically reduce waste of all kinds, encourage durable products with long-term use, facilitate reutilization, and maximize the well-being of humans involved throughout the extractio n-production-consumption-disposal process. In drawing this chapter to a close, we wish to reiterate the importance of doing this right, through a systemic perspective aiming to position the renewed economic model between the ecological limits of our planet and the social foundation essential to human well-being (Raworth, 2017; Rockström et al., 2009). As Wishart and Anthéaume (2021, p. 261) argue:

> an accounting framework for the transition to a CE should start from the founding principle that no one organisation can become circular on its own. Thus, it should focus on how an organisation contributes to common objectives, at micro, meso and macro levels. It should thus clearly identify the value created by each organisation as distinct from the value created at the level of system. Common value created is not the sum of individual values and value creation at the level of one organisation should not be allowed if it is done at the expense of common value.

NOTES

1. See https://loopmission.com/pages/about.
2. The CE is a complex, multidisciplinary concept (Korhonen et al., 2018a, 2018b). Due to space constraints, we will not attempt to document and analyze the phenomenon exhaustively. Rather, our intent is to focus on its key aspects to familiarize our audience with the CE.
3. The examples might not conform to the full CE definition we adopt. This is due in part to the various definitions of CE available, but also, and most importantly, to the many ways organizations may embrace a circular transition over time.
4. https://www.stockholmresilience.org/research/planetary-boundaries.html.
5. Geissdoerfer et al. (2017) also consider regulators and policymakers to share the responsibility of the transition to a circular model.
6. https://cca-reports.ca/cca-appoints-expert-panel-on-the-circular-economy-in-canada/.
7. https://environment.ec.europa.eu/strategy/circular-economy-action-plan_en#modal.

8. https:// www .canada .ca/ en/ services/ environment/ conservation/ sustainability/ circular -economy/ circular-economy-initiatives.html.
9. We refer here to a circular model of shared economy, in opposition to a linear model of shared economy. Some of the most well-known attempts at shared economy are anchored in a linear business model and therefore do not necessarily offer these benefits, as they do not stem from a CE intent.

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11. CSR-related governance mechanisms: Is the impact on CSR performance effective or symbolic?

Camélia Radu and Nadia Smaili

11.1 INTRODUCTION

The growing interest in CSR and sustainable development follows the shift of the focus from the shareholder-oriented and formerly dominant agency theory perspective to a more holistic and long-term view from the stakeholder perspective (Bendickson et al., 2016). Corporate governance establishes mechanisms to mitigate agency problems (Misangyi and Acharya, 2014) and allows a firm's board to monitor managers and align their interests with those of stakeholders (Rediker and Seth, 1995). The adoption of these interrelated complementary or substitute mechanisms (Aguilera et al., 2011) could be symbolic or substantive, depending on the nature of their implementation (Flammer et al., 2019). In this chapter, we focus on the effect on CSR performance of two CSR mechanisms: the CSR committee (also known as the sustainability committee) and CSR-linked CEO compensation. Through a literature review, we seek to clarify whether the implementation of these governance mechanisms is more symbolic or effective.

Corporate governance mechanisms such as boards, auditor selection and blockholders are used to monitor managers (O'Sullivan, 2000), in concert with compensation schemes, which have an alignment effect (Matolcsy and Wright, 2011). Incentives used in a compensation contract serve to align the interests of management (agent) with those of shareholders (principal) (Jensen and Meckling, 1976). Building upon that premise, an integrative approach based on alignment and monitoring corporate governance mechanisms, that is, CSR-linked executive compensation and a CSR committee, lead to a more effective response to growing stakeholder demands regarding CSR issues (Radu and Smaili, 2021a).

Over the years, we observe that boards have tended to reconcile their short-term financial-oriented perspective with a long-term sustainable focus (Radu and Smaili, 2021b). Moreover, boards exhibit a growing awareness of the relevance of an ethical attitude, with a view of ethics that extends beyond its oversight role (Gennari and Salvioni, 2019). A firm's long-term viability, organizational ethical behavior and socially responsible actions are closely intertwined. However, several studies show that not all organizations share this view.

11.2 AN OVERVIEW OF THE ROLE OF THE BOARD IN CSR: FROM LEGITIMATION TO COMMITMENT

Porter and Kramer (2006) view CSR through four lenses: as an ethical or moral obligation to do the right thing, as a need for sustainability, as a license to operate granted by satisfying the most important stakeholders, and as a way to preserve a good reputation. The authors argue that pressures from some stakeholders do not always reflect issues important to the company or to the world, and they can trigger trade-offs or short-term solutions, such as small philanthropic activities. According to Porter and Kramer (2006), companies have different approaches to CSR, from responsive to strategic CSR. A responsive CSR approach implies acting as a good citizen by 'doing the right thing' and mitigating the negative impact of corporate activities on society to gain and maintain legitimacy. The authors advocate that strategic CSR can promote social progress by putting together companies' resources, expertise, and insights through a long-term commitment.

Empirical research provides evidence of a large spectrum of CSR approaches and highlights the role played by the board. Radu and Smaili (2021b) analyze the evolution of financial, environmental, and social performances for Canadian firms from 2014 to 2018. Their findings show that there is an evolution of the board commitment from a shareholder-focused view to a more holistic view that integrates different stakeholders. Most of the Canadian firms in their sample emphasize financial performance and exhibit low levels of social and environmental performance. In addition, their boards are small, and have the lowest proportion of women members. Within their sample, 25.7 percent of the firms seek a balanced performance, with financial, social, and environmental performance higher than the average level of the entire sample, but their financial performance is lower than financial-focused firms. However, compared with financial-focused firms, firms with a balanced performance have higher levels of social and environmental performance. Finally, firms that focus on CSR performance represent 26.7 percent of the sample. These firms, mostly from environmental sensitive industries, exhibit the weakest financial performance and the strongest social and environmental performance. CSR-focused firms are, on average, larger than financial-focused firms. The number of firms with a balanced performance continually increased over the research period, and the number of firms with financial or CSR focuses seems to be decreasing toward the end of the period.

Resource dependence theory adds another perspective on the role played by the board of directors. The board provides resources to the firm by providing expertise, counsel and advice (Hillman and Dalziel, 2003). Board capital, human and relational, is related with the provision of resources. Directors are connected to their external network and provide counsel and advice to the top management, enhancing the firm's reputation and legitimacy (Zahra and Pearce, 1989). They ensure a direct channel of communication between the firm and the external environmental providing support from important stakeholders (Hillman et al., 2000). Extensive empirical research employs the resource dependence framework to examine the role of the board. Mallin and Michelon (2011) find evidence that board reputation affects firms' corporate social performance, for the Best Corporate Citizens firms. Mallin et al. (2013) highlighted that stakeholders' orientation of corporate governance is positively associated with corporate social performance and with social and environmental disclosure. Further, for firms operating in environmentally sensitive industries, larger boards whose members possess diverse skills, and more connections and experience, have a positive impact on social and environmental performance (Radu et al., 2022).

Nowadays, there is no doubt that the board of directors, as the key corporate governance actor, influences CSR outcomes (Jo and Harjoto, 2011). An effective board is expected to be sensitive to stakeholders' needs and to hold managers accountable to different stakeholders (Buniamin et al., 2011; Wang and Dewhirst, 1992). It more successfully monitors and pressures management to improve its CSR performance (Fuente et al., 2017). Organizational legitimacy can be obtained and maintained through symbolic actions (Dowling and Pfeffer, 1975). Legitimacy theory considers that firms can also use different strategies to conform to societal expectations and to express their commitment (Ashforth and Gibbs, 1990). Below we examine two corporate governance mechanisms that organizations could use as symbolic actions to legitimize their actions, or as a more effective tool to express commitment.

11.3 CSR-RELATED BOARD COMMITTEES

With CSR becoming more important over the years, diverse stakeholders put pressure on organizations to address sustainable development issues (Radu et al., 2022). Agency theory provides only a limited understanding of different stakeholders' conflicting interests and needs (Bendickson et al., 2016). Therefore, stakeholder theory and legitimacy theory are often employed in the CSR-related literature (Patten, 2020). From a more holistic perspective, stakeholder theory assumes that the board should balance the interests of all stakeholders (Freeman, 1984; Rajan and Zingales, 1998). Stakeholder theory states that firms implement a CSR committee to better respond to legitimate claims of different stakeholders regarding CSR-related activities (Velte and Stawinoga, 2020). An effective CSR committee improves the quality of corporate governance, which allows firms to be managed for the benefit of all stakeholders (Jain and Jamali, 2016). In line with legitimacy theory, organizations should adopt mechanisms to gain legitimacy of their CSR-related activities (Patten, 2020). Implementing a CSR committee can be a practical way to fulfil society's values and expectations (Velte and Stawinoga, 2020).

With prominent social and environmental challenges, the board of directors faces pressures to exercise greater oversight over the organization's social and environmental impacts (Burke et al., 2019; Eberhardt-Toth, 2017). Consequently, some boards create a dedicated CSR committee (Eberhardt-Toth, 2017, Liao et al., 2015) and assign it CSR-related tasks, which could significantly contribute to board oversight effectiveness (Spira and Bender, 2004). This committee is designed to assist the board in monitoring and providing information on social and environmental issues (Garcia-Blandon et al., 2020; Orazalin, 2020; Velte and Stawinoga, 2020), to enhance the quality of corporate governance and their stakeholders' relations, and signal the firm's commitment to CSR activities (Gennari and Salvioni, 2019), thus playing a proactive role in improving corporate performance (García-Sánchez et al., 2019). A CSR committee is expected to promote a CSR culture within the organization.

The CSR committee is gaining importance in practice and research. A simple search on Google Scholar with the keyword 'CSR committee' displays more than 200,000 results, with 17,000 papers from 2020 to 2022. We also note a growing number of meta-analyses on the CSR committee, its role, advantages and impacts on organizations (Endrikat et al., 2021; Velte, 2021; Velte and Stawinoga, 2020). The increasing presence and impact of CSR committees is reflected in several prior studies (Gennari and Salvioni, 2019; Radu and Smaili, 2021b; Velte and Stawinoga, 2020). The trend toward boards' creating a CSR committee has spread worldwide, including in the United Kingdom (UK) (Spitzeck, 2009) and the European Union (EU) (Gennari and Salvioni, 2019). For example, based on a sample of more than 22,000 firms from European countries, Gennari and Salvioni (2019) report that the proportion of firms with a CSR committee increased from 2.46 percent in 2000 to 6.70 percent in 2016, with much variance across countries, for example, France was at 31.97 percent in 2016. They also note that some CSR committees merged with the audit committee or were integrated in the nomination or remuneration committee. Focusing on a sample of Canadian firms from 2012 to 2018, Radu and Smaili (2021a) found that almost a half of the sample (45.1 percent) had a CSR committee. Barrick Gold Corporation, one of the largest firms listed on the Toronto Stock Exchange and one of the world's foremost gold producers, illustrates that trend. It set up an Environmental, Social, Governance (ESG) and nominating committee with a mandate to review and assess the effectiveness of the firm's programs, policies and standards related to environment, safety and health, CSR and human rights.[1] Controversially, they adopted a defensive position against emerging trends in these fields, evaluating the impact of the trends on the firms, rather than a more proactive position aiming to reduce the total impact of the firm on the environment.

Generally, the main tasks of a CSR committee are to manage sustainability related risks and opportunities and to fulfill obligations to stakeholders related to CSR concerns (García-Sánchez et al., 2019), and to promote transparency (Adams, 2002). This committee monitors corporate actions and strategy and aligns it with stakeholders' interests (García-Sánchez et al., 2019). The CSR committee is in charge of CSR strategies and sustainability policies, and monitors and assesses the firm's performance (Ricart et al., 2005).

Other roles played by the CSR committee consist in prioritizing CSR-related concerns, preparing reports for the board, and having the authority to audit the firm's CSR activities and impact, in compliance with CSR, sustainability standards and ethical principles (García-Sánchez and Martínez-Ferrero, 2019). Moreover, in a European context, Gennari and Salvioni (2019) provide evidence of CSR committees as tools to fight corruption, create long-term value and mitigate the risk of responsibility failures.

The literature provides mixed results on the effectiveness of the implementation of a CSR committee. Some authors present it as a substantive governance practice, while others consider it more symbolic. Substantive governance practices initiate changes in organizations, whereas symbolic practices are used to change the stakeholders' perception of the organization, without relevant changes to their activities and operations (Rodrigue et al., 2013). In an extensive literature review based on 48 empirical studies, Velte and Stawinoga (2020) examine the impact of a CSR committee on outcomes such as CSR reporting, CSR assurance and CSR performance. Their findings show that a CSR committee positively affects CSR reporting and performance, suggesting that the implementation of such a committee is not symbolic, but effective, with a substantive contribution to CSR activities. Radu and Smaili (2021a) note that the CSR committee plays an oversight role and improves the quality of corporate governance. Their findings suggest that the CSR committee has a positive effect on CSR performance. However, CSR committees impact the social and environmental dimension of CSR performance differently. For social performance, the positive effect is exclusively an indirect effect through CSR-linked CEO compensation, while for environmental performance, both direct and indirect positive effects are observed. Other recent studies provide evidence of the positive impact of CSR committees on environmental disclosure (Celentano et al., 2020; Cucari et al., 2018; Michelon and Parbonetti, 2012) and on CSR performance (Baraibar-Diez and Odriozola, 2019; Derchi et al., 2021).

Further, studies suggest that the CSR committee has no effect on CSR performance and is considered a symbolic initiative. Berrone and Gomez-Mejia (2009) provide evidence of the symbolic role of the CSR committee. Firms do not seem to invest in reducing pollution, but rather in creating CSR or environmental committees, a cheaper way to signal their environmental concerns. Rupley et al. (2012) found that the implementation of a CSR committee has no effect on the quality of the CSR disclosure. Burke et al. (2019) suggest that the multiple tasks and functions of CSR committees can limit their effectiveness.

In conclusion, the implementation of a CSR committee can be the sign of a real commitment to change the firm's activities and processes and improve CSR performance, but can also be a symbolic initiative. A bundle of corporate governance mechanisms can be more effective than an individual mechanism. For example, combining the inclusion of CSR-related incentives in an executive compensation contract with the implementation of a CSR committee has a positive joint effect on CSR performance (Radu and Smaili, 2021a).

11.4 EXECUTIVE COMPENSATION FOR CSR

CEO compensation consists of monetary remuneration (salary and bonus), equity-based remuneration (stock grants and stock option) and other perks (Mallin, 2018). Organizations use incentive-based executive compensation as a tool to align managers' interests with those of key stakeholders (Derchi et al., 2021). According to stakeholder-agency theory (Hill and Jones, 1992), this form of executive compensation can lower agency conflicts between managers and stakeholders. Stakeholder theory assumes that, as a response to stakeholder pressure, the compensation committee should use CSR targets in executive compensation (Al-Shaer and Zaman, 2019; Maas, 2018). Therefore, embedding CSR into executive compensation aligns executives and stakeholders' interests and represents an incentive to enhance CSR performance (Al-Shaer and Zaman, 2019; Berrone and Gomez-Mejia, 2009).

The first empirical studies on the link between executive compensation and corporate social performance examined the relationship between corporate social and corporate financial performance (Orlitzky et al., 2003). A positive association between these endogenous forms of performance is generally reported (Van Beurden and Gössling, 2008; Waddock and Graves, 1997). This positive association suggests that corporate social performance could influence CEO compensation through corporate financial performance (Callan and Thomas, 2014).

CEO compensation may encourage socially responsible decisions and represents a determinant of corporate social performance (Mahoney and Thorne, 2005; McGuire et al., 2003). Moreover, the CEO compensation structure drives CSR. Mahoney and Thorne (2005) and McGuire et al. (2003) examined the compensation components: salary, bonus and long-term incentives, and their effect on corporate social performance. Long-term executive compensation seems to have a positive effect on corporate social performance (Arora and Alam, 2005; Berrone and Gomez-Mejia, 2009; Mahoney and Thorne, 2005). Contrary to short-term executive compensation, which has a negative influence on corporate social performance (Deckop et al., 2006), long-term compensation tends to focus executives' attention, interests and efforts on the long term, associated with socially responsible objectives (Mahoney and Thorne, 2005), instead of the short term. Empirical results provide evidence that long-term compensation increases pollution prevention (Berrone and Gomez-Mejia, 2009) and is linked to firms' environmental actions (Mahoney and Thorne, 2005). A recent study on the effect of the components of CEO compensation on CSR disclosure indicates that equity-based remuneration motivates the CEO to enhance the CSR ratings of the firm by providing extensive disclosure on firm's engagement in CSR and has a positive effect on CSR disclosure (Tran and Pham, 2022). Salary, bonus and other perks motivate CEOs to adopt a short-term vision of performance, and have a negative effect on CSR disclosure (Tran and Pham, 2022).

More recent studies investigate the explicit link between CEO compensation and corporate social performance. For instance, Derchi et al. (2021) affirm that less than 25 percent of their sample of US firms (4,472 firm-year observations and 848 unique firms) used a CSR-linked compensation during the 2002–2013 period. Their findings show that, starting from the third year after adoption, CSR-linked executive compensation has a positive effect on CSR performance. Similarly, based on a sample of 952 firm-year observations between 2012 and 2018, Radu and Smaili (2021a) provide evidence of a significant impact of CSR-linked executive compensation on social and environmental dimensions of performance. These findings suggest that executives have incentives to achieve both social and environmental objectives and targets, which tends to improve CSR performance. In addition, Hong et al. (2016) found that CSR executive compensation is positively associated with social performance. Cohen et al. (2022) report the growing use of Environmental, Social and Governance (ESG) metrics in top executives' compensation worldwide, which triggers enhanced ESG performance.

Flammer et al. (2019) investigate whether the adoption of CSR-based executive compensation is symbolic or substantive. CEO compensation has the potential to be used either as a symbolic or as an effective governance mechanism (Zajac and Westphal, 1995). Flammer et al. (2019) consider that if the CSR executive compensation represents a small fraction of the total compensation, this will be ineffective to direct managerial attention to CSR and will thus represent a symbolic action. If a large portion of the total compensation is assigned to compensation directly related to CSR, this will shift managers' attention and effort toward the long-term. Hence, more substantive CSR compensation will be more effective. Over a ten-year period (2004–2013), their results show that the adoption of CSR-based executive compensation triggers an increase in long-term orientation, firm value and CSR, a reduction in emissions and a stronger engagement in green innovations (Flammer et al., 2019).

As reported by Radu and Smaili (2021a), Canada's largest firms have already integrated CSR in executive compensation. As an illustration, Algonquin Power and Utilities Corporation, one of the largest firms listed on the Toronto Stock Exchange and a multinational involved in energy generation, transmission and distribution, reports its 2023 ESG Goals in the sustainability section of its website, and mentions that its goal of embedding sustainability in the executive compensation model has already been achieved.[2] Below is an excerpt from the 2022 corporate sustainability report of Imperial Oil, one of the largest Canadian integrated oil companies:

> Imperial's executive compensation program is designed to incentivize long-term, sustainable decision-making. Key design features include restricted stock units with long vesting periods and compensation that is strongly tied to overall company performance.
>
> The executive compensation program is designed to incent effective management of all operating and financial risks association with Imperial business, including risks related to climate change.
>
> Imperial's Executive Resources Committee reviews and evaluates business performance and the basis for compensation, which may include: safety, health, and environmental performance; risk management; total shareholder return; net income; return on average capital employed; cash flow from operations and asset sales; operating performance of the upstream, downstream and chemical segments; and progress on advancing government relations and long-term strategic interests. (Imperial Oil, 2022, Corporate Sustainability Report,[3] p. 54)

11.5 PERSPECTIVES AND CHALLENGES

In this section, we present some challenges for the implementation of CSR-related governance mechanisms and put forward ideas and directions for future research.

Following pressure from stakeholders, CSR has become a prominent research topic, in a quest to improve CSR governance, disclosure and performance. This chapter presented a literature review and illustration of the importance of two corporate governance mechanisms related to CSR and their impact on CSR performance. The presence of CSR-related board committees increased worldwide over time, though the literature indicates mixed results on its effectiveness, providing evidence that CSR board committee is a substantive governance practice, as well as a symbolic one. It must be pointed out that adding other CSR-related governance mechanisms may increase its effectiveness. For example, CEO compensation may encourage socially responsible decisions, with a long-term oriented executive compensation potentially having a positive effect on corporate social performance. In a trend that parallels CSR committees, the adoption of CSR-based executive compensation has increased over time. However, it also can be used as a symbolic or a substantive governance practice.

There is still room for improvement: several authors highlight the use of these corporate governance mechanisms as a symbolic rather than substantive practice. Based on perspectives and challenges regarding CSR, we put forward ideas and directions for future research.

Prior studies extensively investigated the CSR committee's impact on performance, but there is scant evidence on the characteristics and the functioning of the CSR committee. Future research can provide an in-depth analysis of the CSR committee's function and attributes, and can address the following questions, among others: Which expertise is recommended for CSR committee members? What is the optimal number of meetings? How is the performance of this committee evaluated? and Does diversity and inclusion affect firm performance?

Several studies examine the effect of the presence of a CSR committee, CSR-linked compensation or other corporate governance mechanisms on CSR disclosure. CSR disclosure is often criticized and considered as decoupled from CSR performance (Sauerwald and Su, 2019) and is portrayed as more of a symbolic practice than a substantive one (Michelon et al., 2015). CSR committees and CSR-linked compensation may also have a symbolic role, serving as a greenwashing tool. It is still unclear, in practice, which conditions and factors favor a CSR commitment; this may be an avenue of future research. For example, what motivates CSR members to serve on CSR committees? How do CSR committees communicate with other management and governance actors?

An organization's culture should impact the relevance of CSR corporate governance mechanisms in different ways. Future research should examine the influence of cultural factors and various institutional and legal contexts on the effectiveness of these mechanisms. Comparative analyses between countries and regions would provide insight into how organizations use CSR-related governance mechanisms as an effective or symbolic practice and how to improve the practices to enhance CSR performance.

Finally, the International Sustainability Standards Board is currently developing a comprehensive global baseline of sustainability disclosures for capital markets, known as IFRS Sustainability Disclosure Standards. Professionals and academics jointly contribute to the development of this new standard, representing the most important contemporary challenge regarding CSR disclosure. The implementation of this new standard will provide a very rich source of topics for future research.

The literature shows that small and medium enterprises (SMEs) lag significantly behind large companies regarding their approach to CSR (Murillo and Lozano, 2006). SMEs also contribute to CSR in distinctive ways, including a high capacity for employment, long-term orientation, principles and strategies based on family values with a high sense of social responsibility, and local involvement (Jenkins, 2004). Given that these SMEs are important both numerically and economically, more attention is needed from authorities, legislators, professionals and academics to explore, guide and frame SMEs CSR practices.

NOTES

1. Barrick Gold Corporation website, governance section, ESG and Nominating Committee: https:// s25 .q4cdn .com/ 322814910/ files/ doc _downloads/ gov _docs/ mandates/ Environmental _Social _Governance_-_Nominating_Committee_Mandate.pdf.
2. Algonquin website, Sustainability section, https://algonquinpower.com/sustainability.html.
3. Imperil Oil, 2022 Corporate sustainability report, available at: https://www.imperialoil.ca/-/media/imperial/files/publications-and-reports/2022-sustainability-report_eng.pdf.

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12. Corporate governance and environmental disclosures

Silvia Gaia and Chaoyuan She

12.1 INTRODUCTION

Research has extensively investigated Corporate Governance (CG)'s role in shaping environmental disclosures and their impacts. In this chapter, we review CG research related to environmental disclosures published in quality journals within management, accounting, and finance.[1] We define CG as 'the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity' (Solomon, 2007, p. 14). This notion of CG moves beyond the single objective of shareholder wealth maximization and extends to corporate accountability to the whole of society, future generations, and the natural world. We begin with section 2 and illustrate the trends and evolution in firm environmental disclosures and shed light on different environmental topics studied. Section 3 explains why and how CG drives environmental disclosures by discussing the CG mechanisms that have been found to enhance the extent and quality of environmental disclosures. Next, in section 4, we discuss the potential impacts of environmental disclosures on businesses and society and how CG moderates them. We rely on the conceptual framework presented in Figure 12.1 to review and summarize relevant literature. We conclude in section 5 by providing a critical reflection upon the potential limitations of traditional CG mechanisms in regulating firm environmental transparency and discussing potential alternatives to overcome these limitations.

12.2 RECENT TRENDS IN CORPORATE ENVIRONMENTAL DISCLOSURES

Corporate environmental disclosure has substantially changed over the last decades, with corporations worldwide providing more extensive disclosures to discharge their environmental accountability. The most dated studies analyze corporate environmental disclosure by focusing on the disclosure of general environmental information. Only more recently, the literature started focusing on the disclosure of information related to more specific environmental issues, such as climate change, biodiversity, and water management.

12.2.1 General Environmental Reporting

Overall, there is a common agreement that the extent of environmental reporting is increasing over time (Arvidsson & Dumay, 2022; Cho et al., 2015). However, this has not been found to be necessarily associated with increases in the quality of disclosures and firms' environmental performance. Arvidsson and Dumay (2022), report an increase in both quantity and quality

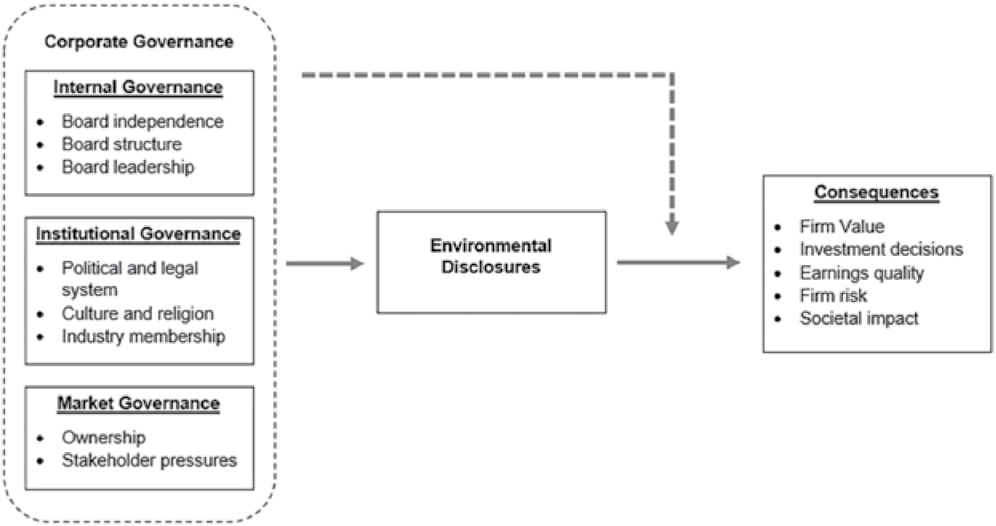

Figure 12.1 Determinants and consequences of environmental disclosures

(but not substantial) of environmental reporting over time, which, however, is not accompanied by increases in environmental performance. The study urges companies to provide data that is timely, credible, and comparable and that demonstrate improved performance. The evidence produced by the literature on environmental reporting also points out that environmental reporting is too general, incomplete and inconsistent and that it is biased and lacks objectivity, as it seems to be mostly driven by the need to obtain legitimacy (Borgstedt et al., 2019; Cho et al., 2015) and obfuscate negative news (Cho et al., 2010). In contrast, Albertini (2014) documents that environmental disclosure has become more technical and precise over time, with companies referring more frequently to the concrete environmental practices adopted.

12.2.2 Carbon Reporting

Carbon reporting refers to the dissemination of non-financial information related to the emission of CO_2 resulting from commercial activities. Corporations start disclosing such information as the result of pressure from various groups of stakeholders (including investors) concerned about the risks of climate change (Hrasky, 2012). While companies in most parts of the world are reporting carbon information on a voluntary basis, with no mandatory standard existing to support the enhancement of credibility and comparability of disclosed information, some countries have taken a step forward in introducing mandatory carbon reporting regulations to large corporations (e.g., United Kingdom (UK), European Union (EU), North America, Australia, Japan, and South Africa).

Several studies analyze carbon reporting by corporations, mostly via platforms such as annual reports, sustainability reports and environmental reports. Consistent with the trend in general environmental disclosures, these studies show improvements in the extent of disclosures on carbon emissions over time, which, however, are not necessarily accompanied by increases in their quality (Comyns & Figge, 2015). Carbon disclosures are found to lack standardization (Caritte et al., 2015), being mostly symbolic (Hrasky, 2012) and being used for legitimacy reasons (Ferguson et al., 2016). However, there is also evidence of disclosure reflecting substantive actions, particularly in more carbon-intensive sectors (Hrasky, 2012) and of disclosures that are not used to achieve legitimacy but to reproduce and shape the field in which companies operate (Ferguson et al., 2016).

Several articles on carbon reporting focus on an alternative communication channel to corporate reports, the formerly Carbon Disclosure Project (CDP) which, every year, collects carbon data from the largest companies through a questionnaire. These studies report improvements over time in the extent of carbon disclosures for all types of emissions, but improvements in the quality of disclosure only for Scope 2 emissions (Matisoff et al., 2013). They also find increases over time in the number of firms that engage with the CDP questionnaires, disclose information about their emissions, and the methodology used to account for them. However, several firms answer the questionnaire without disclosing information about their emission amounts or how they account for them (Stanny, 2013). Interestingly, carbon disclosure provided via the CDP is found to be inconsistent with the information disclosed in corporate reports, as the greenhouse gas (GHG) amounts disclosed in corporate reports are significantly lower than those disclosed via the CDP (Depoers et al., 2016).

12.2.3 Biodiversity Reporting

Biodiversity reporting refers to the disclosure of information on how organizations impact the variety of all life found on our planet. Biodiversity has gained prominence only in the last two decades after the United Nations (UN) declared the period 2011–2020 the 'Decade on Biodiversity' to promote the implementation of a Strategic Plan for Biodiversity and its overall vision of living in harmony with nature (Roberts et al., 2021).

Overall, the literature on biodiversity reporting finds it to be limited and minimalistic (Adler et al., 2018; Boiral, 2016; Hassan et al., 2022). In line with studies on general environmental reporting and carbon reporting, the studies on biodiversity reporting also provide evidence of disclosure being generic, vague, biased and aimed at managing stakeholder impressions (Boiral, 2016; Hassan et al., 2022), thus questioning whether corporate reports represent a reliable tool to evaluate the biodiversity accountability of corporations. Hassan et al. (2022) also compare the information disclosed in corporate reports with that found on corporate websites, finding that companies do not use corporate websites to disclose their accountability to biodiversity, despite websites representing an ideal platform to communicate this type of information. This contrasts with the findings of Adler et al. (2018) who instead find many companies reporting biodiversity on their corporate websites.

12.2.4 Water-management Reporting

The literature on water-management disclosure mostly focuses on companies operating in the water industry (Cooper & Slack, 2015). Only more recently, studies have analyzed this reporting practice outside the water industry (Zhang et al., 2021).

Studies examining water-management reporting in the water industry find companies to provide extensive disclosure in line with the guidelines issued by water regulators (Stray, 2008). Whereas studies conducted outside the water industry generally find such reporting to be limited and deficient (Zhang et al., 2021). The results of Ben-Amar and Chelli (2018), who analyze a sample of nonfinancial companies that voluntarily provided water-related information to the CDP, also reveal that water disclosure tends to be higher in common law countries than in civil law countries. Cooper and Slack (2015) investigate the evolution in the use of impression management in the disclosure of water leakage performance, focusing on companies operating in the UK water industry. Their findings show that the level, nature, and presentation of leakage disclosures change depending on how companies performed against the performance targets set by regulation authorities, with companies underperforming using presentational methods consistent with impression management.

12.3 CG AS A DETERMINANT OF ENVIRONMENTAL DISCLOSURES

CG plays an important role in enhancing environmental transparency to allow stakeholders to evaluate firms' activities. Consequently, extensive academic literature examines a broad range of governance mechanisms that drive firm environmental reporting practices. The following section provides an overview of this stream of literature by summarizing how various CG mechanisms influence the extent, content, and quality of corporate environmental disclosure. Following Gillan (2006), we split these governance mechanisms into three broad classifications – internal, institutional, and market mechanisms. Internal mechanisms are policies and procedures implemented within a firm, including the board of directors, managerial incentives and attributes, capital structure and internal control systems. Institutional mechanisms are country-level characteristics that shape the institutional environment in which the firm operates. Market mechanisms are external checks that are determined by the market.

12.3.1 Internal Governance

The most studied internal mechanism that is found to drive corporate environmental disclosure is the board of directors. The board of directors is a company's main governing body that guides and monitors top managers to ensure their alignment with shareholder interests. However, this function has been expanded to include issues such as balancing different stakeholder interests and overseeing sustainability policies due to the increased public attention.[2] Given that the board is responsible for enacting and supervising corporate disclosure strategies to reduce information asymmetry, it is widely acknowledged that the board plays an important role in shaping a firm's overall environmental transparency (Liao et al., 2015; Mallin et al., 2013). We identified three board attributes that are widely studied in the CG and environmental reporting literature: 1) board composition, 2) board structure, and 3) board leadership.

12.3.1.1 Board composition

Board composition reflects the monitoring intensity of the board in regulating top management's behaviours and the ability of directors to bring critical resources, such as knowledge, ties, and legitimacy that are vital to the firm's viability and growth. Prior studies show that various aspects of board compositions, such as board independence, gender diversity, the presence of community influential directors and interlocking directorships, jointly influence firm environmental disclosures. However, the two most studied dimensions are board independence and board diversity.

Board independence refers to the presence of directors who are not directly involved in the day-to-day running of the business. They act as the check and balance mechanism that safeguards board objectivity, disciplines self-serving management and guides the firm to consider the interests of both shareholders and stakeholders (Haniffa & Cooke, 2005). Given independent directors' diverse backgrounds and a lack of financial stake in the firm, they tend to hold a strong stakeholder orientation and a long-term perspective of the firm's operation (Liao et al., 2015; Mallin et al., 2013). Hence, they are more prone to pursue sustainable development and to be more sensitive to stakeholder interests beyond the mere goal of profit maximization (Haniffa & Cooke, 2005). Furthermore, independent directors are more interested in developing and maintaining the social responsibility of the firm as active corporate disclosures would signal to stakeholders that the firm is well-governed, hence enhancing directors' prestige and honour in society (Michelon & Parbonetti, 2012). As a result, independent directors are expected to induce firms to disclose a wide range of environmental information to stakeholders, thus ensuring the congruence between organizational decisions and actions and societal values and corporate legitimacy (Haniffa & Cooke, 2005).

Board diversity is defined as the existence of differences in board members' traits (Prado-Lorenzo & Garcia-Sanchez, 2010). While diversity involves different aspects, such as gender, ethnicity, sexuality, age and so on, academic studies and regulatory recommendations (e.g., UK CG Code) have mainly focused on the role of female directors on the board (i.e., gender diversity). Two main arguments explain the role of gender diversity in promoting environmental transparency. First, it is assumed that female directors are more committed and diligent since their behaviours as women and mothers would encourage open discussion and greater participation, hence reducing the level of conflict in the board and creating a good atmosphere (Nielsen & Huse, 2010). Second, women are said to be more ascribed to communal characteristics than men, exhibiting greater sensitivity toward the welfare of other people (Mallin & Michelon, 2011). Female directors are generally more concerned than men with social and environmental issues and more inclined to communicate with stakeholders to discharge accountability and reduce perceived environmental risks (Liao et al., 2015; Mallin & Michelon, 2011). However, empirical evidence is still mixed and some argue that there might be a critical mass of the number of female directors (three or above) on the board to generate substantive impacts (Bear et al., 2010).

12.3.1.2 Board structure

A company's board structure reflects the internal organization and division of activities among sub-committees and assigns directors responsibilities to implement various activities of material issues (Zahra & Stanton, 1988). The board can establish an environmental committee that reviews policies and practices concerning the firms' commitments to environmental issues and oversees the environmental reporting process (Liao et al., 2015; Michelon & Parbonetti, 2012). The presence of an environmental committee can enhance employee awareness of environmental issues and set up ambitious targets and monetary and non-monetary rewards that would incentivize employees to improve firms' environmental records (Liao et al., 2015). Studies generally provide empirical support to the argument that the presence of an environmental committee would enhance environmental disclosures (Liao et al., 2015; Zhang et al., 2021). Nevertheless, Rodrigue et al. (2013) argue that the environmental committee might be a symbolic mechanism as it focuses too much on avoiding reputational damage instead of driving substantive changes to environmental operations.

12.3.1.3 Board leadership

Board leadership is mainly concerned with combining/separating the role of the CEO and chairman of the board. CEO duality occurs when one individual serves as both chairman of the board and CEO. According to agency theory, CEO duality may increase management entrenchment risk that would constrain board independence and undermine its effectiveness in mitigating management's opportunistic behaviours. As a result, the overall accountability and transparency for both shareholders and stakeholders would be severely compromised (Haniffa & Cooke, 2005; Michelon & Parbonetti, 2012). However, organization theory argues that stakeholder demands, and manager interests may sometimes converge. Thus, CEO duality could help a firm maintain its relationships with stakeholders by showing it has strong leadership with a clear direction, hence management would increase environmental disclosures to form alliances with stakeholders (Prado-Lorenzo & Garcia-Sanchez, 2010). Empirical evidence examining the impact of CEO duality on environmental disclosures is largely inconclusive as some find a positive effect (Prado-Lorenzo & Garcia-Sanchez, 2010) while many find no relationship (Liao et al., 2015; Michelon & Parbonetti, 2012).

12.3.2 Institutional Governance

According to institutional theory, business organizations are influenced by broader social structures such as public and private regulation, national culture, religion and industry norms which affect the company's activity and mode of operation (Campbell, 2007). An institutional perspective of environmental reporting suggests that firms do not make decisions regarding environmental disclosures purely 'on the basis of instrumental decision making, but that such decisions are framed vis-à-vis a broader social context' (Jackson & Apostolakou, 2010, p. 374). Therefore, various studies have employed this theory to explain the influences of country-level characteristics on firm environmental reporting practices.

12.3.2.1 Political and legal systems

Political and legal systems such as laws, regulations, legal regimes and political agenda play an important role in facilitating a corporation's engagement with the state, as well as with its key stakeholders (Campbell, 2007). With increasing attention being paid to environmental issues in recent years, a plethora of formal regulations and accounting initiatives have been proposed and implemented by both national and international policymakers to enhance corporate environmental transparency, particularly on climate change.[3] However, reporting requirements on environmental topics other than climate change are still scarce and firms often disclose such information on a voluntary basis.

A country's legal regime may also influence how companies report on environmental activities when there is no explicit requirement in place. For example, a common law regime that is associated with liberal market economies may encourage individualism, market competition and corporate discretion. Hence, these countries place more emphasis on shareholder rights protection and shareholder value maximization. In contrast, a civil law regime, which is associated with coordinated market economies, values collectivism and solidarity and takes a stakeholder-orientated approach to environmental issues (Liang & Renneboog, 2017; Matten & Moon, 2008). Since countries with coordinated market economies can implement both formal regulations and informal norms to govern firms' environmental engagement, firms may only report implicitly or remain silent about their environmental activities and cannot stand out among their peers because of their environmental performance. On the contrary, firms from liberal market economies are more likely to engage in explicit environmental reporting as the engagement with stakeholders is part of a company's strategy for building and maintaining a good reputation (Pucheta-Martínez et al., 2019). Lastly, each administration's ideology may shape the political agenda on environmental issues, thus firms may adjust their environmental reporting strategies accordingly to minimize political costs (Antonini et al., 2021).

12.3.2.2 Culture and religion

Differences in national cultures have important implications for ethics, corporate sustainability, organizational culture, and managerial practices. As firms' actions and strategies are influenced by the cultural framework in which they operate, companies operating in countries with similar cultural dimensions will be forced to adopt sustainable behaviours that shape their standards of transparency and environmental practices. For example, Buhr and Freedman (2001) find that the collectivistic nature of Canadian society has led to a greater level of voluntary environmental disclosure in environmental reports while the litigious nature of US society led to more mandatory disclosure in the 10-K and annual reports. Some also suggest that religion has a strong implication on social norms and personal values, which, in turn, affect corporate decisions and behaviours. Certain religious affiliations have underlying beliefs and practices that are more concerned with environmental conservation while others may hold a more sceptical view. For example, Du et al. (2014) find the level of a firm's environmental disclosures may vary depending on the community's Buddhist beliefs due to its benevolent environmental attitudes.

12.3.2.3 Industry membership

According to legitimacy theory, corporations have incentives to use communication strategies such as environmental disclosures to potentially influence societal perceptions to gain or maintain legitimacy within the society (Deegan, 2002). The extent to which firms are exposed to legitimacy threats varies by industry and sector membership. For example, Patten (1992) finds a significant increase in annual reports of environmental disclosures by firms other than Exxon after the Exxon Valdez oil spill. Campbell (2003) finds that environmentally sensitive companies will disclose more environmental information in their corporate reports than less environmentally sensitive companies.[4] In the same vein, Cho and Patten (2007) show that firms operating in environmentally sensitive industries report more non-litigation-related environmental disclosures in their financial reports than firms operating in less environmentally sensitive industries.

12.3.3 Market Governance

12.3.3.1 Ownership

Facing information asymmetry due to a potential agency problem, outside shareholders have incentives to request managers to voluntarily disclose material information. Over the last decade, institutional shareholders have been increasingly paying attention to firms' social and environmental information (Velte, 2022). Policymakers and regulators also emphasize the role of institutional investors in promoting corporate environmental transparency.[5] According to Michelon and Rodrigue (2015), institutional shareholders such as religious institutions, socially responsible investment (SRI) funds and pension funds are the forerunners in submitting shareholder resolutions on sustainability-related issues, accounting for 66.5 percent of all proposals submitted during 1996–2009. These activist institutional shareholders have successfully forced companies to significantly increase the extent of environmental disclosures (Flammer et al., 2021; Michelon et al., 2020) to address shareholders' environmental risk concerns and avoid adverse market reactions.

State ownership and foreign ownership are also found to influence the level of corporate environmental disclosures. Zeng et al. (2012) argue that state-owned enterprises (SOEs) are more likely to publish environmental reports and disclose more environmental disclosures than private firms as SOEs are often used as pioneers in implementing new regulations and they face greater government pressures than private firms. The demands for environmental disclosures are also higher when foreigners hold a large proportion of shares as foreign shareholders are separated from managers geographically and these investors are likely to have different values and knowledge because of their foreign market exposure (Khan et al., 2013).

While outsider shareholders generally have a positive impact on corporate environmental transparency, literature shows that insider ownership tends to have a negative influence. Since high levels of managerial ownership can provide managers with greater entrenchment, resulting in superior power and further opportunities to exercise their opportunistic behaviour, owner-managers seemed to be more concerned about their own financial interests than the need to pursue sustainable development (Gerged, 2021). In contrast to managerial ownership, family businesses face greater tensions between the benefits of fulfilling stakeholders' expectations for information and the costs associated with environmental disclosures. Arena and Michelon (2018) argue that firms in which family principals prioritize family control and influence are more reluctant to provide environmental disclosures. This is because the detrimental effects of environmental disclosure on their preservation of control overcome the gains from greater transparency. By contrast, firms with family principals that prioritize family identity are more willing to provide environmental information voluntarily to protect their status and reputation in the community. However, the impact of principals that prioritize family control or family identity on environmental disclosures will weaken at the later stage of the firm life cycle.

12.3.3.2 Stakeholder group pressures

Various stakeholder groups, such as employees, customers, the general public, NGOs, and the media will ask for information about a firm's efforts to manage environmental impacts (Guenther et al., 2016). Given the rise in environmental awareness, *employees* have begun to pay attention to a company's environmental performance because employees' rights and interests are closely related to the firm's environmental performance as bad environmental records would incur penalties and damage reputations, which eventually harm the firm's prospects and undermines employees' interests (Huang & Kung, 2010).

The increasing demand for green products and companies' environmental images is a key factor that encourages *customers* to make repeat purchases. Customers would actively seek information on what companies are doing in mitigating adverse environmental impacts before making a purchase. To accommodate such expectations, firms would hence actively disclose environmental information to highlight their environmental contributions and differentiate their products from other competitors (Huang & Kung, 2010).

Companies also face pressure from the *public* and *environmental NGOs* to enhance their environmental records. If an organization cannot justify its continued operation by reporting on its environmental performance, the general public may revoke its license to continue operations (Deegan, 2002). Environmental NGOs may also initiate public protests, issue counter-accounts, and sue companies for harmful environmental practices to exert pressure and force companies to enhance environmental accountability (Thijssens et al., 2015).

Lastly, the *media* have a profound influence on stakeholder perceptions of a company's operation as the information and evaluations they provide tend to be distributed more broadly than the opinions of the average stakeholder. Consequently, managers may perceive media exposure as a reliable proxy for collective legitimacy impressions on which it can benchmark and model firms' environmental reporting strategy (Aerts & Cormier, 2009). Pollach (2014) finds that environmental content in newspapers is related to corporate environmental agendas presented in corporate environmental reports and annual reports. However, Aerts and Cormier (2009) find that negative media coverage is a driver of environmental press releases but not of annual reports of environmental disclosures. These studies suggest that firms release environmental information mainly for legitimacy rather than transparency purpose.

12.4 CG AS A MODERATOR OF HOW ENVIRONMENTAL DISCLOSURES IMPACT BUSINESSES AND SOCIETY

Environmental disclosures can impact businesses and societies in various ways. The evidence provided by the academic literature is mostly related to the impacts generated by carbon disclosure and the levels of GHG emissions on investors. These impacts are mostly assessed in terms of firm value creation (e.g., Baboukardos, 2017; Choi & Luo, 2021; Clarkson et al., 2015) and, to a more limited extent, earnings quality and firms' risk (e.g., Benlemlih et al., 2018; Rezaee & Tuo, 2019). Limited evidence exists concerning the effects of environmental disclosures on other corporate stakeholders. This is focused mostly on the impacts of environmental disclosure on the whole society in terms of environmental performance (Qian & Schaltegger, 2017). The following sections provide an overview of the moderating role that CG can play in shaping the impacts produced by environmental disclosures, by distinguishing the CG mechanisms into internal, institutional, and market mechanisms.

12.4.1 Internal Governance

The board of directors plays an important role in shaping the impact that environmental disclosure can produce for businesses and society (Cohen et al., 2017; Du, 2018; Li et al., 2018). Furthermore, CEOs are the most powerful actors among directors due to their structural power and the ability to exert control over corporate operations (Finkelstein, 1992). There is evidence that CEOs have the ability to influence disclosure policies and the quality of corporate reporting (e.g., Song & Thakor, 2006). This influence is expected to increase in the presence of more powerful CEOs as disclosure released by powerful actors is perceived as more reliable. In line with these arguments, Li et al. (2018) provide evidence that the positive effects produced by environmental disclosures on firm value are enhanced by the presence of powerful CEOs, suggesting that investors and stakeholders consider the reports produced by firms managed by more powerful CEOs to reflect a greater commitment to environmental sustainability.

The composition of the board of directors is another CG mechanism that has been found able to influence the impact of corporate environmental disclosures. Cohen et al. (2017) evaluate CG strengths by considering, among other things, board independence and CEO duality. They show that the positive influence that environmental disclosure has on investment decisions is strengthened when firms have high CG, but only if they also have good environmental performance. In contrast, Choi and Luo (2021) provide empirical evidence that the negative effect of carbon emissions on firm value is lower in firms with more independent boards. This is because independent directors enhance the board's ability to monitor managerial decisions which ultimately alleviates shareholders' negative perceptions of the business. The role that board composition plays in shaping the impact that environmental disclosure has is also investigated in terms of cultural diversity. Du (2018) reports that board cultural diversity strengthens the impact that environmental disclosure makes in reducing the price disparity between foreign and domestic shares in China. This is because boards characterized by cultural diversity where local and foreign directors coexist are likely to strengthen board monitoring, reduce information asymmetry and improve the quality of environmental disclosure.

12.4.2 Institutional Governance

The impact of environmental disclosure on business and society also reflects broader social and institutional structures within which businesses operate, such as political and legal systems and culture.

Regulations, legal regimes, and government efficiency in place in a specific institutional environment play an important role in shaping the practices adopted by organizations in relation to environmental sustainability. The presence of stricter government regulation and higher government efficiency is likely to affect also how these impact businesses and society. Clarkson et al. (2015) and Choi and Luo (2021) show that GHG emissions are valued more negatively when related to firms operating in countries within the EU Emissions Trading System (ETS) jurisdiction. de Villiers and Marques (2016) report that the positive effects of environmental disclosure on firm values tend to be more prominent in countries with more democracy, more government effectiveness and better regulatory quality. This suggests that environmental disclosures are perceived to be more informative in countries with better and more effective regulations and where the voice of corporate shareholders and stakeholders is more likely to be heard.

National cultures can also play a role in environmental sustainability as strategies and activities pursued by firms tend to be aligned with the culture of the country in which they operate (Pucheta-Martínez & Gallego-Álvarez, 2020). Therefore, firms operating in countries characterized by certain cultures are found to engage more in sustainable activities (Parboteeah et al., 2012), disseminate more information about such engagements to markets and their stakeholders (Luo et al., 2016), and suffer less negative market reactions regarding their environmental information (Choi & Luo, 2021).

12.4.3 Market Governance

Among the market governance mechanisms, institutional ownership has been found to enhance the positive impacts that environmental disclosure produces. In the presence of institutional investors, environmental disclosure is expected to be more informative and of higher quality. In line with this argument, Rezaee and Tuo (2019) show that institutional investor ownership enhances the positive impact that the disclosure of environmental information has on earnings quality. By contrast, Hassan (2018) finds that institutional investors' ownership does not play a significant moderating role in the relationship between environmental disclosure and firm value. By contrast, Choi and Luo (2021) provide empirical evidence that the negative impact of GHG emissions on firm value is lessened in the presence of higher levels of institutional ownership. This moderating role is explained by the effective monitoring of institutional owners which alleviates shareholders' negative perceptions.

12.5 CONCLUSIONS

In this chapter, we review relevant literature that examines the general trends as well as key determinants and consequences of environmental disclosures departing from a CG perspective. Our review highlights that the extent of corporate environmental disclosures increased significantly over the past decades, covering issues such as carbon, biodiversity, and water management. However, the increase in environmental disclosures is not necessarily accompanied by an increase in its quality. The content of environmental reports is often found to be vague, incomplete, biased, and lacking objectivity. Extensive studies support the view that CG can enhance the quality of environmental disclosures. Internal mechanisms such as the board of directors may enhance environmental transparency towards multiple stakeholder groups, while external mechanisms such as institutional setting, ownership and stakeholder pressures may ensure firms' environmental activities are congruent with social norms and values. Our review shows that environmental disclosures can have both economic and societal impacts. The economic consequences of environmental disclosures are more pronounced when there are strong CG mechanisms in place. These findings prove that strong CG mechanisms would further improve the information quality of environmental disclosures by enhancing information credibility and supplying decision-useful information that allows investors to better evaluate firm environmental activities.

However, some studies also show that when poor environmental records are revealed, firms with stronger CG mechanisms tend to be less penalized by investors than those with weaker ones. These findings are intriguing as they suggest that instead of being implemented as pre-emptive checks to mitigate negative environmental impacts, firms may simply use environmental governance mechanisms as a means for stakeholder perceptions management (Rodrigue et al., 2013). This may be due to environmental matters not being treated by boards at the same level of depth and interest as financial matters. This argument raises an interesting debate as to the effectiveness of the traditional shareholder-centric governance approach in enhancing environmental accountability to both financial and non-financial stakeholders. There might be a need for the governance model to be adapted to enable and protect firm engagements in advancing non-financial impacts. In recent years, the emergence of sustainable enterprises such as B Corporations and/or Benefit Corporations may offer a potential solution to pave the way for a renewal of CG practices that limit the pressure for short-term profitability and protect the firm's long-term engagement for developing responsible conduct (Hiller, 2013; Stubbs, 2017). Instead of asking 'who controls the corporation, and for whom', companies should address the question of 'which objectives the corporation assigns to itself' (Levillain & Segrestin, 2019). In order to transit to this 'profit with purpose' governance model, Levillain and Segrestin (2019) propose three innovative mechanisms: (1) defining a legal purpose beyond profit maximization; (2) committing directors to the purpose;

and (3) creating purpose-specific accountability mechanisms. While these novel governance mechanisms may look promising, they are still at the conceptual level and very few studies empirically examine their effectiveness. Therefore, we urge future studies to explore the possible applications of alternative stakeholder-centric governance models and novel sustainable corporate forms and examine whether and how they would enhance sustainability accountability to stakeholders. Only when we understand how sustainability issues can be substantively incorporated into the CG system, can we then truly examine the effect of CG mechanisms on environmental transparency and accountability to various stakeholders.

NOTES

1. We start with a systematic literature review performed on Scopus by searching keywords with a Boolean approach: 'environmental' OR 'climate' OR 'water' OR 'GHG' OR 'carbon' OR 'emission' OR 'pollution' OR 'waste' OR 'biodiversity' OR 'land' OR 'recycle' AND 'disclosure' AND within business journals. We limit the search to ABS 3* journals to ensure that we cover the most important studies in the literature.
2. Noticeable policies include Directive 2013/34/EU – Non-Financial Reporting Directive (NFRD), The UK Corporate Governance Code, and OECD principles of corporate governance.
3. Examples include Task Force on Climate-related Financial Disclosures (TCFD), EFRAG's proposal on climate change disclosures (Exposure Draft: ESRS E1 Climate change) and SEC's enhancement and standardization of climate-related disclosures for investors (Release Nos. 33–11042; 34–94478; File No. S7–10–22).
4. Typical environmental sensitive industries include oil and petroleum, paper, chemical and allied products, metals, utilities and manufacturing.
5. Some noticeable initiatives include Principles for Responsible Investment (PRI)'s Investment Leadership Programme, Institutional Investors Group on Climate Change (IIGCC), and EU Taxonomy for Sustainable Activities.

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13. CSR disclosure, capital markets, and the moderating influence of corporate governance

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13.1 INTRODUCTION

The impact of Corporate Social Responsibility (CSR) reporting on capital markets is a growing field of interest which has been prompted by stakeholder demands that firms take more initiative with their sustainability agendas globally (UNGC, 2019). Indeed, firms have dramatically increased the amount of sustainability reporting that they disclose in response to calls for greater transparency in corporate sustainability. The KPMG Survey of Sustainability Reporting reported that 80 percent of the top large and mid-cap firms worldwide published CSR reports in 2020, while only 12 percent reported in 1993. Additionally, KMPG estimated more than 50 percent growth in the number of corporations that invested in independent third-party assurance of their sustainability reports between 2005 and 2020.[1] These trends reflect a broad concern for social welfare in the corporate space, as well as increased attention to CSR reporting from investors and corporate managers.

As shareholder interest in CSR disclosure has increased, investigating the capital markets effects of these disclosures has also attracted increasing attention. Although findings vary across contexts (Cho, Lee, and Pfeiffer, 2013; Flammer, Hong, and Minor, 2013; Plumlee, Brown, Hayes, and Marshall, 2015), in general, CSR disclosure is perceived to be value relevant and associated with benefits for shareholders, including reduced information asymmetry between managers and investors (El Ghoul, Guedhami, Kwok, and Mishra, 2011; Goss and Roberts, 2011; Ng and Rezaee, 2015; Tan, Tsang, Wang, and Zhang, 2020), greater access to external finance (Cheng, Ioannou, and Serafeim, 2014; Dhaliwal, Li, Tsang, and Yang, 2011; Goss and Roberts, 2011), and a larger investor base (Dhaliwal et al., 2011; Dimson, Karakaş, and Li, 2015).

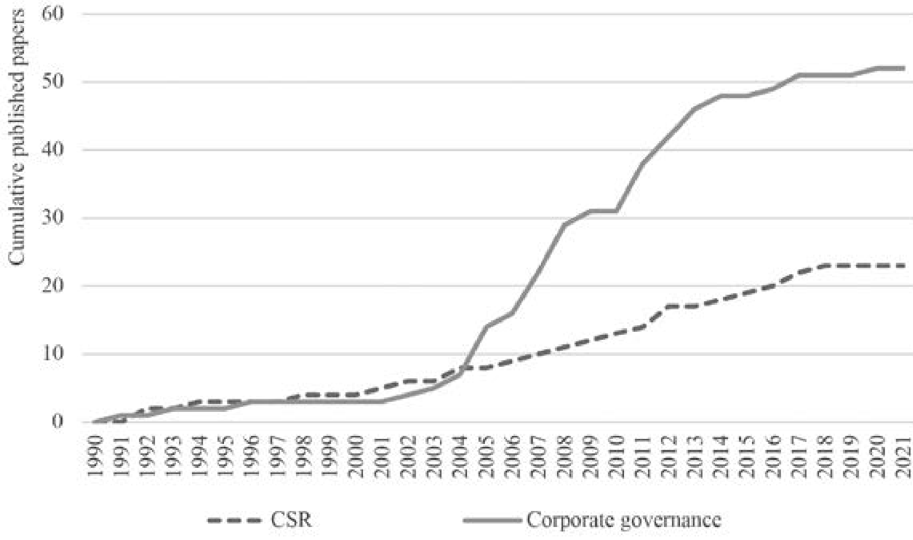
Managerial decisions may impact the association between CSR disclosure and capital market outcomes. In some cases, managerial decisions around CSR disclosure strengthen the relationship with market outcomes, while in others, they may weaken it. For example, managers may use CSR disclosure to manipulate their firms' reputation by biasing their disclosures to appear to be better CSR performers than they really are (Ingram and Frazier, 1980), or CSR may be used to manipulate firm performance (Grieser, Hadlock, and Pierce, 2021; Petrovits, 2006). Known as 'greenwashing,' the act of misleading stakeholders regarding the social and environmental practices of the firm may result in a weak association between CSR disclosure and capital market outcomes (Griffin, Lont, and Sun, 2017; Guiral, Moon, Tan, and Yu, 2020; Khan, Serafeim, and Yoon, 2016). On the other hand, corporations may also use CSR to communicate information about their strategic assets and to give stakeholders and market participants information they need to make informed decisions (Ryou, Tsang, and Wang, 2022). In such cases, the alignment between CSR disclosure and capital markets outcomes is stronger (DesJardine, Marti, and Durand, 2021; Dhaliwal et al., 2011; Lys, Naughton, and Wang, 2015). Tsang, Frost, and Cao (2023) provide a complete review of the CSR disclosure literature for those seeking in-depth treatment of CSR disclosure determinants and consequences, as well as the moderators and characteristics of CSR disclosure.

An important factor in the association of CSR disclosure with capital market outcomes is corporate governance. In particular, strong corporate governance may affect CSR disclosure in two ways: (1) corporate governance may prevent overinvestment in CSR and instances of greenwashing (Jo and Harjoto, 2012; Liao, San, Tsang, and Yu, 2021); and (2) corporate governance may ensure that firms' sustainability activities and disclosures are based on sound business practices and promote accountability and transparency not only to shareholders, but also to the greater society (Freeman, 1984; Jo and Harjoto, 2012). Prior literature documents that well-governed firms suffer less from agency problems related to CSR (Jo and Harjoto, 2012), are less likely to pursue CSR disclosures for purposes of manipulating public opinion (Liao et al., 2021) and have better CSR performance in both the environmental and social dimensions (Liao et al., 2021). Importantly for our context, corporate governance reforms strengthen the relationship between CSR performance and future financial performance (Jo and Harjoto, 2012; Liao et al., 2021).

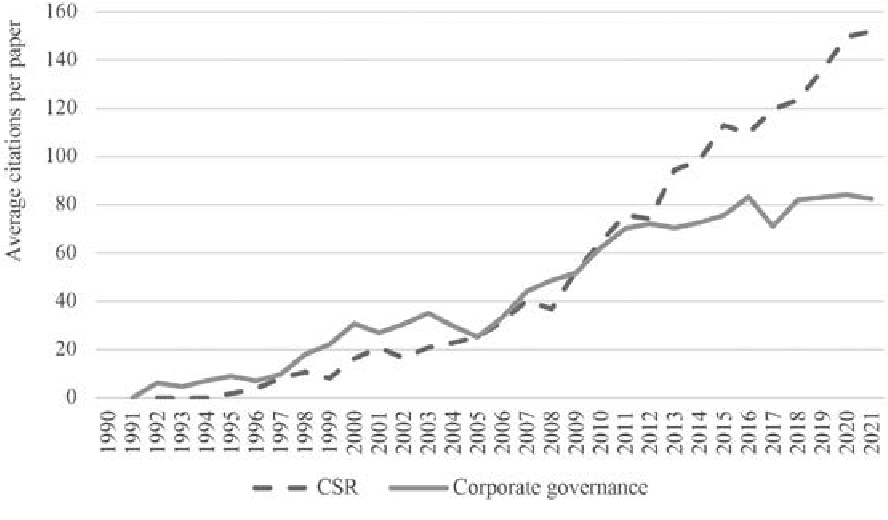
In relation to CSR, corporate governance actors may include internal and external governance actors such as the board of directors (Ibrahim and Angelidis, 1995; Post, Rahman, and Rubow, 2011), managerial compensation contracts (Flammer et al., 2019; Park, Kim, and Tsang, 2023), the media (Frost, Shan, Tsang, and Yu, 2022; Kölbel, Busch, and Jancso, 2017), auditors (Chen et al., 2016; Pinnuck et al., 2021), and regulators (Liu et al., 2021; Pinnuck et al., 2021; Zhang, Tang, and Huang, 2021). Each of these corporate governance actors may influence the type, content, frequency, and quality of CSR disclosure.

The increased interest in CSR among capital market participants has been accompanied by an expansion of academic research related to CSR in corporate governance and capital markets. To better understand the importance of CSR disclosure and the relationship of corporate governance with CSR disclosure and capital market outcomes, we collected all empirical corporate governance and CSR papers with at least one citation during the past three decades from the Brigham Young University Accounting Citation Rankings' website. Based on the information collected, in Figure 13.1, we present the total number of published papers in the accounting literature for corporate governance and CSR. The figure suggests that although studies related to corporate governance have dominated the accounting literature in the last 30 years in terms of the number of publications (Panel A), citations associated with papers in corporate governance have increased more slowly relative to citations associated with CSR studies in the last ten years (Panel B). From 2009 onward, the average citations associated with CSR studies significantly exceed those associated with corporate governance within the accounting literature. The changing citation counts show that CSR is attracting increased research interest, consistent with the fact that in practice, CSR is also getting more attention from policy makers, managers, boards, investors, and so on.

This figure shows the total number (Panel A) and citations (Panel B) of papers published on CSR and corporate governance. In Panel B, *Average citations per paper* equal the aggregate yearly citations for each topic divided by the total number of published papers. We collect related studies from the financial archival section of the BYU Accounting Rankings (see https://www.byuaccounting.net/rankings/main/main.php). The yearly citation data is from Google Scholar.



Panel A: Total number of published papers for each topic



Panel B: Average citations per paper for each topic

Figure 13.1 *Number and citations of research on CSR and corporate governance*

Overall, the trend in stakeholder and shareholder interests in CSR performance is clear – stakeholders increasingly demand greater CSR performance and transparency from corporations. Corporations are responding with more CSR disclosures. In as much as firms' motives for disclosing CSR activities may be affected by managerial agency issues as well as the intent to provide market participants with the information they need to make informed decisions, corporate governance plays an important role in CSR disclosure.

In the remainder of this chapter, we discuss the primary findings regarding CSR disclosure and its impact on capital market participants. Having set the stage, we then address how corporate governance factors – board of directors, compensation metrics, the media, external auditors, and regulators – affect the impact of CSR disclosure on capital market participants.[2]

13.2 CSR DISCLOSURE, CAPITAL MARKETS, AND CAPITAL MARKET PARTICIPANTS

Empirical studies show that CSR disclosure affects several types of stakeholders. In this section, we discuss the potential consequences of CSR disclosure on shareholders, analysts, the debt market, and managers.

13.2.1 Shareholders

The most extensive area of research with respect to the effect of CSR disclosure on capital markets has to do with shareholders and the relationship between CSR disclosure and firm value (Tsang et al., 2022). Although most studies find a positive association between CSR disclosure and firm value (Al-Tuwaijri et al., 2004; Dhaliwal et al., 2011, 2012; Matsumura, Prakash, and Vera-Muñoz, 2014; Naughton, Wang, and Yeung, 2019; Qiu, Shaukat, and Tharyan, 2016; Spicer, 1978), a few studies find a negative association (Hughes, 2000; Shane and Spicer, 1983). Other studies find no relationship between firm value and CSR disclosure (Elliott, Jackson, Peecher, and White, 2014; Griffin et al., 2017; Guiral et al., 2020; Khan et al., 2016). Still others argue that the relationship between CSR and firm value can be positive in some contexts and negative in others (Bartov, Marra, and Momenté, 2021; Johnson, Theis, Vitalis, and Young, 2020; Li et al., 2021).

A number of moderators in the CSR disclosure-firm value relationship have been identified. For example, Tsang et al. (2021a) determine that researchers' decisions related to different CSR measures, CSR categories, and sample periods affect the observed relationship between CSR disclosure and firm value. Tsang et al. (2021a) also reveal that the positive link between CSR performance and firm value tends to increase over time, suggesting that the findings in the literature regarding this relationship may also be partially affected by the choice of the sample period. Other moderators include the firm's CSR performance (Dhaliwal et al., 2011; Elliott et al., 2014; Guiral et al., 2020), stakeholder orientation (Dhaliwal et al., 2012; Simnett, Vanstraelen, and Chua, 2009), and the credibility of the disclosures (Pinnuck et al., 2021). The focus of this study, corporate governance, is another factor affecting the relationship between CSR disclosure and shareholder value.[3]

13.2.2 Analysts

Besides shareholders, other financial intermediaries, such as financial analysts, are also affected by firms' CSR disclosures. Dhaliwal et al. (2012) document that standalone CSR reports are associated with more analyst attention and lower analyst forecast error. Using a sample of South African firms, Bernardi and Stark (2018) confirm their results. Similarly, Tsang, Wang, Wu, and Lee (2022) argue that financial analysts play an important role in the relationship between CSR disclosure and firm value globally. Analyst reports also impact the perceptions of other investors. For instance, when investors are only exposed to analysts' CSR reports, they may unintentionally overestimate the fundamental value of positive CSR stocks (Elliott et al., 2014).

13.2.3 Debt Markets

Akin to shareholders and analysts, lenders' decisions are also influenced by CSR disclosure. For instance, Schneider (2011) uses U.S. government data to show that firms disclosing lower pollution rates have lower yield spreads than high polluters, suggesting that firms that disclose better CSR performance are a lower credit risk. Similarly, Truong, Nguyen, and Huynh (2021) find that higher customer satisfaction scores are associated with smaller bank loan spreads. Tan, Tsang, Wang, and Zhang (2020) present evidence suggesting that public bond holders value firms' CSR disclosure as well. On the other hand, Larcker and Watts (2020) observe no economic difference between the price of green municipal bonds and nongreen issues. From this finding, they construe that bond investors are not willing to trade off wealth for societal welfare.

13.2.4 Managers

Finally, the act of disclosing CSR activities may affect managerial behavior because the CSR reporting process can help firms to better manage their operations and risk (Christensen, 2016). For example, high-profile corporate misconduct is lower in firms that disclose their CSR activities (Christensen, 2016). Managers of firms whose positive CSR performance is disclosed also exhibit lower earnings management (Kim, Park, and Wier, 2012). The way that CSR disclosure is presented may also impact managers: Dai et al. (2021) suggest that disclosure of positive CSR performance enhances CEOs' labor market potential.

13.3 CORPORATE GOVERNANCE AND CSR

Although distinct concepts, corporate governance and CSR serve similar functions within the firm and are inter-related (Liao, San, Tsang, and Yu, 2021; Tsang et al., 2021a). In general, the academic literature treats corporate governance and CSR as two separate research streams (DiGiuli and Kostovetsky, 2014); however, due to the growing interest in corporate governance and CSR reforms, recent studies have examined whether corporate governance moderates the CSR-firm value relationship. According to stakeholder theory, well-designed corporate governance systems should align managers' incentives with those of nonfinancial stakeholders and reduce the conflicts of interest between management and stakeholders. In line with this idea, studies document a high correlation between firms' corporate governance and CSR performance (Ferrell, Liang, and Renneboog, 2016; Harjoto and Jo, 2011; Jamali, Safieddine, and Rabbath, 2008; Jo and Harjoto, 2012; Liao et al., 2021). In general, empirical results indicate that CSR and corporate governance are complements rather than substitutes (Liao et al., 2021) and that good corporate governance positively moderates the link between CSR and firm value (Tsang et al., 2021a).

As noted, strong corporate governance may affect CSR disclosure either through ensuring that firms transparently disclose CSR activities to stakeholders or through constraining managers from making CSR disclosures or using CSR activities for their personal benefit. In the first instance, stronger corporate governance should encourage firms to increase CSR disclosure to enhance shareholder value and meet stakeholder requirements. Under this view, boards of directors are motivated to promote CSR investment and disclosure, and auditors will charge more for firms with negative CSR reputation. In the second instance, corporate governance could constrain managers from greenwashing and ensure that CSR disclosures are of high quality and relevance.

13.3.1 Board of Directors

Over the last two decades, numerous regulators have reformed corporate governance regulations in order to strengthen the mechanisms through which shareholders safeguard the return on their investments (Shleifer and Vishny, 1997). Many of these reforms focus on board-related practices, such as audit committee and auditor independence, greater board independence, and separating the positions of chief executive officer (CEO) from chairman. Board reforms are considered to be the major remedy for corporate governance issues because they comprise the firm's fundamental governance mechanism.

Liao et al. (2021) examine whether country-level board reforms affect CSR performance. They find that board reforms are associated with increased firm CSR disclosure in both the environmental and social dimensions. They also document that corporate governance reforms strengthen the relationship between CSR performance and future financial performance, especially when corporate governance reforms are rules-based, rather than 'comply or explain' requirements. Their findings indicate that while board reforms aim to increase shareholders' value, they can also have significant effects on various stakeholders. This study supports the perspective that strong corporate governance after reforms encourages firms to increase CSR disclosure and activity to enhance shareholder value.

13.3.2 Managerial Compensation

Another internal governance tool is managerial compensation. Equity-based compensation of top managers is an effective way to align managers' interests with those of shareholders. Integrating CSR criteria into executive compensation schemes has become increasingly common for companies worldwide. These performance metrics generally include various nonfinancial performance targets, such as employee health and safety, CO_2 emission/water pollution targets, product safety, reduced injury rates, and energy efficiency (Flammer et al., 2019). Anecdotal evidence suggests that many companies view the practice of incorporating CSR criteria into executive compensation as a good corporate governance practice because it encourages executives to sacrifice short-term payoffs for long-term gains (Flammer et al., 2019). While there is little empirical evidence regarding the impact of compensation structuring and incentives on CSR disclosure and the role of CSR in capital markets, existing work suggests that managerial compensation contracts can encourage certain positive CSR behaviors and discourage negative ones.

First, Flammer et al. (2019) find that firms that incorporate CSR targets into CEO compensation contracts have more socioenvironmental initiatives and green innovation. This finding suggests that CSR compensation contracting directs management's attention to less prominent but financially important stakeholders to the firm in the long run. Similarly, Tsang et al. (2021b) show that integrating CSR criteria into executive compensation is associated with greater innovation output. As their findings are stronger in settings with low stakeholder orientation and without mandatory CSR reporting requirements, the observations indicate that CSR compensation contracting can compensate for gaps in institutional governance.

Similarly, contracting over CSR can discourage negative managerial behavior. Park et al. (2023) examine whether and how the presence of managerial hedging opportunities affects firms' CSR activities. Managerial hedging opportunities reduce executives' concerns about the sensitivity of their wealth to changes in their firm's stock price (Dunham and Washer, 2012). Park et al. (2023) find that managerial hedging opportunities reduce firms' CSR performance. However, the effect is weakened if firms limit corporate insiders from trading exchange-listed options.

13.3.3 Media

In addition to internal governance mechanisms, several external governance mechanisms exist. One of the most influential in the CSR context is the media. Media coverage is a governance mechanism over CSR because CSR's effect on firm value is largely dependent on stakeholders' awareness of a firm's CSR activities. This is particularly true of socially irresponsible actions and manipulative disclosures that a firm may undertake. While favorable CSR news tends to be disseminated by firms themselves, information about firms' corporate social irresponsibility (CSiR) is primarily disseminated via media coverage. Thus, the media becomes an important mechanism for constraining CSiR activities and for exposing firms that manipulate their disclosures of CSR activities through greenwashing (Lyon and Maxwell, 2011). For instance, activists use media to punish companies they view as greenwashers by publicizing their manipulative disclosures and encouraging consumers to boycott them (Lyon and Maxwell, 2011). Additionally, because media coverage is viewed as trustworthy, the relationship between media disclosure of CSR and firm value is strong. Frost, Li, Tsang, and Yu (2022) find that media coverage of CSiR is negatively associated with corporate market value. Moreover, the negative relation between media coverage of CSiR and firm value is more pronounced for firms with long-term orientations and for firms domiciled in countries where demand for socially responsible corporate activities is high, further suggesting the governance role of media in CSR disclosure.

13.3.4 Auditors

We have reviewed the evidence that disclosure of CSR is informative to investors. However, to be an effective signal of managerial trustworthiness or future performance, such reporting must be credible. The prevalence of greenwashing calls into question the credibility of CSR reporting (Li, Richardson, and Thornton, 1997). Ball, Jayaraman, and Shivakumar (2012) contend that a commitment to independent verification increases the credibility of managers' voluntary disclosures. One way in which managers may enhance the credibility of their firms' voluntary nonfinancial disclosures is through an external audit.

Chen et al. (2016) examine whether firms' procuring an external audit for voluntary nonfinancial CSR reporting increases the credibility of CSR disclosures. They find evidence consistent with the argument that committing more resources to higher-quality audits improves the credibility of voluntary CSR reports and renders those reports more informative to investors. Evidence also suggests that auditors value the CSR disclosures and activities of their clients. Frost, Shan, Tsang, and Yu (2022) find a positive relationship between media coverage of CsiR and audit fees, indicating that attention to a firm's negative CSR performance may increase auditors' risk.

13.3.5 Regulators

The growing global focus on economic and environmental sustainability extends to regulators and governments. As such, this emphasis on CSR has triggered regulatory requirements to invest more in CSR activities or disclose CSR activities. The relationship between CSR disclosure and capital market effects is different when CSR disclosure is mandatory, as opposed to voluntary. Most studies find that mandatory CSR activities are good for stakeholders, but hurt shareholder value (Chen, Hung, and Wang, 2018; Christensen, Floyd, Liu, and Maffett, 2017; Manchiraju and Rajgopal, 2017). The intuition behind why mandatory CSR has a negative effect on shareholder value is that if CSR activities could benefit shareholders, firms would invest in such activities without a mandate (Chen et al., 2018).

Importantly, mandatory CSR reporting does not seem to have the same signaling benefits as voluntary reporting. Actively engaging in corporate philanthropic activities and voluntarily disclosing those activities helps the firms to improve their reputations and build trust with their stakeholders and shareholders. For example, Qian, Gao, and Tsang (2015) find that the positive effect of corporate philanthropic giving is stronger for firms that need to build trust and reputation with stakeholders and shareholders.

Several studies examine the relationship in mandatory CSR spending or mandatory CSR disclosure on capital markets outcomes. Manchiraju and Rajgopal (2017) show that involuntary spending on CSR in India results in a 4.1 percent drop in stock prices for the affected firms. Complementing their findings, in the China context, Chen et al. (2018) show that mandatory CSR disclosure requirements in China reduce firm profitability. On the other hand, mandatory CSR requirements have positive effects on the environment and society. In particular, mandatory CSR disclosure is associated with lower greenhouse gas (GHG) emissions (Downar et al., 2021), enhanced carbon performance (Qian and Schaltegger, 2017), and improved water quality (Chen et al., 2018).

13.4 CONCLUSION

Following the growing awareness of the importance of CSR activities in recent decades, shareholders and other stakeholders are placing greater emphasis on firms' nonfinancial CSR information. Prior research has delved into these issues as well as the consequences of that disclosure on capital markets. An important part of the association between CSR disclosure and capital market outcomes is the impact of corporate governance on CSR.

Considering that CSR exerts a positive effect on shareholder value, corporate governance should lead to more efficient CSR activities. As boards are the fundamental governance mechanism of corporations, board reforms, such as imposing greater board independence, promoting audit committee and auditor independence, and separating the positions of chairman and CEO, result in increased CSR performance (Liao et al., 2021). Boards may design managerial compensation contracts to encourage CSR performance and disclosure. Likewise, the media and regulators may help align corporate CSR interests with the interests of stakeholders.

While boards of directors, managerial compensation contracts, auditors, and the media have largely been associated with positive relationships between CSR disclosures and capital market outcomes, the same is not true of mandatory CSR disclosures and activities. Rather, when CSR activities and disclosures are mandated by regulators, the capital markets impact is subdued. This relationship indicates the important role that CSR plays in building a responsible corporate image and signaling ethical business practices by actively and voluntarily engaging in CSR activities and disclosure. Important implications exist for policy makers who are weighing the benefits and risks of mandatory CSR disclosures.

Further research in this field will evaluate the moderating influence of corporate governance on the relationship between CSR disclosures and capital market outcomes. Potential areas of study include the differences in impact of corporate governance in mandatory versus voluntary reporting regimes. Additionally, future research may investigate the impact that corporate governance has on the relationship between CSR disclosure and lending outcomes, analyst following, institutional holdings, and supply chain relationships.

NOTES

1. The KPMG survey is based on a global sample of the top 100 firms by revenue in 52 countries and jurisdictions (see https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/the-time-has-come.pdf).
2. We mainly focus on CSR studies published in accounting journals, but we do acknowledge that there are many CSR studies with corporate governance implications that have been published in a wide range of other non-accounting venues, including *Management Decision, Journal of Cleaner Production, Business Strategy and the Environment*, and so on, during the past decades. For example, Cormier et al. (2011) look at both environmental and social disclosure and its effects on capital markets, while taking into account the role of governance.
3. Although CSR is generally conceptualized as socially responsible actions undertaken by corporations, it can also include the concept of corporate governance. Indeed, ESG reports integrate firms' corporate governance concerns (G) with their environmental and social orientation (ES). The concept of CSR also indirectly includes governance concerns because they are related to socioenvironmental considerations (Gillan et al., 2021). Thus, CSR performance is a major corporate governance concern globally.

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14. Sustainability from the top: Revisiting the roles and responsibilities of the board of directors

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14.1 INTRODUCTION

Organizations are under increasing pressure to take sustainability into account and improve performance in this area. However, their various actions in this direction are frequently criticized for their insufficiency, symbolic nature and tendency to greenwashing (Boiral, 2011; Ferrón-Vílchez, 2016; Rodrigue *et al.*, 2013). Managers and members of the board of directors (BOD) play a key role in ensuring the substantive, rather than superficial, integration of sustainability (Ramani, 2015; Rodrigue *et al.*, 2013). Indeed, the main responsibility of the BOD is to oversee an organization's leadership, its system of governance, and its strategic decisions, policies, risk management, and performance in order to meet the expectations of stakeholders (notably, shareholders). Therefore, an organization's policies and major decisions concerning strategic issues such as corporate sustainability must normally be approved by the BOD, which should also monitor commitments on these issues. However, company directors are rarely informed and trained on these emerging issues sufficiently well to effectively support and monitor corporate sustainability commitments (Boiral, 2021b; Eccles *et al.*, 2020; Kiron *et al.*, 2017; Ramani, 2015).

The development of various guidelines (for efficient BOD functioning and for sustainability integration within companies) by public organizations, NGOs, professional associations and consultants partly meets this need and reflects the trend of companies taking a more proactive commitment in this regard (Ramani, 2015; Rodrigue *et al.*, 2013). For instance, the Global Compact, a set of principles on sustainability developed by the United Nations and adopted by over 22,000 organizations as of 2022, requires that organizations demonstrate how BODs are committed to solving pressing sustainability-related issues (UNGC, 2022). This set of principles also suggests a few practical tools to achieving this. However, studies conducted on the implementation of these tools show that they are adopted in a rather symbolic way by organizations and that they do not lead to substantial changes in practices (Garayar *et al.*, 2016; Macellari *et al.*, 2021; Orzes *et al.*, 2018). In general, there seems to be a major gap between managers' awareness of sustainability issues and the adoption of practices likely to improve performance (Rodrigue *et al.*, 2013). For example, according to an international study conducted among over 60,000 respondents, 90 percent of managers consider sustainability to be important, but only 60 percent of companies have a specific policy in this area (Kiron *et al.*, 2017). According to the same study, 86 percent of managers agree that BODs should play an important role in organizations' sustainability commitments, whereas only 48 percent of respondents believed that their CEO was actually engaged towards such commitments and less than 30 percent considered that these commitments were properly monitored by BODs.

In this context, it is essential to find ways that would allow BODs to better integrate the handling of sustainability issues into members' roles and responsibilities. However, with very few exceptions (Arena *et al.*, 2015; Chams and García-Blandón, 2019; Ramani, 2015; Rodrigue *et al.*, 2013), there are relatively few in-depth studies on this issue. Moreover, the literature on the subject is scattered across various disciplines and the majority of conclusions do not lend themselves to the development of practical recommendations that would be useful for managers or suitable for the specific contexts of various organizations.

The objective of this chapter is to shed more light on how BODs can integrate sustainability concerns into their main roles and responsibilities. The chapter is based on a synthesis of the literature – including the guidelines on this issue – and various practical experiences with company directors over the years.

First, the practical implications of the academic literature on BODs and sustainability are summarized. Second, the main guidelines on the issue developed by various stakeholders (international organizations, government agencies, professional associations, NGOs, audit and consulting firms, training centres for BODs) are presented. Third, the different roles and responsibilities of BODs are revisited to show how they could better take sustainability issues into account.

14.2 BOARDS OF DIRECTORS AND SUSTAINABILITY: THE CURRENT STATE OF THE ACADEMIC LITERATURE

Academic literature on how BODs consider sustainability is rather scarce. What work does exist revolves around three main topics: the composition of BODs, the impact of BODs on reporting practices, and the importance of BODs for sustainability performance.

14.2.1 The Composition of BODs

One of the most widespread topics explored by scholars in relation to BODs is related to their composition. Most studies in this domain attempt to shed some light on whether including more women in BODs is associated with a better integration of sustainability considerations within organizations. For instance, Galbreath (2011) found a positive link between the inclusion of women in BODs and economic growth, as well as social responsiveness. Similarly, Birindelli *et al.* (2018) reported that gender diversity positively impacts the way organizations tackle sustainability issues within the banking sector. According to Valls Martinez *et al.* (2019), who obtained similar results with respect to the proportion of women as BOD members, board diversity enhances the adoption of sustainability initiatives due to a more substantial consideration of internal reports and of the demands of external stakeholders. In the same vein, a study conducted among 734 public company directors showed that women are more supportive of investor focus on environmental and social issues (PWC, 2020). They also tend to see more financial value in sustainability issues than male managers do (ibid). Post *et al.* (2011) suggest that BODs should include both women and older members, as such diverse boards are more likely to create governance structures, processes and alliances that would focus on environmental and social issues.

Overall, the literature posits three main arguments for more diversity among BOD members: social justice, response to external pressures, and business enhancement. With regards to social justice, several scholars point to the necessity of ensuring gender equality within BODs to send signals to the labour market on the importance their organizations place on this concern

(Valls Martinez *et al.*, 2019). Diversity (in terms of gender, age, skills, and other) among BOD members also responds to increasing external pressures from various stakeholders for diversity, inclusion, and equity among employees, especially top managers (Brandenburg *et al.*, 2021; Dass and Parker, 1999; Goldberg *et al.*, 2019; Mallin and Michelon, 2011; McCuiston *et al.*, 2004). As for business enhancement, empirical studies indicate that the composition of a BOD affects the economic, environmental and social performance of organizations within various industries and sectors (e.g., Cucari *et al.*, 2018; Galbreath, 2011; Naciti, 2019; PWC, 2020; Valls Martinez *et al.*, 2019).

Few scholars, however, explore topics beyond mere demographic factors in terms of BOD composition. One rare example is a study by Olthuis and van den Oever (2020), who explored the impact of ideological differences on strategic decision-making within BODs. Interestingly, their work suggests "to avoid a high level of ideological diversity within boards" (p. 8) to ensure a more consistent and long-lasting impact on corporate social responsibility (CSR) activities within organizations. However, the results reported by Fernandez-Feijoo *et al.* (2014), who explored the influence of various cultural dimensions on the relationship between BOD members and sustainability integration, indicate that the composition of BODs, whether in terms of demographics, functionality or ideology, is highly dependent on the society in which the company operates and its cultural values. Thus, while in some societies the inclusion of women might indeed be associated with better implementation of sustainability-related activities, the same gender diversity could lead to no significant results in other countries.

14.2.2 The Importance of BODs for Sustainability Performance

Although the role of BODs in sustainability performance has been highlighted in several empirical studies (e.g., Chams and García-Blandón, 2019; Kouaib *et al.*, 2020; Mallin and Michelon, 2011), their engagement in this area remains, in most cases, uncertain and symbolic (Ramani, 2015; Rodrigue *et al.*, 2013). Overall, very few scholars have investigated the specific factors that distinguish BOD members' successful integration of sustainability concerns in their decisions from their unsuccessful attempts.

One of these factors, namely the resourcefulness of BOD members, is empirically evidenced by Masud *et al.* (2019). The number of connections that BOD members have, as well as the quality of those connections, seem to determine how successfully a given BOD can take sustainability issues into consideration and, ultimately, report on them. The perceived BOD members' professionalism also seems to play a large role in ensuring a positive corporate image with regard to organizations' sustainability and their accountability in this area (Masud *et al.*, 2019). In the same line of thinking, Ortiz-de-Mandojana and Aragon-Correa (2015) explored the role of "interlocks" (directors who serve on several BODs at the same time) on sustainability performance. Having analyzed several dozen enterprises and their results, the authors reported that interlocks have a significant positive effect on corporate environmental performance, which is explained by the increased strategic proactivity of firms resulting from increased connections with other companies. In their studies based on a meta-analysis approach, Zubeltzu-Jaka *et al.* (2019) and Zubeltzu-Jaka *et al.* (2020) also show that more independent and larger boards are better at taking stakeholder expectations into account and have a more positive impact on corporate social performance.

Another factor that has been investigated by several scholars is the way that BOD members define sustainability and CSR. For instance, Zahra (1989) emphasizes the importance of aligning the definition of CSR among BOD members to enhance sustainability performance. Similarly, Olthuis and van den Oever (2020) state that differences in ideologies among BOD members would lead to opposite views on sustainability, which might impede an organization's environmental and social performance.

14.2.3 The Impact of BODs on Reporting Practices

The majority of identified studies reported that sustainability issues are covered in more detail either when BOD members are carefully selected or when board structure is tightly connected to departments in charge of CSR. For instance, Fuente *et al.* (2017) highlight the importance of employee-driven CSR committees that ensure the quality of sustainability reporting when some committees' employees serve as BOD members or are supervised by them. In the same line of thinking, the analysis of over 350 firms performed by Jizi (2017) indicates that when BOD members have unique sustainability skills and expertise, organizations' reporting practices are more coherent and consistent. Also, the clarity of sustainability reporting seems to be affected by the composition of BODs. Similar results were obtained by Ben-Amar *et al.* (2017), Hu and Loh (2018), Mahmood *et al.* (2018) and Mallin and Michelon (2011), who found that stakeholder management resulting from better governance mechanisms and gender diversity within BODs tends to improve sustainability initiatives and reporting practices.

However, several scholars raise doubts about the significance of BOD members' influence on reporting practices. As such, Amran *et al.* (2014) obtained results that point to the fact that most BOD members are not deeply involved in the day-to-day life of organizations, and, thus, their impact on sustainability reporting might be marginal. Similarly, Prado-Lorenzo and Garcia-Sanchez (2010) analyzed data collected from 283 FTSE companies and reported that BODs seem to be interested in sustainability disclosure only when it has the potential to affect the organization's economic performance. Furthermore, a recent literature review on the subject (Afeltra *et al.*, 2022) concluded that the extent of disclosure was much more dependent on such factors as the size of the company and the growth of new business opportunities, rather than BOD members' interest in sustainability issues. Although certain aspects (e.g., gender diversity within BODs or the existence of environmental committees) seem to promote CSR reporting and the soundness of the disclosed information, they remain rather marginal.

Thus, whether BOD composition and activities impact the extent of reporting practices appears to be lacking consensus among scholars. Contrasting results on this matter may possibly stem from different interpretations of the scope and the transparency level of sustainability reporting. Furthermore, while guidelines, such as the Global Reporting Initiative (GRI), contain multiple pieces of pertinent information regarding how various topics should be reported in sustainability reports, they have also been subjected to various criticisms. For instance, the definition of "materiality" is somewhat vague (e.g., Boiral *et al.*, 2020; Unerman and Zappettini, 2014), although it is one of the central elements of the GRI framework.

14.3 THE PROLIFERATION OF PRACTICAL GUIDELINES ON BODs AND SUSTAINABILITY

The academic literature on BODs and sustainability described in the previous section has three main limitations. First, it is rather of limited scope. Very few topics seem to have been covered in depth by scholars. Second, as mentioned by Galbreath (2012), "research on the role of boards and the means and mechanisms through which they influence sustainability performance has been examined with insufficiently [sic] thoroughness" (p. 455). Among other things, most of the research remains quantitative, whereas the use of qualitative and more critical approaches would help address such an under-studied topic. Third, and most importantly, the identified peer-reviewed studies have few practical implications. While their results are interesting from a theoretical point of view, BOD members are unlikely to be able to apply them in their daily duties. To address this practical need, various non-academic sources have developed guidelines. These guidelines often provide pertinent and useful practical insights that can help BODs to integrate sustainability more efficiently. They essentially come from five different actors: international organizations, government agencies, professional organizations and NGOs, large audit and consulting firms, and researchers and BOD training centres.

14.3.1 International Organizations

Several international organizations have developed guidelines and programs to improve the integration of sustainability issues into BOD operations. This is the case, for instance, of the United Nations Global Compact (UNGC), which is founded on a set of sustainability principles that senior management and BOD members are expected to support (UNGC, 2016; UNGC, 2022). To facilitate the engagement of BODs, the UNGC published several reports and guidelines detailing best practices (UNGC, 2010; UNGC, 2012). One of these guidelines is essentially centred on the integration of sustainability into the responsibilities of the Corporate Secretary (UNGC, 2016). This document aims to formalize the integration of sustainability within governance structures by specifying, for each of the traditional roles and duties of the Corporate Secretary, the best way to promote issues of social and environmental responsibility within BODs (e.g., governance processes, the recruitment of board members, their roles and responsibilities, committees that support BOD decisions, top management training and evaluation criteria, disclosure, reports, and so on). Similarly, the European Union (EU) conducted a study on the integration of sustainability by BODs with the objective of proposing concrete recommendations on how to improve short-term decisions taken by senior management and to improve their accountability (Publications Office of the European Union, 2020). Based on consultations with 128 stakeholders, as well as multiple interviews and case studies, this research describes seven scenarios and, for each of them separately, suggests specific recommendations for promoting sustainability within BODs. The seven scenarios are as follows:

1. Directors' duties and companies' interests are interpreted narrowly and tend to favour the short-term maximization of shareholders' value.
2. Growing pressures from investors with a short-term horizon contribute to increasing boards' focus on short-term financial returns to shareholders at the expense of long-term value creation.
3. Companies lack a strategic perspective on sustainability and current practices fail to effectively identify and manage relevant sustainability risks and impacts.
4. Board remuneration structures incentivize the focus on short-term shareholder value rather than long-term value creation for the company.
5. The current board composition does not fully support a shift towards sustainability.

6. Current corporate governance frameworks and practices do not sufficiently voice the long-term interests of stakeholders.
7. Enforcement of directors' duty to act in the long-term interest of company is limited.

Although the study's recommendations are primarily aimed at governments, the scenarios described, and the options suggested can also be pertinent for managers and stakeholders in the private sector who would like to make BODs more accountable for sustainability issues.

14.3.2 Government Agencies

Guidelines that make a link between the traditional duties of BODs and sustainability issues are also created by government agencies that frequently consider this connection as a means to instill significant change within organizations. Such guidelines are mainly based on studies or recommendations from researchers or professional organizations. For instance, this is the case with the Government of Canada's guidelines on governance for sustainability, which were developed in collaboration with a think tank called Canadian Business for Social Responsibility (CBSR) (CBSR, 2010). This document proposes four main tools:

1. An assessment tool that measures the level of CSR integration by the board. The main elements that are suggested to be taken into account are vision and strategy, board accountability, risk identification and management, board composition and expertise, and external disclosure.
2. A roadmap based on two stages in the implementation of good CSR governance: getting started (integration of CSR into the mission and values and in BOD committees, BOD awareness of risks and opportunities, approval of major decisions, revision of CSR disclosures) and next-level opportunities (management systems, stakeholder input, CEO and BOD recruitment, operational initiatives, rewards and governance practices).
3. Several suggestions of questions that could be raised with senior management and BODs.
4. Examples of good practices from Canadian companies (e.g., Cameco, Gildan, Loblaws, Potash).

14.3.3 Professional Organizations and NGOs

Some guidelines focus on taking specific sustainability issues into account or on the role of certain professions within BODs. This is particularly the case of the framework developed by the Chartered Professional Accountants of Canada (CPA Canada) which examines the way in which chief financial officers (CFOs) and other financial officers can promote sustainability within BODs. This framework was developed with the help of 18 top managers, and it proposes several recommendations "to assist CFOs and finance teams in identifying the key steps to engaging the board and executive management in order to embed sustainability into regular business" (CPA, 2021, p. 5). Other guidelines are more general in nature. For instance, the Coalition for Environmentally Responsible Economies (CERES) has published several reports and guidelines with the aim of giving practical advice on how sustainability can be integrated into BODs' traditional duties (CERES, 2017; CERES, 2019). One of these guidelines is based on interviews with a dozen BOD members and on the analysis of over 600 documents from American companies (Ramani, 2015). This document provides a somewhat critical viewpoint on the lack of real consideration of sustainability within BODs and suggests a roadmap for creating effective board sustainability oversight systems and stronger sustainability performance improvements within organizations. These recommendations focus on the following points, which are illustrated by insightful examples (Ramani, 2015, pp. 4–5):

- Rather than considering "sustainability" too broadly, focus on company-specific material issues that significantly impact operations and revenues.
- Embed sustainability in committee charters, and in discussions on strategy, risks and incentives.
- Recruit diverse candidates with expertise and backgrounds on key sustainability issues and offer sustainability training.
- Involve key staff responsible for enterprise profit and loss in board deliberations on sustainability.
- Avoid over-emphasis on short-term returns by embedding sustainability and longer-term thinking in strategic planning.
- Integrate sustainability in risk oversight.
- Establish stronger linkages between executive compensation and sustainability goals.
- Disclose the role of the board in prioritizing sustainability.

14.3.4 Large Audit and Consulting Firms

Tools offered by these actors are frequently succinct, and their primary objective seems to be to display consultants' expertise to provide support to organizations that wish to benefit from the consultants' recognized external expertise in the area. For instance, Deloitte set up a Global Center for Corporate Governance (GCCG) that is intended to provide guidance on efficient governance to BODs. This centre also offers various services in terms of risk assessment, audit and assurance. The document developed by the GCCG (Deloitte, 2018) provides an overview of the main risks and opportunities regarding sustainability and identifies questions that should be tackled by BODs to effectively overcome various issues. These questions are similar to the ones proposed in other guidelines.

14.3.5 Researchers and Training Centres for BODs

Although academic research on BODs and sustainability is often very specific and covers only a limited part of sustainability issues, some researchers have developed and formalized practical recommendations to promote knowledge transfer to top managers. These recommendations can usually be found in articles published in peer-reviewed practitioners' journals. This is particularly the case of Eccles *et al.* (2020) on the role of BOD in achieving sustainability. This article highlights BOD members' lack of understanding regarding sustainability issues and offers five recommendations grouped under the acronym SCORE: Simplify (by defining clear organizational objectives), Connect (by taking sustainability into account in strategic decisions), Own (by establishing appropriate structure and control systems), Reward (by considering sustainability in top managers' remuneration), and Exemplify (by ensuring the clarity of reporting within organizations). Some educational institutions, such as the *Collège des administrateurs de sociétés*, rely heavily on contributions from scholars and provide useful guidelines and videos on BODs' role in sustainability (Boiral, 2021a; Boiral, 2021b).

14.4 INTEGRATING SUSTAINABILITY INTO BODs' ROLES AND RESPONSIBILITIES

The numerous guidelines mentioned above illustrate the importance, for organizations, of integrating sustainability into the activities of BODs. They also reflect that board members frequently lack understanding of external expectations in terms of corporate sustainability and the crucial role they are called upon to play in this regard. This gap in BODs' understanding stems, in part, from the fact that it remains challenging to make a clear link between traditional BODs' roles and responsibilities and modern sustainability issues. The vast majority of analyzed guidelines are limited to general recommendations that are not tightly connected to basic functions of BODs. As a result, the integration of sustainability tends to appear as a subordinate issue or is simply added as an additional activity of BODs, whereas it should be substantially integrated into traditional activities. This lack of sustainability integration also partially explains the merely symbolic role played by most governance structures (e.g., through committees that report to BODs) that aim to create better accountability with regard to sustainability issues (Rettino-Parazelli, 2013; Rodrigue *et al.*, 2013). It is therefore important to review the various roles and responsibilities of BODs and to analyze, for each of them separately, what best practices can lead to the better integration of sustainability. These roles essentially revolve around four main issues:

1. Creating value and reducing risks
2. Supporting strategic orientations and best practices
3. Adopting effective governance mechanisms
4. Monitoring results and their disclosure.

14.4.1 Creating Value, Reducing Risks, and Ensuring Organizational Sustainability

The main traditional role of BOD members is to look after the interests of shareholders while, at the same time, taking into account other stakeholders' needs and demands. In this perspective, BODs must ensure long-term organizational sustainability, analyze and reduce risks, and create value for shareholders and for society in general. The effective integration of sustainability issues into this traditional role essentially depends on four key recommendations:

1. **Capitalize on the strengths of the organization and its specific issues.** One of the principal challenges for BODs is the diversity of sustainability issues and the difficulty of properly connecting them to the core organizational activities (CPA, 2021; Ramani, 2015). As a result, many measures adopted by organizations frequently aim at improving their image without making any fundamental changes in day-to-day practices. Yet, sustainability commitments that focus on an organization's critical and specific issues have a higher propensity to lead to better profitability than those that are limited to superficial initiatives (Kiron *et al.*, 2017). The larger issues often concern the organization's mission and main activities, which makes it possible to make sustainability a lever for improving the efficiency of practices. As well, many empirical studies highlight the multitude of win-win relationships between green initiatives and economic performance (see Ambec & Lanoie, 2008, for a systematic review on the link between sustainability-related organizational activities and economic indicators). Moreover, integrating sustainability initiatives into BODs' decision-making processes will further reinforce the importance of these topics

for the organizations. Also, many organizations implement innovative practices related to sustainability without necessarily linking them properly to the organization's core business. That said, the involvement of the BOD is essential for the successful implementation of such practices because its members should be able to make clear and tangible links between these innovations and the organization's mission. In other words, a BOD's active engagement in creating and implementing sustainability practices allows an organization to capitalize on its strengths, consolidate its crucial skills and improve its competitiveness.

2. **Be aware of various sustainability trends and their possible impact on the organization.** Climate change, sustainable transportation, systemic discrimination, the promotion of local purchases, and sustainable food are all examples of themes associated with sustainability. BODs frequently overlook both the risks and the opportunities associated with these themes. Instead of tackling various issues in advance, they tend to focus on avoiding or minimizing the short-term costs that arise from implementing certain initiatives. In fact, crises in this area are often the result of broader social pressures that highlight organizational shortcomings or lack of anticipation in relation to very sensitive issues. For example, this was the case, in 2020, of the Black Lives Matter movement which led many organizations (Facebook, Adidas, Starbucks, and so on) to issue a kind of *mea culpa* or to take positions that have since been heavily criticized (Hsu, 2020).
3. **Take large-scale priorities into account.** BODs should be on the lookout for larger-scale issues and not limit themselves to the boundaries of their organization. The issues to be prioritized must therefore not only take into account the organization's current situation and its stakeholders' perceptions, but also long-term trends and issues considered as critical at the regional, national and even international levels. To better address these issues, an increasing number of organizations are defining their priorities in accordance with the UN Sustainable Development Goals (SDGs) (United Nations, 2022), which highlight multiple themes that are frequently neglected by BODs (health and well-being, gender equality, biodiversity, reducing inequalities, sustainable cities, and communities, and so on). Certain international initiatives, such as the UN Global Compact Board Programme, are aiming to promote the better integration of the SDGs by BODs (United Nations Global Compact, 2022).
4. **Do not neglect social and health issues.** Organizations often reduce sustainability commitments to exclusively environmental issues. This restrictive vision tends to obscure issues that are sometimes more essential or urgent. For instance, the COVID-19 pandemic has shown, among other things, that most economic and political decision-makers were unprepared for a serious health crisis. It also highlighted a very close interdependence between environmental and social issues. In fact, pollution is one of the main causes of death in the world (well above smoking, wars, or malnutrition), and it constitutes a significant aggravating factor for people affected by COVID-19 (Corniou, 2020; Lelieveld *et al.*, 2020). Taking this type of issue into account at the highest level is therefore essential to preventing the potential criticism and pressure that are frequently directed at organizations with BODs that are relatively unsensitized towards sustainability issues.

14.4.2 Supporting Strategic Orientations and Best Practices

The role of the BOD is not to substitute for general management by initiating policies and strategic orientations. However, BODs play a key role in reviewing and approving the organization's strategic documents (policies, master plans, and so on). In this sense, taking sustainability into account depends mainly on two success factors:

1. **Integrate sustainability issues into strategies and policies.** Sustainability commitments should not be an appendix to the strategic plan but should rather constitute an integral part of it. Only this way can organizations achieve long-term prosperous organizational development and increased competitiveness (CBSR, 2010; Ramani, 2015). Specifically, sustainability-centred strategies and policies should promote the implementation of plans and resources needed to effectively address various environmental and social challenges. Developing an encompassing sustainability policy can also be a pertinent tool for structuring organizational goals in this area, as well as for defining a framework for setting up more specific objectives and indicators. Many BODs never discuss these key elements during their meetings and often approve them rather rapidly without understanding the underlying strategic issues.
2. **Identify sustainability leaders and take inspiration from existing best practices.** BOD members should identify employees who can act as sustainability leaders for effecting changes within their departments. Previously identified best practices might then be communicated to these employees, which will likely increase the efficiency of their leadership for sustainability. Furthermore, it is important to understand the organization's positioning in terms of sustainability efforts in comparison with other organizations. These benchmarking activities should help managers to identify pertinent sustainability-related efforts and further support best practices (Ramani, 2015). In fact, forward-thinking organizations in the area of sustainability generally communicate their activities to their stakeholders, and some of their practices might be replicated if considered pertinent. The importance of a benchmarking approach is also justified by the possibility of identifying overlooked environment, social or governance issues in the context of sustainability. In the same line of thinking, various reputable standards (e.g., ISO 14001, ISO 26000, SD 21000, GRI) can also serve as tools for tackling various issues.

14.4.3 Adopting Effective Governance Mechanisms

Effective governance practices within BODs are generally related to their composition, as well as to internal mechanisms that structure their relations with senior management. These best practices are at the centre of most guidelines that discuss the integration of sustainability issues by BOD members and can be summarized in four points:

1. **Encourage the diversity of profiles and skills within BODs.** Both the academic literature and practical guidelines generally consider the diversity of BOD members, including the presence of women, as one of the key elements of success (e.g., Cucari *et al.*, 2018; Galbreath, 2011; Post *et al.*, 2011; PWC, 2020; Valls Martinez *et al.*, 2019). In addition, various stakeholders are increasingly scrutinizing the presence of visible minorities and the representativeness of BOD members in relation to society's diversity (Brandenburg *et al.*, 2021; Dass & Parker, 1999; McCuiston *et al.*, 2004; Ramani, 2015). The choice of BOD members must also take into account the necessary skills for integrating sustainability issues (Eccles *et al.*, 2020; Ramani, 2015). While not all BOD members are necessarily familiar with these issues, it is essential to have at least one sustainability-aware represent-

ative who would be capable of analyzing issues pertaining to sustainability and promote them during regular board meetings (CPA, 2021; Ramani, 2015).

2. **Take sustainability into account in the selection of key executives and in determining their compensation.** It is practically impossible to ensure that sustainability is substantially integrated into organizational operations without the support of senior management (Ramani, 2015). Although directors and board members claim to be increasingly aware of various sustainability issues, internal practices do not always reflect the official discourse which, quite frequently, functions as greenwashing (CPA, 2021; Ramani, 2015). Incorporating criteria related to sustainability for the selection of managers (and directors) could help in the prevention of this pitfall, as it sends a strong signal to internal and external stakeholders (CBSR, 2010; CPA, 2021; Ramani, 2015; UNGC, 2016).
3. **Consult various stakeholders on the issues that should be prioritized.** Creating and continuously updating a materiality matrix can help BOD members in their decision-making process. More specifically, such matrices aim to identify the most important issues according to two complementary axes: the managers' and stakeholders' points of view. However, these matrices frequently overlook the importance of consulting two actors: employees and sustainability experts. While employees can often provide a relevant internal point of view on various issues, sustainability experts can help to take a step back on problematic points and bring in a critical point of view.
4. **Include sustainability-related topics on board meeting agendas.** Training sessions with BOD members have revealed that the absence of sustainability-related topics in BOD meetings is one of the main reasons for the superficial integration of sustainability within organizations. Considering their strategic importance, these topics should appear on the agenda at least once a year and should be reflected in the meeting minutes. Not only does it contribute to the integration of sustainability topics into senior management's discussions, but this practice also helps to preserve the due diligence of the BOD members. In the province of Quebec, for instance, directors can be held accountable for environmental offenses and even prosecuted, unless they can demonstrate that they have taken the necessary precautions to prevent possible crises. In this sense, discussing sustainability topics during board meetings and taking minutes can decrease the risk of such legal actions against directors. Additionally, the creation of a committee reporting to the BOD and responsible for examining sustainability issues could facilitate the consideration of these topics by top managers who frequently have busy schedules and lack insight (CBSR, 2010; UNGC, 2016). However, such a committee could also have the opposite effect if sustainability issues are included in the BOD's agenda only superficially or sporadically.

14.4.4 Monitoring Results and their Disclosure

BOD members are also responsible for monitoring general organizational performance, as well as ensuring that the information disclosed about their results is of high quality. Sustainability issues should be an integral part of this monitoring process, in particular through the following three interconnected measures:

1. **Ensure that sustainability indicators are measurable, comparable, and clear.** To ensure the efficient achievement of goals, BOD members should guarantee that sustainability objectives are measurable, comparable and clear. Unfortunately, many organizations

still do not have such objectives and indicators in place to track their results. However, they are essential for engaging in a process of continuous improvement. Contrary to popular belief, the measurability and comparability of sustainability performance between different organizations is quite challenging (Boiral & Henri, 2017). Rather than focusing on a multitude of imprecise indicators that are difficult to measure or poorly suited to the organization's activities, BOD members would benefit from identifying a limited number of indicators that reflect strategic sustainability issues and that may be used to evaluate the organization's performance and that of its leaders (e.g., to determine remuneration).
2. **Define mobilizing objectives.** To effectively monitor performance, sustainability indicators must be associated with clearly defined objectives with precise deadlines (CPA, 2021). Setting mobilizing objectives that are well aligned with major social concerns (carbon neutrality commitments, equity targets, and so on) also helps to encourage employee involvement. A growing number of employees attach a paramount of importance to their employer's sustainability commitments. In the context of economic uncertainty and the ongoing COVID-19 pandemic, where many employees are demotivated, worried, and experiencing personal crises, sustainability initiatives can represent a source of motivation and even work as a retention mechanism, particularly among the younger generation. However, organizations will likely observe these benefits only if their sustainability commitments are actually consistent with internal practices, supported by managers, and communicated effectively.
3. **Communicate transparent, credible, and relevant information.** Many organizations have been criticized for their lack of coherence and their obfuscation of facts in sustainability reports (e.g., Boiral, 2013; Macellari *et al.*, 2021). While greenwashing may appear as a somewhat easy response to external pressures on sustainability issues, it certainly reinforces skepticism from external stakeholders and demotivates internal stakeholders (notably employees). The consistency, quality and balance of disclosed information are all essential factors that must be considered when communicating information on goal achievement to employees and other stakeholders. Taking into account these factors will ensure a credible and engaging image that reinforces the recognition of the company as being truly committed to sustainability.

14.5 CONCLUSION

BODs play a crucial role in promoting sustainability within organizations. The success of various initiatives in this area depends, to a large extent, on the support of senior management, the integration of sustainability issues within the strategy, the proper monitoring of performance indicators, employee engagement, and the resources invested in achieving these objectives (Boiral, 2011; Boiral *et al.*, 2018; Eccles *et al.*, 2014; Ferrón-Vílchez, 2016). Due to the strategic and decision-making position of BODs, their members can, therefore, act as either catalysts or obstacles to the substantial integration of sustainability within organizations (CPA, 2021; Eccles *et al.*, 2020; Ramani, 2015). In addition to this strategic role, through their behaviour and personal awareness of sustainability issues, BOD members can also influence the individual behaviours of employees, who tend to replicate and follow actions that they observe from managers (Boiral *et al.*, 2014, 2015; Gröschl *et al.*, 2019; Joseph *et al.*, 2019). Surprisingly, the academic literature has overlooked the important contribution of BODs to corporate sustainability and is essentially limited to examining governance issues, in particular the composition of BODs. The "grey" literature on the subject is, in this sense, much broader and offers numerous guidelines from which BODs can take inspiration. Nevertheless, the majority of existing guidelines are also centred around governance issues or limited to an instrumental vision, which tends to neglect the other roles played by BODs. Although the importance of good governance practices is not to be underestimated, their implementation in the day-to-day functioning of BODs remains understudied. One of the rare studies on this question (Rodrigue *et al.*, 2013) emphasizes the predominance of symbolic, rather than substantial, governance mechanisms for sustainability. Moreover, initiatives in this area are often limited to risk management and aim to reassure BOD members and stakeholders rather than actually improving sustainability performance. In this sense, it is unlikely that the use of existing guidelines by BODs could significantly change this tendency toward superficiality. Indeed, the efficiency of management systems for sustainability heavily depends on the way they are adopted by organizations and on the leadership demonstrated by managers in daily organizational activities, rather than on the set of measures that stakeholders deem legitimate (Boiral, 2011; Boiral and Henri, 2012; Ferrón-Vílchez, 2016; Joseph *et al.*, 2019). This top-down leadership can vary greatly depending on the knowledge, skills and capacities of BOD members, as well as on the management team's attitude towards sustainability. Generally speaking, integrating sustainability considerations should not be reduced to formal governance issues, but should rather be integrated into various facets of the BOD's activities. BOD members should be increasingly interested by the growing expectations of various stakeholders in relation to corporate sustainability and ensure that the organization is able to respond proactively to them. By doing so, organizations are more likely to have a long-term vision instead of focusing exclusively on short-term results and economic issues.

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PART III

SOCIAL RESPONSIBILITY

15. Corporate philanthropy: Antecedents, consequences, and implications for corporate governance

Steve Sauerwald and Weichieh Su

15.1 INTRODUCTION

Corporate philanthropy continues to be an important global phenomenon given the increasing emphasis on corporate citizenship and stakeholder capitalism (Serafeim, 2022). After many corporations stepped up their corporate philanthropy efforts during the COVID-19 pandemic, more than 90 percent of U.S. corporations plan to maintain or even heighten philanthropic contributions in the years to come to support causes such as racial inequality and climate change (The Conference Board, 2022). Corporate philanthropy is often seen as an important dimension of corporate social responsibility (CSR) and includes gifts provided by corporations to social and charitable causes (Godfrey, 2005), which may include contributions to causes such as education, culture, the arts, health care, and disaster relief (Ballesteros, Useem, & Wry, 2017; Wang & Qian, 2011).

Corporations often engage in philanthropic giving for strategic reasons to build and protect their competitive advantages and improve firm financial performance (Porter & Kramer, 2002). Traditionally, philanthropy has been seen as a form of public relations or advertising activity, intended to highlight the cause-related accomplishments of the company. Recently, along with corporate political activities, corporate philanthropy has been considered a form of nonmarket strategy that helps firms manage their socio-political environments (Mellahi, Frynas, Sun, & Siegel, 2016; Su & Tsang, 2015). Research has suggested that engaging in philanthropy may elicit positive stakeholder responses and build a favorable social image (Brammer & Millington, 2005; Wang & Qian, 2011), which improves financial performance in the long term (Seo, Luo, & Kaul, 2021).

The drivers of corporate philanthropic giving have also received significant attention from many different angles. Much of the literature on the antecedents of corporate philanthropy starts with the counterintuitive nature of corporate giving: why would a for-profit company give to a variety of social causes? Research provides a range of answers. Institutional theory scholarship suggests that firms engage in philanthropy because of different pressures, either internal normative motivation or external social pressures from peer firms or expectations of the community (Campbell, 2007). Other research, for instance, suggests that companies may engage in philanthropy to further the image of individuals or teams within the organization, often top executives of the firm (Brown, Helland, & Smith, 2006; Galaskiewicz, 1997). Companies may also engage in philanthropy because companies observe the giving behavior of peers and implement similar giving practices in their home organizations (Galaskiewicz & Burt, 1991).

While previous research has furthered our understanding of corporate philanthropical giving, recent research has suggested a more complex relationship between philanthropy and corporate outcomes. For instance, philanthropy may not always lead to positive firm outcomes such as enhanced social legitimacy or improved financial performance (Godfrey, Merrill, & Hansen, 2009). Drawing on resource dependency and agency theory, Wang, Choi, and Li (2008) found an inverted-U shape association between corporate giving and corporate financial performance. That is, firms may secure resources from stakeholders by showing goodwill. But too much spending on non-core business activities may be perceived as a waste of corporate resources. Cuypers, Koh, and Wang (2016) found that—in addition to perceptions of wasteful spending—perceptions of the sincerity of corporate giving are important determinants of firm value. Some corporate giving may be perceived skeptically under certain conditions such as a history of wrongdoing or unethical behavior (Shu & Wong, 2018). Recent research also suggested that contingency conditions such as effective corporate governance plays an important role in the actual and perceived effectiveness of corporate philanthropy (Brown et al., 2006; Su & Sauerwald, 2018). Recent studies have also found that the antecedents of philanthropic giving are more complex. For instance, the political embeddedness of the corporation may be an important antecedent for corporate giving (Zhang, Marquis, & Qiao, 2016).

Taking account of the new developments and recent research in corporate philanthropy literature, we are presenting recent research examining the consequences and antecedents of corporate philanthropy in this review chapter. We will end with a discussion of the takeaways for boards of directors, management, and shareholders.

15.2 ANTECEDENTS OF CORPORATE PHILANTHROPY

The antecedents of corporate philanthropy have received substantial attention in the past. Philanthropic spending by corporations has a long history of being studied through the lens of personal motives for prestige and social influence in the corporate elite. This line of reasoning has a long history, grounding corporate philanthropy as an illegitimate business practice that benefits a few individuals at the expense of shareholders (Friedman, 1970). This traditional view is grounded in a shareholder primacy view of corporations that has little support in practice today (Harrison, Phillips, & Freeman, 2019). Today corporate philanthropy is a widely established practice and legitimate practice. In fact, corporate philanthropy is demanded by a firm's stakeholders (Wang & Qian, 2011). Not engaging in corporate philanthropy would be widely considered an illegitimate business practice today. We will next discuss recent antecedents of corporate philanthropy, divided into firm internal and firm external antecedents.

15.2.1 Internal Antecedents

Corporate philanthropy is frequently grounded in the individual characteristics of executives operating in a corporate setting. Previous research frequently attributed corporate executives' engagement in philanthropy to their narrow personal interests to obtain social perks in the corporate elite (Brown et al., 2006). More recent research suggests that the personal motives for philanthropic giving may be more complex. For instance, research suggests that feeling responsible for negative firm actions may increase corporate philanthropy. As a case in point, Ji and colleagues (2021) show that negatively perceived firm actions—such as employee layoffs—may elicit more philanthropic spending through feelings of guilt. Hence, executive motives play an important role, but restricting these motives to narrow self-serving objectives is insufficient.

Another important antecedent of corporate philanthropy can be found in the characteristics of directors on the board and senior management in the firm. Marquis and Lee (2013) show that governance and demographic characteristics of top managers and directors influence corporate giving. For instance, short-tenured CEOs will provide more resources to philanthropic causes because they are highly attuned to their external environment. More female senior managers are also more likely to give to increase corporate giving because of distinct gender roles in organizations. They also find that directors' social embeddedness in the corporate interlock network exerts important peer effects that increase giving. Yet, Marquis and Lee (2013) also show that the influence of top leaders on corporate philanthropy is reduced when a corporate foundation is responsible for the formal organizational giving program, illustrating the importance of organizational structure on corporate philanthropy. Muller and colleagues (2014) extend the model of executive decision-making regarding philanthropic investments from a model of rational decision-making to one that incorporates emotional elements such as individual and collective empathy.

Corporate leaders can also introduce corporate philanthropic practices through their experiences with philanthropy in foreign countries. For instance, directors who have been exposed to CSR practices abroad—including corporate donations as an important form of philanthropy—may be able to implement this practice in a context in which corporate philanthropy is not common. Luo and colleagues (2021) examine the effect of directors on Chinese boards who have studied or worked outside of China. They find that exposure to CSR ideas—which are ideas that are relatively new to the sample of Chinese firms studied—leads these companies to adopt more philanthropic activities.

While the characteristics and motives of directors and other strategic leaders are important, companies' own actions may also be an important cause for engaging in corporate philanthropy. Specifically, company actions that constitute threats to the legitimacy of firms are an important antecedent of philanthropic spending. To combat these legitimacy threats, firms may strategically establish links to philanthropic foundations. This may be the case when companies are caught in financial misconduct—such as certain kinds of financial restatements that damage the company's reputation, violate ethical norms, and tarnish corporate legitimacy (Lungeanu, Paruchuri, & Tsai, 2018). Social ties to philanthropic foundations help the offending firm restore legitimacy by establishing ties to highly moral organizations that may bestow legitimacy on the firm creating the tie.

15.2.2 External Antecedents

Other research on the antecedents of corporate philanthropy focuses on broader external antecedents. Some of these external factors play an oversight or governance role by unearthing discrepancies and shortcomings of firms in the area of corporate philanthropy. The media plays an important role in this respect. For instance, research has shown positive media coverage of the firm's corporate giving activities leads to higher actual corporate philanthropic investments, and that this effect is stronger if the firm is performing strongly financially (Jeong & Kim, 2019). This finding suggests that media coverage of philanthropy can start a virtuous cycle.

Social activists are another important external influence that addresses corporate philanthropic concerns. Specifically, activism campaigns can exert pressure on firms to engage in corporate philanthropy. For instance, Luo and colleagues (2016) show that internet activism can have a profound impact on a company's philanthropic investment following catastrophic events such as earthquakes. They show that public internet rankings that evaluate companies in terms of donations and online articles on donations can exert strong social peer pressure for companies to provide disaster relief quickly and proactively in the affected disaster areas. Furthermore, social activists play an important role in emerging markets where institutions and norms for CSR are frequently underdeveloped. Zhang and Luo (2013) develop a social movement perspective of multinational corporations' responsiveness to social issues in emerging markets. They found that online activists force managers to make firms more socially responsive in the host country. They also find that several factors that make corporations more vulnerable and create a political opportunity structure that amplifies this effect.

Broader institutional forces also influence the patterns of corporate giving across national boundaries since they set the 'rules of the game' for appropriate and legitimate corporate philanthropic spending in a given country (Peng, Sun, Pinkham, & Chen, 2009). For instance, multinational corporations may allocate more philanthropic resources to some countries. Hornstein and Zhao (2018), for instance, find that multinationals invest more corporate philanthropic resources in countries with weak institutional environments. The reason behind allocating more philanthropic resources to these weak institutional environments is a greater need to acquire a social license to operate in such countries. This finding suggests that corporate philanthropy can be a form of corporate diplomacy in which companies make it a priority to build strong stakeholder relationships in countries where these relationships ensure the most value for the focal firm (Henisz, 2014).

Lastly, the political environment also has a distinct effect on companies' philanthropic activities. Zhang and colleagues (2016) examine political connections. They find interesting evidence that the embeddedness of political connections into the political system buffers the firm from demand for philanthropy (if the political connection had only government experience) yet increases the demands for philanthropy (if the political connection was an important member of a political party). In addition, Zheng and colleagues (2019) show that non-profit organizations (i.e., charities) can play an important boundary-spanning role between governments and for-profit firms. They show that the political connections of such charities determine their success to raise charitable funds from corporate donors. Overall, the political system is an important element of the external environment that companies should purposefully manage, observe, and incorporate into their corporate philanthropic investment strategies.

15.3 CONSEQUENCES OF CORPORATE PHILANTHROPY

A wide range of studies have examined the consequences of corporate philanthropy on various outcomes. Yet, the most prominent outcomes researched by far are firm-level outcomes measuring firm profitability or financial performance (Gautier & Pache, 2015). This has been driven by the desire to build a business case for philanthropic giving for for-profit firms (Porter & Kramer, 2002). Yet, the specific relationship between philanthropy on the one hand and various measures of financial performance on the other has proven more difficult to establish. For instance, Wang et al. (2008), in an important paper, show that philanthropy has an inverted U-shaped relationship with financial performance, suggesting that at very high levels of philanthropy agency concerns may outweigh the strategic uses of philanthropy. In addition, Wang and Qian (2011) show that the financial effects of corporate philanthropy are crucially dependent on contingency conditions such as firm visibility and political connections. While the complicated connections of philanthropy to financial outcomes have proven a persistent challenge, recent studies tackle a broader view of the effects of corporate philanthropy on various additional outcomes such as media approval (Vergne, Wernicke, & Brenner, 2018).

Some studies have taken a broad view that help society at large, especially in the area of disaster relief. This research examines how corporate philanthropy influences societies at large, often because corporations become more influential in societies worldwide while the relative capacity of governments to meet social needs has not kept up. For instance, financial aid provided by private firms has been argued and found to help nations recover faster from natural disasters than financial aid provided by traditional aid providers such as governments and aid agencies (Ballesteros et al., 2017). This finding suggests that private businesses can be an important factor in addressing grand challenges such as the negative effects of climate change.

Research on the consequences of corporate philanthropic giving on firm financial outcomes has generated new and interesting insights. For instance, firms that engage in more innovative giving and giving that is perceived as more sincere by external stakeholders are better able to improve firm financial performance (Cuypers et al., 2016). Philanthropy may also be used to attract the attention and help of government officials, which may address organizational problems and improve firm performance in return. For instance, research on a sample of privately-owned Chinese companies has shown that these firms can use philanthropic spending as a favor to local politicians to access financial resources to exploit growth opportunities (Jia, Xiang, & Zhang, 2019).

Seo and colleagues (2021) find that the specific giving strategy also matters for firm performance. While a company's giving strategy may be focused (or specialized) or broad (or generalist), the authors find that spreading philanthropic donations across a wider array of different causes benefits companies more financially. These interesting results present a strong case that stakeholders primarily care about a firm giving to philanthropic causes in the first place rather than engaging in the complicated task of evaluating the specific consequences of giving. Zhang and colleagues (2020) add an optimal distinctiveness perspective to these giving strategy findings. They show that conformity in corporate giving induces more analyst coverage. In addition, more differentiation in giving activities leads to more favorable analyst recommendations along with higher market values.

Corporate philanthropic spending may also present insurance-like benefits to companies. Luo and colleagues (2018) show that investments in corporate philanthropy led to more positive stock market reactions when companies experienced a reputation-threatening event, such as an oil spill. At the same time, however, the authors find that the reputation-insurance benefits of philanthropic investments increase the amount of oil spilled. This finding illustrates a potentially negative effect of the insurance benefits conveyed through philanthropic spending.

Corporate giving also plays an important role in younger firms. For instance, young entrepreneurial firms may use philanthropic giving to improve their performance shortly after their IPO when the firm is facing negative media stories (Jia & Zhang, 2014). The same study also shows that corporate philanthropy plays an important role in the pre-IPO stage by influencing the type of IPO underwriter an entrepreneurial firm works with. Lastly, corporate philanthropy also influences market-valuation premiums (Jia & Zhang, 2014).

Corporate philanthropy may also affect how companies act and operate through other means than financial resources donated or given by corporations. For instance, Krause and colleagues (2019) examine the influence of non-profit directors sitting on the board of directors of for-profit companies. They take the established governance view that directors are conduits through which information and influence travel in the corporate elite (Davis, 1991) and find that non-profit directors who experience pressure to minimize overheads in their organization will reduce investments in for-profit companies.

Corporate philanthropic activities may also influence how executives handle international market entry decisions. Pek and colleagues (2018) show that industrial disasters reduce the likelihood of foreign market entries by large multinational corporations. Yet, this effect is reduced by the multinational's philanthropic capability—as measured by its corporate foundations' donations—because philanthropic capabilities enable the firm to fend off reputation-damaging stakeholder critiques for industrial accidents.

The effects of corporate philanthropic spending seems also to depend on past actions of the corporation. Specifically, emerging evidence suggests that stakeholders, including shareholders, consider *past* actions of corporations when evaluating *current* corporate philanthropic donations. For instance, Shu and Wong (2018) show that firms that engaged in securities fraud negatively affect the way shareholders view philanthropic donations. This is because securities fraud is a reputation-damaging action in the eyes of institutional investors, signaling ethical violations committed by the firm. Shareholders will consider such violations when they evaluate reputation-improving actions, such as philanthropic giving, and discount such giving for doubts about the goals and character of the giving firm. Similarly, Wang and colleagues (2021) show that corporations are potentially aware of these issues and engage in strategic silence when they mistreat primary stakeholders. They find that companies may not disclose philanthropic giving to secondary stakeholders (such as communities) when they treated primary stakeholders (such as investors and employees) poorly, presumable to avoid backlash from stakeholders.

Corporate philanthropy can also affect media disapproval. Vergne and colleagues (2018) show that overcompensated CEOs lead to more disapproval in media coverage. Firms understandably may want to reduce this disapproval by engaging in corporate philanthropy. The authors find, however, that signal incongruency between CEO overcompensation (i.e., a signal of greed and selfishness) and philanthropic giving (i.e., a signal of doing good) leads to more (not less) media disapproval. As a silver lining, they also find that firms that are engaged in philanthropy and receive media criticism reduce CEO overcompensation to avoid future perceptions of cynical or opportunistic behaviors. In addition, firms may create ties to moral organizations (such as foundation boards) to secure firm legitimacy following financial misconduct, but research by Lungeanu and colleagues (2018) has found that companies that spend substantial resources on corporate philanthropy have a more difficult time establishing these ties. This is problematic since ties to foundation boards lead to more positive media coverage of restatement firms. This finding suggests that companies should carefully coordinate philanthropic activities since substitution effects between ties to moral foundation boards and corporate philanthropic investments may have unexpected substitution effects.

Figure 15.1 provides a synthesis of the antecedents and outcomes from corporate philanthropy as well as their interface with corporate governance.

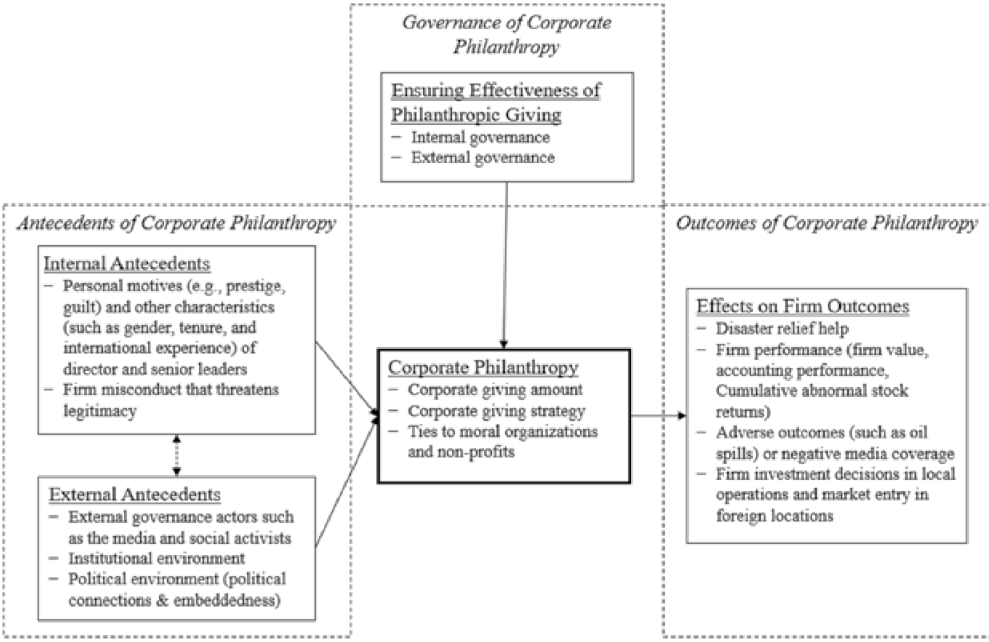

Figure 15.1 Overview of antecedents and consequences of corporate philosophy

15.4 GOVERNANCE OF CORPORATE PHILANTHROPY

Research in the corporate governance area suggests that discretionary investments by companies must be carefully monitored and controlled by internal and external governance mechanisms (Aguilera, Desender, Bednar, & Lee, 2015).

For internal governance mechanisms, the board of directors and incentive compensation play a crucial role in ensuring that philanthropic resources are invested effectively. Su and Sauerwald (2018) show that CEO long-term pay and distracted outside directors affect the effective spending of corporate philanthropic resources. Specifically, they find that CEOs who have more stock options and restricted stock holdings spend corporate philanthropic resources with closer attention to creating long-term shareholder value. In addition, they show that outside directors who are distracted with three or more directorships at other large corporations are less effective monitors of the effective investment of corporate giving resources. Better governance, overall, will lead to better firm financial performance.

For external conditions, various secondary stakeholders (i.e., stakeholders that do not make firm-specific investments) play a crucial role in ensuring that corporate giving resources are effective. For instance, the financial performance outcomes of corporate philanthropy are dependent on how companies navigate the socio-political environment. Su and Tsang (2015) show that the performance effects of corporate diversification are crucially dependent on the support of secondary stakeholders (i.e., stakeholders that are indirectly involved in a firm's operations and actions). Firms that elicit a higher level of support from secondary stakeholders such as NGOs—induced by corporate donations—are better able to deal with the socio-political challenges in different product markets and perform better financially than firms that do not support secondary stakeholders.

Another important external governance mechanism that has been extensively researched is the media (Bednar, 2012). The media is often conceptualized as a watchdog capable of uncovering corporate wrongdoing (Dyck, Volchkova, & Zingales, 2008). The media, as an important secondary stakeholder, also plays an important role in the governance of philanthropic investments. Vergne and colleagues (2018), for instance, find that firms that send mixed signals in the form of CEO overcompensation and high philanthropic spending are found out by the media as these signals may be evaluated as insincere and inconsistent. These authors also find that firms reduce CEO overcompensation to avoid negative media coverage in the future. This is an interesting finding as it suggests that companies must carefully examine the contextual conditions under which they engage in corporate philanthropy as philanthropy may otherwise fire back.

15.5 KEY TAKEAWAYS AND IMPLICATIONS FOR PRACTICE

In the following, we present key takeaways for boards of directors, management, and shareholders.

15.5.1 Implications for Directors

The board of directors is primarily responsible for monitoring managerial actions and overseeing the investment of corporate resources. Directors have a strong influence on corporate philanthropy, either directly by determining the corporation's philanthropic resource allocations (Marquis & Lee, 2013) or by ensuring that management spends corporate giving resources in a financially responsible manner (Brown et al., 2006; Su & Sauerwald, 2018). Corporate philanthropy is therefore an important consideration for boards since corporate executives gain substantial social rewards by donating resources to social causes (Isherwood, 2007), creating the potential for agency costs to weigh down financial results (Friedman, 1970; Wang et al., 2008). Boards should not only be motivated to monitor potential excesses in the corporate philanthropy area but also experienced with spending philanthropic resources (Luo et al., 2021). If internal governance mechanisms fail to effectively monitor corporate social performance, external governance mechanisms—such as hedge fund activism—may proactively intervene. For instance, DesJardine and colleagues (2021) found that hedge fund activists are likely to target firms with excessive social performance. Future research may examine the effects of director expertise in the area of CSR and philanthropy on the focal firm's effective corporate giving programs. This research would speak to the 'service' function of directors in which directors provide expert advice on the effective use of philanthropic resources, which has received recent attention in board governance research (Krause, Semadeni, & Cannella, 2013). In addition, recent studies show that firms may manipulate corporate philanthropy in their favor (i.e., to repair firm reputation). For example, Lungeanu and colleagues (2018) found that in the aftermath of misconduct—such as financial restatements—firms are more likely to join the board of directors of nonprofit organizations to regain social approval. Their study resonates with a stream of studies on board interlocks in nonprofit organizations (i.e., nonprofit interlocks). For example, Krause et al. (2019) found that there is a negative association between nonprofit interlocks and corporate R&D intensity and advertising intensity. This negative relationship also exists between nonprofit interlocks and firm financial performance. In sum, further studies should pay attention to the effectiveness of boards and board interlocks.

15.5.2 Implications for Managers

The recent literature on corporate philanthropy has shown that corporate philanthropy is a more complex strategic decision than previously thought. In particular, executives are urged to devise corporate philanthropy strategies. The strategic options in the philanthropy toolbox of executive leadership are plentiful, ranging from strategically keeping giving efforts quiet to avoid public scrutiny from primary stakeholders (Wang et al., 2021), to carefully analyzing the spending of philanthropic resources on a narrow or wide set of stakeholders and initiatives (Seo et al., 2021). For example, Su and Tsang (2015) found that firms financially benefit the most when the scope of firms engaging with philanthropy matches their product scopes. Moreover, managers should consider their history of reputation-damaging activities since external stakeholders may view their corporate giving programs skeptically under certain conditions such as a history of wrongdoing or unethical behavior (Shu & Wong, 2018). Hence, managers should carefully manage their reputation-damaging actions as part of their corporate history, which has recently been conceptualized as a key strategic activity (Suddaby & Foster, 2017).

Managers should also carefully consider the contextual conditions under which their giving is conducted. For instance, research suggests that philanthropy provides insurance-like benefits in the face of reputation-threatening events such as environmental disasters, suggesting that top management should invest in philanthropy as a risk reduction strategy. Yet, these insurance-like benefits may also embolden members of the organization to take more risks in environmentally damaging activities (such as oil spills) (Luo et al., 2018). Hence, management must be aware of the potentially adverse effects of corporate philanthropic activities on firm operations.

Lastly, managers may be well advised to broaden their strategic mindset of corporate philanthropy as a predominantly rational corporate investment. Instead, recent research suggests that corporate philanthropy should be viewed with more empathy (Cuypers et al., 2016; Muller et al., 2014). This is because key primary stakeholders, such as employees, are becoming increasingly important actors demanding corporate philanthropic investments from their leadership (Aguilera, Rupp, Williams, & Ganapathi, 2007). These stakeholders are often driven by emotional mechanisms in their philanthropic endeavors, which is important for management to understand and appreciate.

15.5.3 Implications for Shareholders

Lastly, corporate philanthropy has become increasingly important for shareholders given the increasing interest in corporate sustainability and corporate citizenship. Ioannou and Serafeim (2015) found that analysts change their perceptions of firms engaging in CSR. Specifically, analysts may not recommend companies with good social performance before 2000; however, afterward, analysts started to recommend firms with good social performance and did not recommend firms with environmental, social, and governance (ESG) concerns. Hence, the integration of ESG criteria into investment decisions is an important topic, and many large shareholders such as BlackRock make ESG a centerpiece of their investment strategy (Mackenzie & Nauman, 2021). Since firms with good ESG performance have lower stock price fluctuations and volatility (Kim, Lee, & Kang, 2021), investors are less likely to shorten such firms (Jia, Gao, & Julian, 2020).

Interestingly, ESG and philanthropy issues used to be the exclusive domain of 'socially responsible investors'—which have both social as well as financial objectives. However, in today's investment world, even investors with purely financial objectives make ESG and social impact through philanthropy a top priority (Edmans & Kacperczyk, 2022). Nevertheless, two recent studies failed to find firms financially benefitting if they are included in an index related to sustainability (Durand, Paugam, & Stolowy, 2019; Hawn, Chatterji, & Mitchell, 2018). These findings indicate that shareholders indeed carefully examine the corporate philanthropic investment programs of their investment companies to ensure that philanthropy is effectively implemented and executed in the best interests of Mainstreet and Wallstreet.

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16. Boardroom diversity: The role of the responsible leader

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16.1 INTRODUCTION

The topic of women and their relative absence or presence in corporate board rooms across the world has produced intense academic and practitioner interest over the last two decades. The issue of corporate board gender diversity has been frequently entwined with the corporate social responsibility (CSR) agenda, where the lack of female board representation has been debated as a social issue in its own right (Seierstad, 2016), as well as explored from an instrumental view whereby studies have explored whether or how having gender diversity shapes the board, and by extension the firm's CSR agenda (Bear, Rahman and Post, 2010; Cook and Glass, 2018). In this chapter we seek to review research at the intersection of board gender diversity and CSR and explore how the board diversity agenda is evolving. We start the chapter with an abridged history of the research on board gender diversity before we move on to discuss CSR and the board diversity agenda. We then turn our attention to emerging fields of diversity research, with three cautionary notes for organisations endeavouring to diversify their boards. A case study on both what motivates board diversity and how to achieve it concludes our chapter.

16.2 EVOLUTION OF BOARD DIVERSITY RESEARCH

Academic research on board diversity started with a focus on gender, when in the 1970s and 1980s very small numbers of women began to appear in the leadership of corporations (Terjesen et al., 2009). Early research considered the main characteristics of the first few women directors and their firms, leading to a focus on differences between those boards and firms with or without women. Whilst some researchers focused on identifying the barriers and enablers to board gender diversity (e.g., organisational-level structural and cultural factors, and demand-side versus supply-side), others focused on the associations between board gender diversity and firm performance; so-called input-output studies. Despite a very questionable practical logic of how adding one usually non-executive director (man or woman) to the board of a multi-million-dollar business could directly influence its bottom line, as well as academic challenges of causality and endogeneity, a substantial body of literature has developed in this area with contradictory results. Some found evidence that the presence of women enhanced performance, others that there was no relationship, or that performance declined, and that institutional regulatory context is a hugely influential factor (see Post & Byron, 2015 for major meta-analysis). These studies persist to this day despite process-based and behavioural-based studies on boards showing the importance of teamwork, communication, information processing and other cooperative facets that are not captured by input-output based models.

These early studies with their focus on the impact on firms' financial performance of women on the board helped cement the field of board gender diversity as a salient topic of research. However, the conflicting results the research produced and the view of diversity only as a means-to-an-end met with criticism from scholars from critical management studies, critical accounting and feminist economics for the dominance of shareholder primacy assumptions. With the introduction of mandatory quotas in several western European countries (Terjesen & Sealy, 2016), the conversation of women on boards took on another dimension, which also had at its core the social responsibility of business to give equal access to qualified individuals to the top corporate roles irrespective of gender (Grosvold et al., 2007). This view meant that the absence of women from boards became a social responsibility issue in and of itself. Alongside the advent of the United Nations (UN) Sustainable Development Goals (SDGs) and questions about business' role in society, together with greater understanding of the historic roles of power and privilege that sit behind low levels of demographic diversity, conversations have moved away from the focus purely on individualistic responsibility and the business case for diversity, to the more societal approaches to responsibility for social inequalities. This pivot also ushered in research seeking to understand whether the prevalence of women board directors in and of itself changed the board and the firm's approach to CSR, with studies seeking to understand whether women in a sense contributed, for example, a better stakeholder approach that enhanced CSR. This has also led to more recent research on board diversity considering institutional-level factors, including quotas and targets, corporate governance codes and diversity reporting measures (Page et al., 2023). In addition, the conceptualisation of diversity has moved beyond gender to include ethnic diversity, LGBTQ+, age and neurodiversity.

16.3 CORPORATE BOARD GENDER DIVERSITY AND CSR: GOOD FOR BUSINESS?

The two main arguments for leadership diversity have previously been presented as oppositional: *either* the 'business-case' (based on shareholder primacy, arguing that any change is only justified with proof of added economic value) *or* the social justice case (arguing for equality of opportunity, being just and fair). However, more recently leadership diversity has become subsumed into arguments for ESG (Environmental Social & Governance) considerations of sustainability, long-term value creation and the UN's SDGs. We would argue that responsible leaders make ESG considerations part of corporate purpose, not just an agenda item at board meetings, and that those who do so and focus on the embedding of corporate board diversity not only deliver on the promise of more diverse governance, but in doing so become better environmental stewards and social champions. The research bears this out. There is good evidence that having more women on boards results in the strengthening of a range of environmental CSR practices such that women are strongly associated with more sustainable investment practices (Atif et al., 2020), renewable energy consumption (Ben-Amar et al., 2017), increased CSR disclosure (Cabeza-Garcia et al., 2018) and improved CSR performance (Cook and Glass, 2018; Cordeiro et al., 2020). Firms with more gender diverse boards also do better on the social and governance dimensions of ESG, for example firms with more gender diverse boards have also been found to be involved in fewer discrimination lawsuits (Abebe & Dadanlar, 2021), face less dissent votes on CEO's say-on-pay (Alkalbani et al., 2019) and improve ESG disclosure (De Masi et al., 2021).

The role of disclosure is not only an area where the prevalence of women in and of itself can influence firm performance, but arguably the need to disclose and report on board gender diversity helped get the women onto the board in the first place. Behaviour change has been linked to reporting requirements on diversity in the United Kingdom (UK) (Sealy, 2018), which have substantially increased since first introduced in 2010, and the onset of regular spotlights on companies' achievements against this in annual public reports such as the Female FTSE Report, the Lord Davies Women on Boards Review, and the Hampton Alexander Review. With two subsequent changes to the Financial Reporting Council's (FRC) UK Corporate Governance Code (2014,[1] 2018[2]), diversity reporting is a key feature of non-financial narrative reporting, highlighted in the FRC's 2020 project on the Future of Corporate Reporting.[3] The 2018 Code expanded the diversity focus to include the senior management pipeline and multiple characteristics of diversity (Michelon et al., 2021) and business media and investor focus on the UK listed companies has highlighted diversity as an issue of reputational and relational importance (Sealy et al., 2017).

The role of voluntary regulation around leadership diversity, reliant on normative and coercive pressures, is deemed a success in the UK, with, for example, the figures for the proportion of women directors on FTSE 350 listed boards rising from approximately 10 percent in 2010 to almost 40 percent in 2022 (Female FTSE Report, 2022). Following other countries such as Australia (also with voluntary regulation) and Norway (with mandated quotas since 2008) the UK government backs the aspiration of 'the 40:40:20 rule' for listed firms, where boards have at least 40 percent of each gender (this is also the European Commission definition of gender balance). More recently, the Financial Conduct Authority in the UK has called for the more than 1,000 finance companies under its regulation to have at least 40 percent women directors, at least one ethnic minority director, and at least one power position (Chair, CEO, CFO, or Senior Independent Director) held by a woman.[4]

From an institutional investors' perspective there has been increasing activity on boardroom diversity with over 30 major investors in 2019 (such as LGIM, Columbia Threadneedle, Aviva, Vanguard and AXA) implementing a voting policy against non-diverse boards. A lack of diversity in the senior management of a company is considered a risk factor, from both decision-making and talent management perspectives. In 2021, a spokesperson from Vanguard said:

> We believe there are risks for boards that lag regulatory and market expectations related to diversity, or fail to reflect the diversity of the pools of director talent they should be drawing from, or do not mirror the diversity of the workforces and consumer bases they serve.[5]

Alongside climate change and executive pay, in 2021 the UK's Investment Association Institutional Voting Information Service issued 'amber-tops' for companies not disclosing their ethnic minority board representation and 'red-tops' for boards with less than 30 percent women directors. Andrew Ninian, Director of Stewardship and Corporate Governance at The Investment Association, stated:

> The UK's boardrooms need to reflect the diversity of modern-day Britain. With three-quarters of FTSE 100 companies failing to report the ethnic make-up of their boards in last year's AGM season, investors are now calling on companies to take decisive action to meet the Parker Review targets.[6] Those who fail to do so this year will find themselves increasingly under investors' spotlight.[7]

However, caution should be applied regarding placing too much emphasis on diversity metrics and ESG ratings. ESG ratings are backwards-facing and biased towards transparency, rather than outcomes and ambitions. For example, a board may have diversity in terms of demographics, but that does not mean that the board is being managed inclusively or that it has a credible inclusion strategy for the organisation (Michelon et al., 2021). Another issue with single ESG ratings or scores is that of transferability – for example, if one more diverse individual joins the board, the company may be able to increase its carbon footprint and retain the same single rating, as the actions cancel each other out. While ESG ratings have a role to play, they should have additional qualitative and quantitative narratives to be meaningful. It's also important to note that whilst initially a focus on representation or 'counting heads' is important, diversity is more complex than a numbers game and inclusion is harder to achieve. Whilst it may be apparent that on homogenous boards whose directors all have similar backgrounds and experiences, there may be less challenge and debate (described positively as cognitive conflict) and it may be harder to see all sides of a discussion, the flip side is that if diversity is added with no attention paid to an inclusive culture, then the diverse voices are not heard, all benefit is lost and the result is friction (negative affective conflict). Since the initial studies seeking to link a token woman on the board to performance improvements of multi-million-dollar firms, research is now beginning more comprehensively to view women's role on the board as an integral part of forward thinking, liberal and responsible leadership. Women's presence in the boardroom is no longer questioned, rather their absence is, since gender diverse boards have been shown to be good for firm's performance with respect to social justice, the environment and for governance, especially in countries with greater shareholder protection and more gender balance (see Byron & Post, 2016, for meta-analysis). Well governed firms that deliver on their responsibilities to material stakeholders *and* shareholders deliver long-term value-creation not just for investors but society more broadly.

16.4 CAVEAT EMPTOR: CRITICAL MASS

Whilst organisations and leaders may pay attention to research documenting *what* difference adding women to boards makes, critical mass theory stems from research endeavouring to better understand *how* women make a difference to board processes (Konrad et al., 2008). Spurred on by the lack of substantive advancement made by the input-output based quantitative studies, Konrad and colleagues (2008) interviewed women and men board members to understand what women brought to the board, and whether and how this differed from their male counterparts. They found that women were only meaningfully able to bring their distinct qualities to the board process when they represented a critical mass. Konrad et al. (2008) drew on the work of Kanter (1977), who argued that where one or two women serve on the board, they are either a token or part of an out-group, and consequently their voices and inputs are broadly ignored because of gender stereotypes, hypervisibility or in-group-out-group bias. However, once women represented three out of a ten-person board, later operationalised as 30 percent, the dynamics of the board changed, and the biases that had plagued women as tokens or out-groups receded to allow women's voices to be heard. Where women constituted a critical mass, they brought three distinct advantages that shaped board culture, working practices and dynamics: 1) women provided different perspectives to men; 2) women raised issues that pertained to multiple stakeholders; and 3) used their interpersonal skills to shape the board's discussion process. The study concluded that to truly benefit from corporate board gender diversity, an important lever is the inclusion of a critical mass of women, who with the collective board can shape the board process, rather than serve as tokens with representation, but no voice.

The premise of critical mass has made traction in both policy and practice-based discussions on board quotas. The 30 Percent Club works globally to encourage firms to reach the 30 percent critical mass target without waiting for countries to resort to legislation. A number of countries that have introduced quotas for women on the board have also set their base target at 30 percent (e.g., Germany, Holland). As such, critical mass theory is arguably one of the most practically influential conceptualisations we have. Despite the obvious appeal of a simple numerical target, and the undoubted success critical mass has had as a frame for board gender diversity discussions, there are still several problems both with its operationalisation, and the implications for a broader board diversity debate. Operationally, the interchangeable use of 30 percent and three women in discussion of critical mass has resulted in some boards claiming that they have reached critical mass when in fact they have two women. A board comprising of seven directors can argue that they have reached critical mass with the appointment of two women, since 30 percent would mean 2.1 women, a target that is impossible to achieve. However, at two, women may still be subjected to an out-group bias and have fewer opportunities to shape board process. Consequently, there is an opportunity for firms to decouple the policy of a critical mass from their practice, by remaining compliant in practice, if not in spirit. Some countries have sought to address this problem. Norway for example specify for different board sizes exactly how many of each gender must be represented for the firm to be deemed in compliance with the legislation.

A deeper and more pervasive challenge has also emerged as the debate on corporate board gender diversity has broadened to include other forms of diversity, in particular ethnic diversity, the only other demographic characteristic to be associated with a target in the UK (the state of California is seeking to legislate such that firms in the state must have at least one director from an underrepresented community, however the legislation is being challenged in courts[8]). In the UK, the Parker Review stipulated that by 2021, there should be at least one ethnic minority represented across all UK FTSE boards, a target that was largely met. However, implied in this target is not only an acceptance of a tokenistic approach to ethnic diversity but an institutional framework for legitimising it. According to the most recent estimate from the Office of National Statistics, 15.2 percent of the UK population[9] identifies as non-white. Across a board of seven, one ethnic minority director represents just over 14 percent of the board, approximately the same proportion as that found across the population of the UK. This then begs the question, should corporate board practice be informed by representation or integration? From a representation perspective, one ethnic minority across UK boards would fulfil the criteria, but 30 percent for women would not, since women represent approximately 50 percent of the population and 48 percent of the working population. Conversely, critical mass theory suggests that 30 percent is sufficient for diversity integration, which is why it has been used widely as a target for board gender diversity. However, at less than 30 percent representation it is not clear whether or how ethnic minorities' voices would be heard. An alternative perspective would be that a board needs 30 percent of 'difference' to interrupt the negative dynamics of a more homogenous board. As the board gender debate expands to encompass additional issues beyond demographic characteristics these issues will become more pertinent and acute and something boards and the board Chair will be expected to address. For example, board cognitive diversity is increasingly making it onto board's agendas. It is to this topic that we now turn.

16.5 CAVEAT EMPTOR: COGNITIVE DIVERSITY

A central argument in much of the literature on the benefit of board gender diversity is that it will increase the board's cognitive diversity, an argument broadly based on the assumption of cognitive diversity as an inevitable consequence of demographic difference. However, cognitive diversity and demographic diversity are distinct. Whereas demographic diversity can be defined by varying descriptive labels such as, for example, age, sex or ethnicity, cognitive diversity defies an easy definition in academic research (Helfat & Peteraf, 2015). Broadly speaking cognitive diversity centres on different approaches to learning, knowledge acquisition, knowledge retention, and how data and information is processed (Reynolds & Lewis, 2017). In a major review explaining the diversity dividend in teams, Martins and Sohn (2021) distinguish between *cognitive resources* and *cognitive structures*. The former refers to skills, insights, knowledge, and experiences (i.e., a *capitals* perspective). However, the latter refers to how different individuals engage with the same material in very different ways, how people react to other team colleagues, which can shape information processing, board dynamics and working practices (i.e., a *processing* perspective). Both the differences in perspective and information processing styles are required to fully reap the benefits of cognitive diversity and this 'is not predicted by factors such as gender, ethnicity, or age' (Reynolds & Lewis, 2017: 2).

One of the challenges often faced by leaders as they attempt to diversify their top teams is to ensure firstly whether individuals actually bring different cognitive resources. For example, when women first entered boardrooms, it was often the case that they came from the same educational (e.g., private education and elite university) and career (e.g., large city firms) backgrounds as men on the boards, as this was the only way they could demonstrate sufficiently their legitimacy. Whilst they may hold different insights and experiences of differing gender, as described above, whether these differences were shared and heard was often a function of other factors, such as numerical representation, status, inclusive culture, and leadership.

Research suggests that there are meaningful benefits to incorporating cognitively diverse perspectives in teams. For example, Apfelbaum and Mangelsdorf (2018) point out that mistakes, inaccuracies, groupthink, poor and incomplete decision-making occurs more frequently in cognitively homogenous groups, whereas cognitively diverse groups mitigate over-confidence bias. However, introducing change to homogenous groups or teams is never easy for either the incumbent or new members. Notable challenges in board practice that have been identified in the context of introducing more diversity to corporate boards include increased conflict, slower decision-making, impeded discussion due to a common language and shorthand (Erhardt et al., 2003; Grosvold et al, 2021; Hambrick et al., 1996; Knight et al., 1999). To combat these challenges, the role of the board Chair takes on an additional salience, and the relative success or failure to both integrate and meaningfully allow new and cognitively diverse voices to be heard at the table in no small part rests on the skills, insights, and interpersonal skills of the Chair (Tilbury & Sealy, 2023). Consequently, if firms are serious about benefitting from cognitive diversity, they need to overcome what may be some discomfort around managing different perspectives, genuine debate, including constructive dissent, for the good of the firm. So, a leader's role in strategically pursuing cognitive diversity, therefore, is not just to bring the diversity into the boardroom, but also to ensure that it is expressed in both terms of resource and process.

16.6 CAVEAT EMPTOR: BACKLASH

A third cautionary note regards how boards respond to popular social movements, such as #MeToo and #BlackLivesMatter. Following the death of George Floyd in the United States (US) in May 2020 and the huge outcry that followed globally, many organisations and leaders put out diversity statements of support. However, leaders should be wary of 'brand activism' without appropriate actions to match. Customers and potential employees are becoming more aware of a company's behavioural integrity and firms are facing backlash if their actions do not match their words. For example, Nike initially benefitted from supporting a Black American footballer who was fired for 'taking the knee' but were later castigated for having very low representation of Black or minority ethnic senior leaders. Similarly, Amazon and Airbnb leaders also published #BlackLivesMatter statements, but Amazon was then criticised for working closely with the police in America and Airbnb for gentrifying previously Black areas, pushing out residents.[10]

Similarly, whereas ten years ago corporate diversity statements were considered progressive, today without actions or figures to match they are seen as lip service (Windscheid et al., 2016), particularly, for example with regards to a lack of boardroom gender diversity, which has been on the agenda in Western economies for over a decade. Organisations also need to be mindful of their stated motivations for increasing diversity. The focus of the prior two decades on the business case for diversity is turning sour for minoritized individuals, due to perceptions of compromised moral legitimacy (Windscheid, et al., 2018). For minoritized groups (based on social identities such as sex, ethnicity, sexuality) the instrumentality of financially motivated increases to diversity in organisations is experienced as signalling a threat to their identities, negatively impacting individuals' sense of belonging (Georgeac & Rattan, 2022: 1). Finally, with a focus purely on diversity headcounts, without the requisite consideration of processes and culture that lead to inclusion, business leaders are likely to be disappointed that their 'add diversity and stir' approach is unlikely to lead to any obvious and immediate financial gain. This may then lead to a withdrawal of organisational support for their efforts.

16.7 CASE STUDY[11]

In the last section of this chapter, we will consider the responsibility of leaders in diversifying boards. We share examples from a large research project looking at board diversity across National Health Service (NHS) boards in England. From a sample of 226 NHS boards, the 20 most diverse in terms of gender and ethnicity were identified and interviews were conducted with the board Chairs of 17 of those 20. These 17 boards averaged 47 percent women directors and 21 percent ethnic minority directors. Whilst public sector boards have both social performance and creation of public value at their core, in England, the private sector unitary-board model of governance is used for public hospitals, particularly in terms of composition (Chambers et al., 2020). For example, NHS England health boards have on average 13 directors, with a balance between executive and non-executive roles. The Chair is the leader of the board and ultimately accountable. Chief Executive Officer, Chief Finance Officer and Chief Medical Officer are mandated executive roles, plus approximately three other discretionary executive roles. The non-executive directors often bring private-sector skills and experience. The hospitals in this sample had between 5,000 and 10,000 employees and annual turnovers ranging from £250million to almost £1billion. The Chair is responsible for board composition; hence we conducted in-depth interviews focused on their motivations for and approaches to board diversification.

16.7.1 Purposeful Composition

One of the first points to note is that, even in a public sector environment with an assumption that diversity is desirable, the Chairs unanimously stated that creating a diverse board was not going to happen 'naturally', nor would it happen with a general 'wish' to be more diverse. This awareness and understanding of the issues gave permission for positive action towards purposeful composition. They were emphatic that diversification was something they had to manage very proactively, just like any other change process. They talked about being explicit, proactive, robust, clear, and very purposeful in considering their board composition. Whilst the mechanisms of change are important, it is critical to note the attitudinal approach and personal commitment and determination of those who have successfully diversified their boards.

16.7.2 Defining Diversity

Chairs were aware of targets and some degree of measurement required for gender and ethnicity. However, they took a holistic approach, discussing other characteristics, such as sexuality, disability, and age, but were concerned with broader definitions. For example, they were aware of multiple ethnicities and that one is not representative of all; particularly for NEDs, there was a desire for individuals to have some 'lived experience' of mental health or other chronic illness; and some chairs celebrated having allied health professionals on their boards. Overall, it was clear that those with more diversified boards were not ticking boxes, but took a more inclusive approach, aiming for true cognitive diversity and varied perspectives on their boards, through combined skills, characteristics, and experiences.

> You have got to be really, really clear what it is you are looking for to build the capacity and capability of your board, through that cognitive diversity. I think that people appreciate you being explicit about the current balance of the board and your desire to achieve greater diversity.

16.7.3 Taking a Strategic Approach to Diversity

The Chairs unanimously articulated three motivations and intended outcomes from having diverse boards. Most ardently, these very experienced Chairs talked about better board processes, how the composition impacts the dynamics, bringing better conversations, different perspectives, new solutions proposed and better decision-making. They recognised the challenge of managing these differing perspectives, seeing their role as 'facilitating robust conversations to get the best results'.

Secondly, being representative of one's service users and community was discussed not as nice to have, but as critical for the provision of the best and most effective care service.

Concern was expressed that, from a patient safety point of view, ‘ignorance of community issues, without representation, may lead to failure in fundamental duties’. Additionally, having representation on the board helps build legitimacy with the community, also leading to better patient outcomes.

Thirdly, Chairs felt it was imperative that senior leadership was representative of their staff. More than 75 percent of NHS circa 1.5million employees are female and overall, almost one in five employees are from a Black, Asian or minority ethnic background, rising to 40 percent in some areas. Chairs knew that reasons staff cited for wanting diverse leadership included issues of being understood and ‘staff having faith and confidence in board decisions’. Equally important was the aim of achieving better talent management through greater retention of talented staff, and perceived opportunities that encouraged staff to aspire. Chairs were focused on optimising talent and capability.

In terms of promoting their vision, they first identified the ‘levers of change’; who and what needed to change. For example, to reach a more diverse pool of potential NEDs they were proactive in outreach into different communities and networks. In addition, they spoke of a directed use of head-hunters, by which they meant only using head-hunters who had a prior reputation for producing a diverse slate of candidates and being very directive in their brief to the head-hunter. Chairs also spoke of the need for strategic communications about diversity, communicating the hospital’s values and explicit intentions regarding diversity, and some promoted this on various media outlets. This was particularly the case for those Chairs who had inherited historically homogeneous boards.

In terms of then enacting their vision, the main area discussed by Chairs in terms of actually making changes to their board composition was the appointment process. Chairs focused on different aspects of this, depending on where they felt they needed to make change. For example, areas covered included: rewriting the recruitment pack for values-based recruitment; stopping rolling appointments; recruitment training; gender-balanced panels; purposeful shortlists; challenging interviewing techniques; and flexing criteria. However, specifically for executive positions there was also a focus on talent management processes, as well as creative ideas such as the use of shadow boards and board apprentice programmes for NEDs.

As well as composition, Chairs were cognisant of creating inclusive cultures, not only on their boards, but also wanting to ensure that this ran throughout their organisations, so that the board and organisation were reflective of each other. Outlining their strategic approach revealed stages applicable to other strategic change processes (see Figure 16.1 below).

Firstly, the strategy needed to be driven by a purpose and based on data. The Chairs were familiar with diversity data at each level of their organisation, not just the board. Clear objectives were the next step, not just a vague desire to make things better. For example, targets and other measurable objectives, within specific timeframes, a clear definition of what success would look like. Targeted interventions, for example talent management programmes, based on available data, aimed at specific groups, roles, functions, levels, and so on, were put in place to enable the change. And finally, accountability was key. Specific individuals had to be responsible for ensuring plans were put into action and success or otherwise monitored and reported. Inclusive diversity can be a part of board evaluation, and in some private sector organisations, measures are even linked to executive remuneration.

Figure 16.1 The strategic inclusivity change process

16.8 CONCLUSION

Leaders' approaches to the board gender diversity agenda and that of CSR are increasingly entwined, whether through the lens of board gender diversity *as* a CSR, or *how* a gender diverse board shapes the firm's CSR engagement. In addition, the absence of diversity of senior leadership teams is increasingly considered by institutional investors and stakeholders alike as a risk and negative ESG factor.

In this chapter we have touched lightly on the history of board diversity research, from early descriptive studies focused on the characteristics of the boards and the individual women directors, to studies which pitch board gender diversity as either a 'business case' or 'social justice' argument. However, we argue that these are not exclusive arguments and that leaders need to engage with business' role in society. With a greater understanding of the historic roles of power and privilege that sit behind low levels of demographic diversity, it is important that both researchers and leaders shift their focus from individualistic responsibility to organisational responsibility for and contributions to addressing social inequalities. Well-governed firms that deliver on their responsibilities to material stakeholders *and* shareholders deliver long-term value-creation not just for investors but society more broadly.

But attempts to diversify boardrooms and senior leadership teams come with health warnings. Organisations and women have learned to their cost that a 'one and done' approach rarely works, with a critical mass of difference required for real cognitive diversity, and research and practice shows how disingenuous organisational attempts to diversify can backfire. In addition, more recent research acknowledges that representation in and of itself is unlikely to gain the diversity dividend so many leaders seek. In order to tap into the diverse perspectives and resources that gender and other diversity can bring, organisations and their leaders need to work to create genuinely inclusive environments. More nascent research considers process elements, including the role of the leader, influencing dynamics and decision-making and impacting elements of board effectiveness. Diverse individuals contributing differing mindsets, ethical considerations, backgrounds to strategy and operational decision-making can mitigate some of the cost of more constrained linear thinking. But whilst many leaders are motivated to diversify their boards, they are less confident about how to do it successfully. In fully diversifying their boards, our case study board Chairs moved beyond a tactical approach of compliance to one of *strategic inclusivity* (Sealy, 2020), aiming for true cognitive (as opposed to just categorical) diversity, proactively seeking and managing diverse skills, characteristics, and experiences, for the benefit of their organisations and beyond.

NOTES

1. Available at: https://www.frc.org.uk/news/september-2014/frc-updates-uk-corporate-governance-code.
2. Available at: https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code.
3. Available at: https://www.frc.org.uk/getattachment/ba1c51d0-e933-4235-9c67-0bd2aa592edb/Literature-Review-Final.pdf.
4. https://www.ft.com/content/3693bb52-45b6-4349-afe7-1994b83a463d.
5. https:// www .i nstitution alinvestor .com/ article/ b1tshzrjw8fqhk/ The -Diversity -Premium -More -Women-Higher-Returns Sept 28 2021.
6. The Parker Review stated listed boards should have at least one ethnic minority director by the target date in 2021 – 'One by Twenty-One'.
7. https:// www .theia .org/ media/ press -releases/ investors -step -pressure -increase -ethnic -diversity -boards.
8. https://corpgov.law.harvard.edu/2020/09/08/addressing-the-challenge-of-board-racial-diversity/.
9. https:// www .ons .gov .uk/ peoplepop ulationand community/ pop ulationand migration/ populationestimates/articles/populationestimatesbyethnicgroupandreligionenglandandwales/2019.
10. https://www.independent.co.uk/news/world/americas/airbnb-ravaging-black communities-new-york-city-a7000761.html and https://www.theguardian.com/technology/2020/jun/09/amazon-black-lives-matter-police-ring-jeff-bezos.
11. Material for this case study is taken from the report: 'Action for Equality: The time is now' NHS Women on Boards, 2020, NHS Confederation, London, UK. Available at: https://www.nhsconfed.org/publications/action-equality.

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17. Social alliances as catalyzers of CSR programs' impact

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17.1 INTRODUCTION

Grand challenges require the collective work of many actors coming together (Ferraro, Etzion & Gehman, 2015; George, Howard-Grenville, Joshi & Tihanyi, 2016). Improving the lives of communities (e.g., poverty reduction, education and other inequalities) cannot be done in an isolated manner but entails the formation of multi-stakeholder partnerships. Thus, we propose that social alliances are needed to improve communities. We view social alliances as a type of mutually beneficial multi-stakeholder partnership that involves different organizations working toward a strategic resolution (or, at least, alleviation) of social welfare issues (Drumwright, 1994). With that in mind, we expect that not only nonprofits and governments, but also corporations are going to be integral to these solutions. In the last decades, we have seen how corporate social responsibility (CSR) and social enterprises can become pathways to enact broader positive changes (Felicio et al., 2013; Luo, 2008; Sakarya et al., 2012). Organizations are large-scale operations, with specific expertise, increased cumulated resources, and power within society which enable them to significantly impact change (Palazzo & Scherer, 2008). Conversely, specific or isolated, disconnected actions are generally seen as less impactful than when diverse organizations and groups come together to enact societal change (Dyer & Singh, 1998). As such, to respond to social and economic pressures and achieve greater outcomes, more and more organizations form alliances (Dyer & Singh, 1998; Martinez, 2003; Vock et al., 2013), making it critical for scholars to understand the specifics of social alliances functioning and how they are better than individual (corporate or non-profit) initiatives.

This type of partnership has been widely discussed in the literature on non-profits, social enterprises, and CSR. However, only recently, scholars have started to analyze organizational type-diverse collaborations and the process and outcomes of these arrangements. For example, Liu et al. (2018) studied alliances between non-profits, for-profit organizations, and/or governments in marketing-related campaigns and found that social alliances' routines (i.e., coordination and proactiveness) positively impact the alliances' performance. Similarly, investigating a tripartite collaboration among businesses, non-profits, and governments, Rim and Dong (2022) showed that diverse types of organizations impacted donors' supportive intentions regarding the non-profits. While these studies have started to advance our understanding of diverse organizational alliances, there is still an important gap in understanding social alliances' governance process and structures, how governance increases these alliances' potential for superior collaboration and reconciling conflictual perspectives, as well as its impact on the social alliances' overall societal impact. Shedding additional light on these aspects is crucial for guiding future scholars and practitioners in developing more effective social alliances governance structures and mechanisms and, ultimately, increasing social alliances' potential for achieving superordinate social impact. Furthermore, we know that in many cases corporations can co-opt social projects for their own gain (den Hond & de Bakker, 2007).

With that in mind, we aim to understand more broadly the governance structures of social alliances and their influences on the societal impact that they create. Specifically, we look at (1) how firms form social alliances; (2) what structures and mechanisms exist at the alliance level to govern the social goals; and (3) how these alliances end up being a space within which organizations make positive changes in society instead of just benefiting corporations.

To address these questions, we examine three social alliances: Working for Women (WW), Forest Stewardship Council (FSC), and Conservation Alliance (CA). Our cases show that social alliances have very complex governance structures that allow for multi-stakeholders input and discussions. We also explore how each member's participation in shared governance plays an important role in how well social alliances can foster societal change. We suggest that multi-stakeholder partnerships benefit from their members' diverse skills and cumulated knowledge that can be used synergistically to create deep and sustained societal and environmental impact. This is partly due to their inclusive and equitable governance structures. Also, based on our comparative analysis, we posit that the complexity and equity of governance alliances might impact how reputable, widespread, and successful the societal practices are that they create. Further, we suggest that to enact a broader impact on the community, different organizations, especially businesses, should seriously consider being part of an alliance instead of trying to create their own CSR programs. At the same time, we understand that more diverse and democratic governance structures will allow these multi-stakeholder partnerships to indeed enact change asked by communities instead of just being a way for corporations to advance their CSR goals. Theoretically, we expect that this research will contribute to creating space for more research on the importance of partnerships for societal change and how governance is a critical element in ensuring the success of such collaborations and of enacting meaningful societal change for diverse communities.

17.2 THEORETICAL FRAMEWORK

Scholars have defined social alliances as long-term, mutually beneficial organizational partnerships that involve different organizations working together toward improving social welfare (Drumwright, 1994; Liu et al., 2018). We expand this definition by proposing that social alliances are multi-stakeholder cooperative arrangements that evolve among social enterprises, non-governmental organizations (NGOs), community groups, and/or governmental agencies, with *the primary purpose of adding value to the community* rather than growing the wealth of a select group of individuals or corporations. Specifically, we propose a shift of focus from social alliance composition to a more social-impact-oriented definition, taking an in-depth look into social alliance governance as a crucial element in ensuring that social alliances achieve their superordinate societal purposes. We do this by looking at the work on field governance that acknowledges that managing diverse groups with different interests and views is a challenging task and that governance structures can impact members' ability to be part of the discussion, be heard, and considered by others (Djelic & Sahlin-Andersson, 2006; Scott, Ruef, Mendel & Caronna, 2000; Zald, 1978), and as such, make sure that no specific stakeholder co-opt the social goal only to their benefit. Thus, we propose that governance is instrumental to ensure multi-stakeholder partnerships' achievement of societal goals.

We approach governance as the processes through which power structures are organized, different interests are discussed, and decision-making is done (Joniškienė et al., 2020). Thus, proper governance structures and mechanisms ensure that groups who are less powerful are co-opted (den Hond & de Bakker, 2007), motivating them all to cooperate towards their ultimate goal, that of alleviating complex social issues. In the following sections, we describe the advancements in the literature regarding the concept of governance and how organizations decide to enter collaborative arrangements (including social alliances). We also discuss the mechanisms that enable them to govern social goals. Lastly, we empirically answer these questions by analyzing the impact of three different social alliances, their specific governance structures and mechanisms, and their impact on community and societal welfare.

17.2.1 Social Alliances Formation

The analysis of how alliances form includes the understanding of motivation to engage in alliance, selection of partners, and general steps to form an alliance. Organizations' *motivation* to enter alliances impacts the level of resources they commit to the collaborative arrangement and how potential conflicts will be dealt with, which can significantly affect the success of these arrangements (Liu et al., 2018). Extant literature has shown that organizations are motivated to form partnerships to better address social and environmental challenges (Weerawardena & Mort, 2012). The alliance helps nonprofit organizations by expanding their network and, thus, increasing their potential for effective stakeholder outreach for long-term impact. Other nonprofits are driven by the benefits they can leverage from such partnerships in the short run, such as additional financial capital, exchange of complementary resources, skills, and specific know-how (Andreasen, 1996; Kerlin & Pollak, 2011; Knox & Gruar, 2007; Liu & Ko, 2011; Vock et al., 2013). Analyzed from the for-profit organizations' perspective, forming a social alliance-type of collaborative arrangement is generally used as a marketing strategy to boost their reputation and, in some cases, comply with economic and CSR policies (Martinez, 2003; Rim & Dong, 2022). Nonetheless, the collaboration between organizations seems to have slowly shifted from financial purposes to broader goals, targeting societal good that would be harder to achieve based on the separate/isolated efforts of the partners (Berger et al., 2006).

Partner *selection* is another critical aspect of alliance governance due to its major impact on the collaborative arrangement's efficiency (Provan & Kenis, 2008). Given the strategic interdependence influencing the partnerships, a social alliance governance is seriously impacted by selecting the right partner. The right partner is regarded as one who can support the collaborative arrangement with proper resources (i.e., financial, knowledge, skills, goodwill/social capital) and through adequate organizational processes and mechanisms that build trust for successful collaboration in the long term. Aspects most often considered when selecting potential partners relate to the partners' reputation and how well they interacted in previous alliances (if applicable), all these serving as a good indicator of their trustworthiness (Liu et al., 2018). As such, partner selection is an essential condition for the alliance to build a high level of trust and commitment, gain a competitive advantage, and, ultimately, achieve its strategic goal — that of fulfilling a broad positive social impact in the community and the world (Ireland et al., 2002).

17.2.2 Governance Structures and Mechanisms

Effective social alliance governance structures and mechanisms have been shown to reduce transaction costs and increase the success of such partnerships (Dyer & Singh, 1998; North, 1990). Effective governance is one of the four determinants of social alliance high value creation capabilities. Furthermore, governance structures are important to maintain social alliances objectives. The partners' willingness to contribute to the alliance's success above their individual/self-interests and, eventually, sanctions for behaviors directed against the alliance's objectives sets apart the alliances' governance from the business-to-business governance structure (Rivera-Santos & Rufín, 2010). Therefore, it is critical to examine what structure and mechanisms generally exist at the social alliance level that allows them to successfully engage in value-creating initiatives.

Although the specifics of collaborative governance are yet to be investigated and mapped by scholars (Joniškienė et al., 2020), social alliance *governance* is analyzed as an interaction of contractual and relational mechanisms (Rivera-Santos & Rufín, 2010). Thus, these governance structures consist of a set of complementary formal and informal rules, procedures, and norms guiding the partners' actions and dividing their roles and responsibilities (Joniškienė et al., 2020). According to transaction cost theory, formal governing structures are captured into signed contracts that define the partners' duties and responsibilities, resource allocation procedures, and decision-making processes, guiding actions and protecting the alliance against damaging behaviors (Benítez-Ávila et al., 2019). However, informal structures set the partners' expectations regarding mutual trust, solidarity, and communication. Overall, it seems that effective informal governance structures play a more critical role, with some authors describing them as an important competitive advantage due to trustworthiness ensuring reduced transactional costs (Weber et al., 2017). Nonetheless, both formal and informal structures are critical in overcoming social alliance tensions and collaboration barriers, such as lack of trust between partners, limited business and personal interactions before and during the alliance's lifespan, and uncertainty regarding the alliance's success in the long term (Liston-Heyes & Liu, 2013). Moreover, both formal and informal structures ensure a proper balance between risks and benefits, thus underlining the reason why developing proper governing structures and mechanisms plays an important role in ensuring that the collaborative arrangements between diverse types of organizations do not create growing tensions and conflicts, undermining the social alliance's ability to make a greater societal impact (Liu et al., 2018).

Although governance structures and mechanisms can vary based on the alliance's objectives, scholars have shown many practices regarding how alliances are governed to decrease tensions and solve conflicts. For example, Mitzinneck and Besharov (2019) explain three mechanisms to manage potential tensions: temporal prioritizing (prioritizing objectives/values over time while trusting that the alliance will ultimately commit to all agreed objectives), structural elements (allowing members to self-select the projects to engage in based on their personal values/preference), and collaborative compromise (achieving alliance-wide agreement on the criteria for reaching the set CSR objectives). Other authors highlight the importance of communication (Liston-Heyes & Liu, 2013; Liu et al., 2018), setting realistic goals (Runté et al., 2009), learning routines, relational mechanisms such as trust, commitment, and embeddedness (Liu et al., 2018), inter-organizational coordination (which relates to both activities and portfolio coordination), knowledge sharing, fostering pro-activeness, and transformation, all of which support good alliance dynamics (Liu et al., 2018).

In terms of *decision-making*, there are several types of governance structures specific to the partnerships between NGOs and business organizations (including social alliances). For instance, Bryson et al. (2006) talk about self-governance (where the decision-making process is led by members through formal or less formal meetings) and centralized governance (where the decisions are made primarily by the leading organization). Further, other partnerships prefer to set up specialized divisions to coordinate the alliance's joint activities. However, regardless of the governance structure, the key aspects of the alliance decision-making process are constant communication, attention to the partner's demands, knowledge exchange facilitated by the development of dense and meaningful relations among partners, reliability, and a high level of trust, which builds primarily on the good reputation of the partners (Joniškienė et al., 2020).

It is important to note that social alliances can use different combinations of governing structures and mechanisms that best serve their objectives. Furthermore, despite governing structures and mechanisms having a relatively stable character due to their contractual/authoritative scope (even when strong trust is involved), they are not static. Instead, they can and should change over the course of the social alliance to mirror the changes in the objectives, specific needs, relationships between partners, and their expectations regarding the formal and informal governing structures (Alvarez & Barney, 2001).

17.2.3 Social Impact

We understand social impact as a positive change that addresses a pressing social issue (Chowdhury, 2019; Clark & Rosenzweig, 2004). Further, Jamali et al. (2011) describe social alliances as a mechanism that multi-stakeholder collaborations employ to cope with complex societal problems, thus being more apt to have a positive social impact. A social alliance can achieve this by developing and applying effective solutions to large-scale, complex problems that permeate economic, societal, and political systems (Mitzinneck & Besharov, 2019; Montgomery at al., 2012; Sud et al., 2009). Another vital link between social alliances and social impact is that they can increase social impact by setting specific industry private regulations (i.e., informal rules and soft laws), such as certification programs (Palazzo & Scherer, 2008; Scherer & Palazzo, 2011). Social alliances also have the power to model individual behaviors with an indirect but positive effect on the social goals targeted by the alliance (Vock et al., 2013).

However, the reach of social alliances goes beyond the broader community and the industry sector in which they operate. They also have an impact on the participants in the alliance. For example, these alliances allow organizations to acquire expertise from the other alliance partners and access novel resources, thus better equipping them to deal with environmental changes (Grant & Palakshappa, 2018). In addition, collaborative processes and management routines that foster a shared power of decision, joint decision-making processes, and a common problem-solving approach, have been shown to positively impact social outcomes, such as added value to the community (Joniškienė et al., 2020). Therefore, social alliances end up being a space in which businesses, nonprofit organizations, and governments can collaborate toward enacting social changes that could not otherwise be achieved by either partner in isolation (Dyer & Singh, 1998). For all these reasons, social alliances can be labeled as catalyzers of CSR programs.

17.3 METHODS

To address the above-mentioned gap, we conducted a comparative case study analysis. This method has been the preferred method when exploring and developing related theories (Rivera-Santos & Rufin, 2010). Our goal was to develop new ideas related to the creation, functioning, and impact of social alliances in developing superior ways to enact social change. We also sought to understand how the distinct stages of alliance formation and development could impact these processes and specific outcomes. We purposely chose three alliances that differed on these variables. This allowed us to better understand the commonalities as well as the differences between alliance governance and potential implications.

The three social alliances we chose are Working for Women (WW), Forest Stewardship Council (FSC), and The Conservation Alliance (CA). In our analysis, we relied on archival data, such as news articles, websites, fliers, social media posts, and reports created by the three alliances. We analyzed the data in a thematic and deductive approach (Brooks, 2009; Hutt et al., 2000; Yin, 2017), identifying specific factors for each of the social alliances: mission, goals, governance structure, membership, the role of different members, social impact, and relationship with CSR. Below, we provide a brief introduction to each alliance (also see Table 17.1).

Table 17.1 Social alliance characteristics

Alliance/Variable	Sector	Main Strategy for Change	Age
Working for Women	Underserved women's financial independence	Specialized/targeted volunteer work ('giving circle')	Less than five years
Conservation Alliance	(Threatened) wild habitat conservation	Donations to nonprofits	33 years
Forest Stewardship Council	Sustainable forestry	Stakeholder development of best practices and certification	29 years

Table 17.1 provides a synthesis of the three alliance organizations that are analyzed in the chapter.

17.3.1 Working for Women (WW)

WW is an alliance of businesses committed to making positive social change by helping nonprofits focused on supporting underserved women to succeed in the workforce. The organization was founded in 2018, it has around 24 members, and its business model focuses on matching businesses wanting to help others and nonprofits in need for help (in the form of skills, funds, or networking). This way, businesses can donate one percent of their profits/revenue to women-focused non-profits (Working for Women, 2022). In exchange, they benefit from their employees honing their skills by working along women-focused nonprofits and by engaging with the community. Moreover, nonprofits benefit from additional funding and the help of highly skilled volunteers. Bringing funds and trained human resources together allows WW to create a way larger social impact for underserved women than members separately.

17.3.2 The Conservation Alliance (CA)

CA connects corporations willing to donate funds to nonprofits working on community-based campaigns to protect threatened wild habitat throughout North America. With a stated mission focusing on harnessing 'the collective power of business and outdoor communities to fund and advocate for the protection of North America's wild places' (The Conservation Alliance, 2022), CA has been able to pursue its goals of providing communities 'access to outdoor recreation, clean water, and healthy forests' (The Conservation Alliance, 2022) for over 30 years now.

17.3.3 Forest Stewardship Council (FSC)

The FSC is a global, independent, and non-profit community of organizations collaborating toward defining and implementing adequate global standards for forest stewardship, the ultimate goal being the attainment of a positive impact in the environmental, economic, and social arenas. FSC's primary interest is in forest management, preservation of natural environment, developing sustainable forestry practices, social development, empowering civil society, and social justice (FSC Statutes, 2017). While concerned primarily with maintaining forest biodiversity and longevity with the help of commercial agents and regulatory bodies, FSC also works closely on enhancing the lives of communities, including those living and working in forests. Out of its ten standards, only two of them are not related with communities and some are specifically targeted at improving communities – 'maintain or improve the social and economic well-being of workers; upholder the rights of Indigenous Peoples, maintain and improve the social and economic well-being of local communities' (FSC, 2022). This way, FSC has made a significant impact on the triple bottom line, with its forest certification system being one of the strongest and most recognized systems of its kind (FSC Statutes, 2017).

We view these three multi-stakeholder partnerships as strong community development alliances that bring together businesses and other entities toward the fulfillment of broad and ambitious social goals.

17.4 FINDINGS

In the following comparative analysis, we look at elements of governance within the three alliances. We first look at how these alliances formed; then we look at their membership to understand who can have a say and why organizations would join the alliance. Further, we analyze their power structures and decision-making process to identify the level of shared governance and the role of different partners. Finally, we discuss the societal impact of these alliances and identify possible relationships between the elements of their governance and the societal gains made thus far.

17.4.1 Alliance Formation

17.4.1.1 Membership

To understand who can participate and have a voice in the alliance's governance processes, it is crucial to understand how membership functions. This is because being a member is the first step in allowing an organization or individual to bring topics and concerns to the agenda (Lukes, 2005) and, as such, be heard and part of the governance structure. Comparing the three social alliances, WW has an open membership, with any organization that can contribute a minimum of $100 being allowed to participate in the governance processes. In WW, nonprofit organizations are not necessarily members, however, by being connected with WW as an organization receiving services, they can use the alliance as a pool of resources, connections, and volunteers and have a say on WW's work. Similarly, CA members are exclusively businesses, and the alliance relies on membership dues to fund nonprofits focused on environmental issues. Each member is asked to make an annual contribution based on its revenues, with different membership tiers being created to recognize their contribution level. Again, while nonprofits are not members, they are an essential part of the alliance, as well as the main recipients of donations and volunteer work. Due to its broad scope, FSC's membership differs from that of WW and CA in that it co-opts individuals, companies (i.e., manufacturers, wholesalers, retailers, traders), and any for-profit organization manifesting commercial interest in forest management, sustainable forestry, and responsible production of wood goods (FSC Statutes, 2017). FSC also joins a wide range of non-profit organizations, such as environmental organizations, indigenous organizations, research groups and academics, community-owned associations, trade unions, labor unions, and consulting firms (FSC Statutes, 2017). At the same time, FSC membership is open to certification bodies and governmental entities. Members join one of the FSC's three chambers (environmental, economic, and social) and voluntarily commit to refrain from engaging in activities that contradict the FSC principles, such as illegal logging, illegal trade of wood and derivative products, violation of human rights (including forestry workers' rights), jeopardizing conservation values, or using genetically modified organisms in forestry operations (FSC, n.d.). In addition, FSC established strict rules for becoming a partner. Such rules range from proof of support from a current member to evidence of good reputation, sound organizational and financial situation, and, if available, engagement in sustainable forestry and wood processing activities.

Thus, alliances have various levels of membership that allow businesses and nonprofits of varied sizes to join. It is interesting to note that the FSC, the most notorious of these three social alliances, was able to create programs that resulted in higher stakeholder involvement rather than donations and volunteering also by having more restrictive membership rules (e.g., needing a letter of support from an existing member). This enabled FSC to maintain a high reputation, which spilled over into its certification program's reputation.

17.4.2 Governance Structures and Mechanisms

17.4.2.1 Power structure

We understand power structures as the different levels of membership and opportunities to voice concerns and make decisions. While the power structure in the case of WW is not quite clear, CA is more transparent about its members' participation in the alliance governance via the board of directors (BOD) and annual voting. As such, CA's BOD comprises 14 directors (of which eight are women) chosen from among the leading members and voted in by the other members. Power is distributed among all CA members, and each can nominate two organizations per funding cycle for receiving funding. Furthermore, the alliance has volunteering programs, such as the Backyard Collective, that enable members to provide their employees with the opportunity to dedicate time toward increasing the alliance's impact. In addition, the

CA Ambassador program allows members to assign individual representatives to the alliance to champion the alliance's causes, making their CSR more robust and aligned. This type of program increases the member-organizations employees' participation and engagement over time, also promoting equity among employees who can, regardless of their rank, become actively involved with the alliance and its goals.

Again, given FSC's broad goals and its individual stakeholders' experience in developing governance best practices, this alliance has a power structure that is more complex and transparent. For instance, to ensure equal participation in the governance process, FSC has established a decentralized power system, with the Network Partners receiving support from National Offices, National Representatives, and National Focal Points. Additionally, the FSC's power structure is divided among three chambers (environmental, economic, and social), while the decision-making process is overseen by the General Assembly. This decision-overseeing forum ensures that each member is given equal voting power and delegates managerial activities to the BOD, which comprises four Board Members from each chamber. Further, FSC's day-to-day operations are managed by general directors and officers. To ensure that all members share the same vision and given the ever-increasing complexity of its activities and stronger external pressures (i.e., changing international regulatory systems, and climate change movements), in 2019, FSC completed a thorough governance revision process. This was done with the participation of all members who reviewed the alliances' governance policies and facilitated the systemic application of the revised governing principles. After incorporating its members' recommendations, FSC governing processes are now guided by principles such as inclusivity (all members can participate), equality (members have an equal voice), transparency (decisions are made through open communication and equal access to information), accountability (FSC can be held responsible for its activities), consensus (members are encouraged to reach mutual agreement), efficiency (decision-making processes generate quantifiable outcomes that positively impact forests and fulfill FSC's strategic objectives), independence (no political or any other interference in the decision-making processes), responsiveness (all members concerns are addressed promptly and with same consideration), and integrity (all FSC initiatives are conducted with honesty and impartiality) (FSC, Annual Report, 2019).

We can see how alliance power structures and their intricacy are closely linked with alliance membership and specific goals, and that shared power contributes to both increased engagement and equity. Besides supporting the alliances' complex activities needed to efficiently address pressing societal issues, shared power within the alliance seems to foster increased transparency, more consensus, accountability, and independence.

17.4.2.2 Decision making

While membership is the first step in being part of governance, and power structures determine how much voice a member has, the decision-making process is where governance happens. This is because decision-making shows who has the power to decide and how decisions are made with respect to the societal impact aimed by the alliance. WW commits to actively listening to its members and partners as well as to including their voices in the decision-making processes. In addition, to ensure a better representation of its members' goals and interests (which are mostly women), the WW BOD is formed only by women. However, WW is not very transparent regarding who makes the decisions and how funds are distributed among its members. Comparatively, CA's decision-making processes revolve around financial decisions, with a critical separation between annual dues and operational expenses that ensures zero interference in the decision-making processes.

Due to its size and complex goals, FSC is highly transparent about its decision-making processes. In this regard, FSC has established a decentralized power system that supports members in reaching a consensus on all decisions. Thus, the FSC decision-making processes are based on equity, meaning that all three chambers (environmental, economic, and social) have equal power of decision. Their vote has equal weight (331/3 percent) regardless of the number of members in each chamber, and, ultimately, decisions are taken after chambers (and their subdivisions) reach a consensus. Within each chamber, votes are divided between North and South, and while organizational members carry 90 percent of the votes, individual members also have a voice in the final vote, their vote weight representing 10 percent of their chamber's vote. To allow all members to participate in the decision-making process, FSC has created an online platform that is accessible worldwide, where (international) members can consult relevant news and information about FSC activities, submit motions, and express their opinion about motions approved by general assemblies. Still, according to Kim Carstensen, FSC Director General in 2019, due to the alliance's complex rules, members' diverse environmental, social, and economic interests, and sometimes divergent perspectives, a consensus is not always easy to achieve (FSC Annual Report, 2019). Even so, FSC's unique membership-driven system, based on negotiation, open communication, and democratic co-creation by all members, allows it to successfully solve internal controversies, come to common grounds, and, ultimately, develop innovative solutions to national or global societal issues.

Despite their diverse ways and stages, all alliances aim to listen to the voice of all partners and members. WW is a young organization and does not seem to need a more complex decision-making structure. Of course, this may change once the social alliance matures as it happened in CA's case. We notice again that FSC has the most complex, inclusive, and equitable decision-making structure. It is interesting to observe how FSC considers equally the voice of the members of the North and the South, giving a voice to members in countries that are mostly neglected and going against the idea that the North would know better how to deal with the problems that affect the South. Moreover, it is important to note that despite the fact that FSC certification was initially conceived to protect against irresponsible deforestation, this alliance has established environmental, societal, and economic chambers who all have the same weight in the decision-making votes, which allows it to make a more integrated/systematic social change.

17.4.3 Social Impact

As shown, greater social impact represents one of the main advantages of social alliances. Thus, following the literature, we analyze social impact through the lenses of its size/scale, which is reflected by the reach of the social alliances' operations (local, regional, national, or global) and the broadness of their activities (i.e., targeting narrow goals vs. more diffuse goals) (Ebrahim & Rangan, 2014). We also consider interconnectedness to understand how alliance activities require joint efforts to generate an integrated social impact.

17.4.3.1 Size/scale

In its short existence, WW impacted small businesses by creating funding opportunities that are large enough in size to help nonprofits. This was done by combining members' investment with fellow business members to amplify and multiply the impact, which allowed them to provide so far over $120,000 to six nonprofits. Still, WW's impact is local and focused primarily on donations and volunteer work (Working for Women, 2022). Similarly, CA focuses on donations and volunteer work, but its scope is larger, reaching a regional level. Overall, CA has contributed over $27 million to grassroots conservation groups in North America, helping save 73 million acres of wildlands, protecting 3,580 miles of rivers, stopping or removing 37 dams, designating five marine reserves, and purchasing 21 climbing areas (Conservation Alliance, 2022). FSC's impact is global. It has issued over 1,600 promotional licenses, protects over 215 million hectares of forest and land worldwide, and collaborates with 1,162 members from 89 countries (FSC, 2022). Such a significant impact was possible due to the alliance's access to a wide and diverse network of partners worldwide. For example, after creating a Permanent Indigenous Peoples' Committee to ensure Indigenous People's opinions and topics were heard, in 2018 the FSC Indigenous Foundation was founded. The organization is run by a council composed of indigenous leaders. In 2021, the organization expanded its reach collaborating with three indigenous networks representing people from 30 different countries. Another example is a new initiative in Chile, in which FSC empower small holders of local communities and Indigenous Peoples. Other social impact includes positive social outcomes, such as increased awareness, consultation, and participation in environmental preservation activities, better conflict resolution, better living conditions, and increased job opportunities. As expected, FSC also achieved environmental impacts including CO_2 reduction, and air and water pollution reduction, in addition to decreased deforestation in the FSC-certified areas. Finally, data shows improved economic outcomes in the certified areas, such as reduced waste, increased harvest efficiency, lower logging costs, higher profitability, and increased market access (FSC, 2022).

17.4.3.2 Interconnected impact

Generally, pressing societal challenges require a collaborative effort between a variety of actors, disciplines, and sectors that creates an integrated, interconnected impact. Thus, we also look at the extent of interconnectedness of each alliance's impact. Despite being a young social alliance, WW partnered with many nonprofits providing services in a variety of areas in Chicago and the Northeast region (three projects in New York, one in Philadelphia, and one in Massachusetts). In terms of social impact, WW contributes to helping underserved communities, providing Latinas, women of color, and immigrant women with financial training, mentorship, and workshops to help them pursue college and inclusive employment opportunities. As such the impact that WW has created so far seems very interconnected and integrated.

Similarly, CA's mission is very broad. As such, CA collaborates with a variety of organizations focused on the protection of threatened and wild habitats and outdoor recreation areas. This social alliance also attracts the general public, especially outdoors enthusiasts, as well as businesses operating around the outdoors and recreation spaces. Thus, CA sponsored activities involve local, state, and federal governments and their agencies, stewards of the natural environment in affected areas, and underrepresented populations. All these result in a highly interconnected social impact.

FSC's impact is also highly interconnected, and this is due to its large network of partners. This alliance advances its mission through partnerships with worldwide organizations whose objectives align with those of the FSC (FSC Global Strategic Plan and Its Implementation, 2016). Working together with an extensive and diverse pool of partners allows FSC access to increased resources (financial, human, and knowledge) and better ways to channel them toward achieving its forest preservation goals, while also benefiting the communities within these forests. As such, through coordinating its efforts with companies and local representatives, FSC was able to achieve better working conditions for those working in the forests, better living conditions of workers and their families, create effective and equitable means for locals to express their opinion regarding the logging companies' activities, and prevent conflicts between logging companies and local people (CIFOR, 2014). In addition, given FSC's increased capacity for finding joint solutions through its allies, the impact of its activities spreads beyond forest conservation across sectors and industries.

It is clear that interconnectedness is high and valued. For all these alliances, it seems that the sum of the different partners' resources and expertise, as well as knowledge coming from different geographic locations, add to the interconnectedness of their work. This highlights the nature of alliances as ideal arrangements for interconnected societal solutions.

17.5 DISCUSSION

The aim of this research was to examine how governance in multi-stakeholder partnerships (i.e., social alliances) influences the ability of business and other organizations to have superior societal impact. We investigated three social alliances, and based on our analysis, we consider that to achieve a broader impact into the community, companies should seriously consider being part of an alliance rather than trying to create their own CSR programs. Social alliances seem better than individual corporate programs due to four main reasons: legitimacy of working collectively, learning possibilities, interconnectedness, and larger impact.

1. Legitimacy of working collectively: In our findings, we show how these social alliances' governance structures enable the participation of different partners and create equitable decision-making processes. Thus, societal problems should not be solved by one organization alone that carries specific interests in mind. Instead, having a collective group discuss and develop complex and adequate solutions to pressing social challenges shows a real commitment to the issue (Ferraro, Etzion & Gehman, 2015). Organizations should not just decide what they want to do and call it CSR. Instead, they should aim at aligning their efforts with other businesses and nonprofits and work collaboratively toward common, well-defined CSR goals. This is because, in social alliances, organizations can raise their voice and be heard, making real contributions to the alliance's cause and, thus, being less likely to be accused of 'greenwashing' or solely targeting increased reputation and customer loyalty (Laufer, 2003). In this sense, FSC engages and works collaboratively with various partners across the globe and is transparent regarding its membership, governance mechanisms, and decision-making processes. All these show that FSC promotes an image of 'We are larger than Me,' which increases the legitimacy of FSC and its partners' collective effort. This is because such an approach moves from a focus on what an organization can do in terms of CSR to contribute to solving a problem, to a mindset of what the organi-

zation can do together with others, to create a more sizable impact to solve a pressing social issue.

2. Learning possibilities: Because of a social alliance's access to a large and diverse network of partners willing to share their skilled workforce and expertise, alliances create productive learning possibilities. For example, corporate volunteers working with WW and CA bring their knowledge to the alliance and the nonprofits they serve while also exchanging knowledge and innovative ideas with other volunteers who come from diverse professional, academic, cultural, and life backgrounds. As such, alliance activities and shared power mechanisms that allow equal participation of members (with their diverse perspectives and interests), transform these alliances into learning hubs that foster transformative solutions to complex societal problems and, thus, are strong catalysts of CSR programs.
3. Interconnectedness: Social alliances become really interconnected arrangements due to their inclusive governance structures, complementary resources and skills, shared work, and collective goals. Not only does the alliance's interconnectedness increase their potential for joint value creation (Weber & Weber, 2011), but it might also make it harder for a program to disappear or not succeed. This is because there are many actors and actions involved, and even if one of them might not work well, the others could balance it out. Additionally, we see that with more involvement of different actors, CSR programs have increased buy-in and engagement, as well as specific financial and organizational support, and thus, are more likely to succeed.
4. A larger impact: Due to their legitimacy, learning possibilities, and interconnectedness, social alliances can generate a larger and more lasting impact. For instance, based on its partnerships and its members' proven expertise in forestry management, FSC filled existing gaps in national and international regulations regarding forest and forest products-related frameworks. FSC accomplished this by implementing innovative and reputable certification programs, being one of the pioneers of sustainable wood and paper production certification. As a result, major companies, like REI, Patagonia, South Pole, and Stora Enso, but also environmental groups, and governments aligned with FSC to promote FSC's certification program by displaying its logo and paying the associated fee. Although all parties gain from participating in FSC's certification program, the major gain is for the alliance itself. This is because it allows FSC to promote its goal of sustainable forestry management practices and increases FSC's credibility (due to its logo being displayed by major CSR players). On the other hand, the revenue generated from the certification program allows it to reach beyond traditional sources of funding (Berger et al., 2006) that FSC can use to expand its focus and outreach (i.e., FSC expanded from forest conservation to water conservation).

A further contribution of our research is that different social alliances have different purposes and as such may require different governance structures. For example, due to the narrow scope of their missions (donating to nonprofits and helping corporate volunteer programs), WW and CA governance structures are not required to be exceptionally complex and do not greatly impact the legitimacy of their programs. Nonetheless, when a social alliance has a broader goal and scope, such as norms setting and private regulation like the FSC, governance structures become essential for the program's legitimacy, and consequently, the overall success of the organization. In this line, we argue that FSC became more global not only because of valuable individual contributions of specific alliance partners (Dyer & Singh, 1998) but mostly due to its top-notch governance structures and mechanisms. FSC paid close attention to such matters throughout its history, refining its governance with the participation of all its members, staff, and certificate holders. Also, the way FSC selects its members, its high level of transparency (keeping its members informed through the Members' Portal), its checks and balances procedures, and so on, all helped FSC to become an example of good practices. This situation contrasts with the Conservation Alliance, which was formed earlier but which does not depend on a complex governance system as its impact is sensibly less extensive. For these reasons, we are more likely to recommend FSC's governance model as an example to be adopted and further developed by other social alliances when addressing complex problems whose solving transcend their times (e.g., environmental protection, energy conservation, carbon footprint reduction, access to clean water, etc.).

Finally, we highlight an emerging nonprofit and potentially social alliances ownership model that will have important governance implications and may involve different social alliances arrangements that founders, corporations, and nonprofits may choose in the coming years. We are referring here to a model that came into sharp focus in 2022 when Yvon Chouinard announced that he would donate ownership of Patagonia to a nonprofit organization and trust. This decision aims to preserve Patagonia's autonomy from other financing forms (e.g., going public, private equity) and continue to use all profits towards the founder's vision of protecting land and combating climate change. While at this point Patagonia is a singular example of social alliances owned by a nonprofit and trust, we cannot exclude the possibility that many companies will consider similar arrangements. Therefore, analyzing the governance structures and mechanisms of social alliances and how they can create greater societal impact is crucial when constantly looking for innovative governance arrangements to make businesses even more central in addressing social change.

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18. Corporate governance, COVID-19, and stakeholders: Learnings from the Canadian financial sector

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18.1 INTRODUCTION

According to Mwenja and Lewis (2009), the boards that best contribute to their organizations are the ones that create opportunities for management to 'think aloud', help them identify what is most relevant for the organization, encourage experimentation, model by example, and responsibly perform their monitoring duties. However, to assess organizational performance the focus must be not just on a board's features, but also on whether it meets its goals and objectives successfully, and satisfy stakeholders' expectations (Mwenja & Lewis, 2009). Good corporate governance is the foundation for socially responsible practices that are grounded on stakeholder engagement, fairness, transparency and accountability (Salvioni et al., 2018), having a great impact on sustainability performance (Iliev & Roth, 2021). Furthermore, while scholars argue that the COVID-19 crisis presented challenges and opportunities for corporate governance (Mather, 2020), research also shows that companies that strengthen the relationships with their stakeholders navigate crises such as the pandemic much better than others who do not (Cheema-Fox et al., 2021).

In times of crisis, the financial sector has a significant role to play in the stability of markets, the viability of businesses, and the stability of society, with the chance of constructively sustaining the economy amidst an emergency (Bitar & Tarazi, 2022). For example, the Canadian banking system played a vital role during the global financial crisis of 2008–2009, allowing the country to navigate the crisis in a much safer way than other comparable economies (Bordo et al., 2015; Killins, 2020; MacDonald & van Oordt, 2017). More recently, amid the health pandemic caused by COVID-19, the financial sector was once more called upon to play its role for people, businesses, and the community (Demirgüç-Kunt et al., 2021; Talbot & Ordonez-Ponce, 2020). However, while much research has been conducted about financial markets and the COVID-19 pandemic (Li et al., 2020; Wu & Olson, 2020; Zhang et al., 2020), little has been published about the role that the financial sector has played in addressing the impact of the pandemic on its stakeholders and more importantly the role that corporate governance should have taken in this respect (Koutoupis et al., 2021). Furthermore, little is still known about the role that boards play in corporate sustainability (Iliev & Roth, 2021). This chapter focuses on the corporate responsiveness of Canadian financial institutions, namely banks and credit unions, to illustrate connections between management strategies and the role of corporate governance in periods of crisis, so that lessons can be learned to face future crises.

18.1.1 Corporate Governance and Firms' Social Responsiveness

Theorizations about corporate governance fall into a spectrum that ranges between a narrow and a broad view. While the former is concerned with the relationship between a company and its shareholders with board members being responsible for critical agency functions (Millesen & Carman, 2019), the latter focuses on the company and its stakeholders. This chapter is grounded on this broad view, and in particular on the definition proposed by Tricker (2019, p. 4), who argues that corporate governance 'is about the way power is exercised over corporate entities' including the activities of the board and how it relates with management, the shareholders or members, auditors, regulators and other stakeholders. Although different in their approach, narrow and broad views share the unifying theme of accountability, either to shareholders or to stakeholders.

Although the broad view is not the original paradigm for the for-profit sector (Friedman, 1970), many researchers argue that it should be the current focus of corporate governance due to the socio-ecological challenges that society is currently facing (Bansal et al., 2020; Carroll, 2021; Freeman, 1984), such as the pandemic and the Sustainable Development Goals (United Nations Development Programme, 2018). Thus, the current purpose of corporate governance extends beyond ensuring sound operations and creating value for its shareholders to also encompass its contribution to a sustainable society.

An example of how corporate governance should evolve and be understood by corporations is the celebrated statement made in 2019 by the Business Roundtable, a lobbying group of nearly 200 CEOs of the world's largest multinationals. In a press release, they stated that 'Americans deserve an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity…', adding that they were committed to delivering value to customers, investing in employees, dealing fairly and ethically with suppliers, supporting the communities in which they work, and generating long-term value for shareholders (Business Roundtable, 2019). Hence, they have declared to be focused on stakeholders beyond just their shareholders. While the results of this new purpose are still to be seen (Eccles et al., 2020) as the statement has been classified as 'mostly for show' (Bebchuk & Tallarita, 2022), it is at least a declarative shift of focus from just on shareholders to stakeholders (Kaplan, 2019). However, data shows that boards have still not connected environmental, social and governance (ESG) issues with a financial impact on their companies (PwC, 2020; Whelan, 2021), and not considered sustainability 'a core preoccupation' but a 'nice [thing] to have' (Lynch, 2021). So beyond renewed statements, there is a lot to do for corporate governance to engage and deeply focus on their stakeholders.

18.1.2 Boards, Businesses, and Stakeholders

According to the broad perspective on corporate governance, boards have a relationship with shareholders and other stakeholders including customers, employees, their supply chain, the community, the environment, and even future generations. However, directors whose task is to secure the future of the companies on whose boards they sit still hold them back with 'outdated emphasis on short-term value maximization' (Eccles et al., 2020).

As defined by Freeman (1984), stakeholders are those who affect or are affected by a project or organization in some way and stakeholder theory explores how businesses can fulfill their obligations to society. In this context, a crisis such as the COVID-19 pandemic represents a challenge as well as an opportunity for businesses to contribute to their stakeholders (Mather, 2020; Ulmer, 2001). This is especially significant considering the influence businesses have on our society and the struggles their stakeholders, particularly customers, the community, and employees, faced during the years of the pandemic. The pandemic, which was 'specific, unexpected and a non-routine event' (Seeger et al., 1998, p. 233), is one of those challenges that organizations must master to succeed (Khodarahmi, 2009), with the board of directors playing a pivotal role in this regard.

To understand the capacity of corporations to respond to social challenges that are not usually in their domain, such as COVID and its effects, scholars refer to the concept of social responsiveness (Frederick, 1978). This concept is different from corporate social responsibility (CSR) as it takes a more managerial perspective (Welcomer et al., 2003), with the aim of making businesses more responsive to socio-environmental matters. Therefore, social responsiveness is about processes, responses, and actions ranging from doing nothing at all to doing very much (Carroll, 1979; Epstein, 1987), with three critical units of analysis: management, social issues, and stakeholders. Corporations can provide the following responses:

1. *Reactive* to social matters, denying responsibility, doing less than what is required, and not providing any support or involvement of employees or top managers.
2. *Defensive* by admitting their role but doing the least that is required or expected and providing only moderate support.
3. *Accommodative*, that is, by accepting responsibility, doing all that is required, and providing some support by employees and managers.
4. *Proactive*, that anticipate their responsibility, do more than what is expected and provide large support and involvement (Clarkson, 1995; Lim et al., 2005; Rasi et al., 2010).

The COVID-19 pandemic has been a crisis involving us all in some way and the financial sector is not exempt from it, especially during its first year when few knew what we were dealing with. The pandemic affected investments, productivity, and the workforce (Wilkins, 2020b). Financial markets faced greater volatility and unpredictability creating higher risks (Zhang et al., 2020). Debt markets were under significant pressure (Cetorelli et al., 2020) and loans and deposits increased at least during the first year of the crisis (Dursun-de Neef & Schandlbauer, 2020). Almost three years after the pandemic was declared, with millions dead and billions vaccinated (WHO, 2022), the effects of COVID-19 are still felt in our daily lives (LaBelle & Santacreu, 2022). However, good corporate governance has been found to mitigate the impact of COVID-19 (Hsu & Liao, 2022).

18.2 FINANCIAL INSTITUTIONS' RESPONSE TO THE PANDEMIC, AND ITS IMPACT ON STAKEHOLDERS

In order to analyze the role of boards in the successful management of crises such as COVID-19, we provide some key takeaways from selected articles focused on the Canadian financial sector, their responses to the pandemic, and the effect of those responses on their stakeholders. While most research on the Canadian financial sector and COVID-19, has focused on its role in economic recovery, we consider three articles published by the author and colleagues on Canadian financial institutions, COVID-19, and their stakeholders, and discuss the implications of the findings for corporate governance. The first article studied the initial responses of the ten largest Canadian banks to the pandemic and their stakeholders. The second focused on the role that 100 Canadian credit unions played during the first year of the pandemic and classified their social responsiveness approaches to stakeholders. The third assessed sentiment scores associated with the Big 5 Canadian banks[1] throughout the first year of the pandemic, how the pandemic impacted their products and services and how their actions affected their stakeholders. Findings from them are summarized and discussed, and the role of boards is addressed to provide learnings from the pandemic to face future crises.

During the beginning of the pandemic, most Canadian banks did very little to support their stakeholders, in contrast with the key role they played in the global financial crisis of 2008–2009 (Bordo et al., 2015; MacDonald & van Oordt, 2017). Using social responsiveness as a theoretical framework, Talbot and Ordonez-Ponce (2020) analyzed the largest ten Canadian banks' practices to face the pandemic as presented in their websites between February and April 2020. The analysis of 125 documents involved two stages. First, banks' actions were clustered under three categories of stakeholders: business clients, personal clients, and the community. Then, their initiatives were compared and assessed by two independent researchers and 19 different actions were evaluated according to the level of commitment. In the second stage of analysis, a combination of hierarchical clustering was conducted to identify clusters of banks' actions and multidimensional scaling was performed to visually represent the banks (Talbot & Ordonez-Ponce, 2020). Out of the ten banks studied, only three (of which two are among the Big 5) were found to respond proactively to the crisis by committing to their clients and the community (Talbot & Ordonez-Ponce, 2020). At the other extreme, 40 percent of the assessed banks revealed practices limited to financial products, that did not contribute to the community, and newly adopted programs and services were the least favourable of all for clients (Talbot & Ordonez-Ponce, 2020). Most concerning is that two of the banks in this category control more than a third of Canadian assets (Cision, 2019; Fortune Media IP Limited, 2019). Thus, despite the financial easing measures and support provided by provincial and federal authorities, most banks did not perform in a socially responsible manner with their stakeholders and as a result, with society.

The second study focused on Canadian credit unions, financial institutions that play a relevant role in the economy of several Canadian communities (Mavenga & Olfert, 2012; Stoffman, 2017). More than 500 actions presented by the largest 100 credit unions between March and August 2020 were qualitatively assessed following Tesch's (1990) data analysis steps. First, similar actions were clustered into categories. Second, emerging categories were grouped into three sets according to their financial, operational and other features. Then, the targeted stakeholders (clients, communities, and employees) were identified, and the actions directed to them sorted. Finally, all responses were categorized according to the dimensions proposed by the social responsiveness literature: strategy, performance and involvement (Clarkson, 1995; Lim et al., 2005; Rasi et al., 2010). Coding and numerical values were discussed among researchers and tested by statistical means. Three clusters of credit unions were identified, exhibiting significant differences with respect to their strategy, performance, and the involvement of employees and managers in their COVID responses (Al-Zyoud & Ordonez-Ponce, 2022). Most credit unions addressed the pandemic through accommodative and proactive strategies and mostly implemented operational actions instead of financial responses to support their business, personal clients and their employees, with communities being targeted to a much lesser extent (Al-Zyoud & Ordonez-Ponce, 2022). Finally, credit unions with larger assets implemented a greater number of actions towards aiding their stakeholders (Al-Zyoud & Ordonez-Ponce, 2022). Overall, this research shows that a traditional social responsiveness approach such as the Responsive, Defensive, Accommodative, Proactive approach (RDAP), does not work when organizations face unexpected events such as COVID-19, as a crisis that was largely unexpected. RDAP is based on strategies to tackle known crises so organizations can either do nothing, deny or fight responsibility, or anticipate the crisis, neither of which would apply to the COVID case. Thus, novel strategies are required to face future unexpected crises and remain resilient.

The third research looked at the five biggest Canadian banks and analyzed more than 3,000 news articles as a proxy for their responses to COVID-19 during the first year of the pandemic with a specific focus on their products, services, and stakeholders. Excerpts of news articles were collected from the two main Canadian newspapers by readership. Building on crisis management and stakeholder management theories, this article adopted a combination of qualitative and quantitative methods (sentiment analysis, text mining, and statistical methodologies) to examine the banks' tone of discourse, the stakeholders affected by their actions, and how corporate responses to the pandemic evolved from March 2020 to March 2021. While results show that banks' products and services were negatively impacted by the pandemic, reflecting how poorly prepared they were for the crisis, they also show an increasingly positive sentiment concerning banks' responses to COVID-19 (Ordonez-Ponce et al., 2022). However, findings also show that different stakeholder groups were not addressed similarly, nor in a consistent manner, with the community being the most positively affected and employees the most negatively impacted by the banks' actions (Ordonez-Ponce et al., 2022). This research highlights the relevance of learning from previous critical experiences to address unexpected crises such as the pandemic with stakeholders at the core of new change management strategies, something that still rarely happens (Wenzel et al., 2021).

18.3 DISCUSSION

Boards that perform well lead to well-performing organizations (Mwenja & Lewis, 2009), so having a strong board is fundamental for any organization (Northrop, 2018). Furthermore, well-performing boards guide management in determining what is most relevant for the organization, which includes focusing on the satisfaction of those affected by the organization's performance (Mwenja & Lewis, 2009), that is, their stakeholders (Freeman, 1984).

Just like COVID-19 has presented challenges for every person during the last few years, this stressful situation has also affected businesses. Despite their power and the crucial role that the financial sector plays in our everyday lives, financial institutions have been also affected by the pandemic, an impact extended to their many stakeholders. Financial institutions provide stability to markets, aid businesses to become viable, and certainly help society operate so their failure or the difficulties they face affect us all. This is just one of the many reasons why it is important to assess them and understand how they have responded to the current pandemic. This chapter highlighted how the industry has reacted during the pandemic and how that experience should be considered by their corporate governance so that other crises such as climate change, wars, political instability, or loss of biodiversity are properly led and guided. Financial institutions need to anticipate, plan and prepare for these and other future crises so that their organizational goals are protected (Seeger et al., 1998).

18.3.1 Managing the Crisis

Crisis management is an ability that every organization should master (Gundel, 2005; Khodarahmi, 2009), and having that as a priority is the responsibility of the board. It is clear by now that COVID-19 was not anticipated by many (Jadoo, 2020), including the financial sector. This explains why banks' first response to the crisis was mostly reactive without focus on their clients or the community (Talbot & Ordonez-Ponce, 2020), and even after months into the pandemic, financial institutions were still not well prepared to manage the impact of the crisis on their products and services (Ordonez-Ponce et al., 2022). At least as the pandemic evolved, banks started contributing more to the community and their clients but curiously reduced their focus on assisting their employees. It seems that amidst the crisis, banks still did not have a proper strategy to face the issue and changed their responses based on current events, how the business looked or depending on who yelled the loudest. However, their confusing and changing actions should not be a surprise as it reflected a short-term approach that is still typical of corporate board of directors (Eccles et al., 2020). This short-term approach needs to change for corporate sustainability strategies with a long-term focus, whose formulation, direction, and monitoring fall in the domain of the board of directors (Iliev & Roth, 2021). As more crises will likely occur, corporate leaders must recognize that their current social licence to operate may be questioned and that they need to expand current CSR or sustainability initiatives to consider how crises such as the pandemic influence not just their business but also stakeholders (Billedeau & Wilson, 2021). In times of crisis, businesses must have open and constant communication channels, be transparent when disclosing information, respect communities, understand what sustainable development means for them, have mechanisms for conflict resolution as well as culturally appropriate decision-making processes (Prno, 2013; Prno & Slocombe, 2012).

18.3.2 Social Responsiveness

While Canadian banks are for-profit organizations, credit unions are not-for-profit institutions cooperatively owned and created to serve their members (Koepke & Thomson, 2011). While financial results are a measure used by boards to calculate the performance of banks, not-for-profits are assessed based on accomplishing their mission, that is, making a difference to the stakeholders they serve (Shienfield, 2021). Hence, credit unions aim to address socio-environmental issues by promoting sustainability, fighting poverty, or helping minority groups (Stoffman, 2017). Thus, their boards, which comprise members elected by other members, should have argued in favour of implementing proactive social responsiveness approaches during the pandemic more than the boards of Canadian for-profit banks. In fact, Canadian credit unions were mostly accommodative with a particular focus on clients and employees (Al-Zyoud & Ordonez-Ponce, 2022), differentiating themselves from Canadian banks. However, they mostly implemented operational actions rather than focusing on providing their stakeholders with financial assistance, which again speaks to a short-term bottom-line approach, despite the not-for-profit nature and cooperative ownership. Furthermore, the communities that credit unions are supposed to assist with more direct services than regular banks were not their priority (Al-Zyoud & Ordonez-Ponce, 2022).

18.3.3 The Institutional Context

While the pandemic came unexpected, the financial sector in Canada has navigated the pandemic in a relatively good financial way and, with important differences and throughout varied periods of time, their stakeholders have been somehow considered and supported by governments among others. Indeed, it is important to recognize that the institutional context provided by the federal and provincial governments, the Bank of Canada, the Superintendent of Financial Institutions, and the Canada Mortgage and Housing Corporation, among others, helped the industry include their stakeholders, so that the whole economy could surf the pandemic waves (Lord & Saad, 2020; Wilkins, 2020a). Thus, an open question to explore in future research is whether the resilience of the (Canadian) financial sector to navigate times of crisis has developed or is still highly dependent on state support.

18.4 CONCLUSION

Certainly, the illustrations of corporate responses reported in this chapter are not unique to the financial sector. Research on other industries also shows that corporate leaders failed to look after stakeholders, or benefitted them only as a means to serve shareholders' interests (Bebchuk et al., 2023). Furthermore, despite academics arguing for a shift to 'stakeholder capitalism', some scholars still conclude that the role of businesses is not to solve social problems (Hemphill et al., 2021), and others propose to deviate from traditional governance models focused on shareholders only if the impacts on other stakeholders are large (Karpoff, 2021).

The concern is then about the role that corporate governance could have played during the pandemic and more importantly, the lessons and learnings from this crisis so that future emergencies are better managed from the top. It should neither be necessary to wait for authorities to guide and help corporate actions, nor for stakeholders' pressures to expect board and managerial leadership. Stakeholder capitalism speaks to that. For organizations to be successful and survive crises such as COVID or climate change, a holistic and broad approach to corporate governance must be considered. One that integrates financial with social and environmental performance (Lawler & Worley, 2012). Moreover, corporate boards must engage members who understand the impact of their organizations on the environment, their employees and society at large (Lawler & Worley, 2012). Focusing on social, environmental and governance issues in an integrated manner even sets organizations apart from others (Harper Ho, 2017).

As stated by Tricker (2019), 'corporate governance is about the way power is exercised … and how it relates' to all stakeholders (p. 4). Thus, to achieve good corporate governance and satisfy all stakeholders, board members must pay attention to social, environmental and governance performance (Grove & Clouse, 2018). Let's contribute to good corporate governance using the pandemic as a useful experience so that better and more opportune decisions are made not only for their companies' survival but for the whole of society.

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19. What should a board of directors know about workplace harassment?

Sylvie St-Onge

Especially in the wake of the #MeToo movement, boards of directors are increasingly confronted with complaints, allegations, or reports of harassment at work that can be widely publicized in the media. These human and reputational crises occur all over the world within organizations of all sizes, including organizations in the private, public, and non-profit sectors, companies whose shares are traded on the stock exchange, and in all sectors of activity: arts and culture, sports, video games, politics, cinema, radio and TV, services, government organizations, manufacturers, and so on.

The cases of companies and individuals facing allegations of harassment are so numerous and frequent that it is difficult to list them. Cases may involve a member of the management team, or a chief executive officer (CEO) suspected of having engaged in sexual, psychological, or discriminatory harassment against one or more persons they are in regular work-related contact. They may also involve an organization accused of tolerating harassment at work for years. There are also cases of harassment within the board of directors or involving one or more board members. Some of these cases are made public, and the legal proceedings make headlines. However, many councils have also unobtrusively caused the dismissal or resignation of executives, prominent figures or even board members because of harassment-related charges.

When harassment cases arise, board members may feel helpless as they have no expertise on the subject. As allegations and complaints of harassment in various forms continue to increase with immediate and significant negative repercussions, board members wonder what role they can and should play. Directors can no longer rely solely on organizational policies and procedures. They need to know how to act decisively to give these accusations the attention they deserve while protecting the people involved, the organization, management, and even the board itself. This chapter aims to help corporate directors deal with harassment cases.

First, we address the many negative impacts that cases of workplace harassment allegations can have, including on a company's culture, image, and bottom line. Next, we define what constitutes cases of psychological, sexual, discriminatory harassment, and cyberstalking by indicating the main legal principles. We explain how harassment can take various forms depending on the complainants' and the defendants' characteristics, such as their number, hierarchical level, position, place of work, and so on. We also explain the numerous contextual factors that can foster workplace harassment, and we describe the major responsibilities of employers to prevent harassment and intervene when necessary. Finally, we provide specific advice to help board members meet their responsibilities regarding workplace harassment.

19.1 THE BOARD MUST RECOGNIZE THE NEGATIVE EFFECTS AND RISKS OF WORKPLACE HARASSMENT

Workplace harassment has multiple negative and costly consequences for the employees involved and their families, colleagues, customers, the work climate, recruitment and retention of staff and customers, organizations, and society in general.

Harassment incidents and accusations are extremely stressful for all involved, including coworkers and potential witnesses, and all may see their satisfaction, motivation, commitment, and perceptions of justice at work greatly reduced. This violence has negative effects on the work performance (e.g., decreased quality, productivity) and physical and mental health (e.g., stress, anxiety, concentration problems, lack of sleep, irritability, isolation, depression, burnout, suicide) of people, both victims, and harassers. In some cases, the entire company culture is under attack. Confirmed allegations of harassment, tolerance or improper management of harassment may lead to career termination, forced resignations, or dismissals of executives and board members. Cases are often dealt with in private but are also likely to make headlines. The departure of senior managers can lead to major changes in the company and hinder its growth. The events that recently took place at BrewDog, a Scottish craft brewery, illustrate how workplace harassment left unchecked can quickly taint a firm's business and reputation in addition to hurting individuals:

> In June 2021, almost 300 former and current employees signed a letter accusing their CEO, Mr. James Watt, of creating a toxic fear culture at BrewDog. The letter stated that a 'significant number' of former staff had 'suffered mental illness' because of working at BrewDog. In January 2022, Watt faced further accusations of inappropriate behaviour and abuse of power in the workplace by former staff. Over 15 ex-staff spoke out about his conduct on the BBC Scotland's Disclosure programme. Specifically, he was called out for making female bartenders feel 'uncomfortable' and 'powerless'. A string of misconduct accusations was included in the programme, including that he kissed an intoxicated customer on a roof terrace bar and took women on late-night private brewery tours, which left staff feeling uncomfortable. He was called a 'starer' by former staff members, and managers said they would schedule women to not be at work if they knew Mr. Watt was in town visiting. (Source: Extracted from Aoraha, 2022)

The costs for an organization include decreased productivity, customer and supplier dissatisfaction, increased frequency and duration of long-term disability leave, increased costs of healthcare and employee assistance claims, the hasty departure of victims or witnesses who can no longer tolerate the harm they suffer or see, which results in higher hiring and employee training costs. In addition, failure to intervene in harassment cases can encourage other employees to follow suit, leaving management power in the hands of harassers. When harassment persists, its negative effects intensify until they reach unsuspected proportions. Doing nothing or responding inappropriately can also lead to serious or tragic persistent or one-time problems such as workplace attacks, murders, and suicides.

Workplace harassment also affects the quality of goods and services offered to customers and, in turn, customer attraction and retention, which harm the organization's turnover. Tolerated or poorly managed harassment can also be widely publicized in the media, which impacts the company's image and its ability to recruit and retain employees, customers, sponsors, or donors. In June 2020, for example, the #MeToo wave of denunciations of sexual violence hit the video game industry. A unit of Ubisoft, a French company, based in Montréal (Canada), announced the departure of the head of the Canadian studios amid allegations of abuse and harassment, as Ubisoft had failed to meet its obligation to ensure a safe and inclusive work environment for its employees (Halin, 2022). This case has harmed the entire gaming industry and the attraction and retention of candidates. Equity, diversity, and inclusion concerns, increasingly important to the public and the workforce, compel boards of directors to prevent or respond optimally to harassment situations committed or condoned by prominent figures. Organizations and brands can see their long-established reputations plummet overnight; they quickly lose customers, donors, or sponsors, and the financial results and the company's market value may suffer irreparably. For example, US retailers Lululemon and Guess experienced significant declines in their stock prices in February 2018 when allegations of misconduct led to the departure of Lululemon's CEO and the abandonment of the day-to-day responsibilities of a Guess co-founder (Lally and Whitehill, 2018). In Canada, after learning that Hockey Canada had secretly settled two cases of gang rape by young players through a fund financed partly by registration fees paid to the federation, the federal government and many commercial partners suspended their funding agreements with the organization (Rahmouni, 2022).

Finally, it is necessary to intervene diligently and adequately in cases of harassment to be able, if necessary, to defend in court the decisions that have been made. Employers may face lawsuits and penalties in countries where the law prohibits workplace harassment. Litigation or claims settlements can cost millions of dollars in defense costs and settlement or judgment fees. For example, in Quebec, employers may be ordered to reinstate victims in their job positions, pay victims for moral damages and compensation for loss of employment, and finance psychological support for a reasonable period. In 2020, the Montreal Museum of Fine Arts was plunged into a mediated crisis after the dismissal of its executive director and chief curator in the wake of allegations concerning the deterioration of the work climate. The dismissed director sued the Museum's board of trustees for \$1 million in moral damages and \$1 million in punitive damages; the content of an out-of-court settlement reached between the two parties has not been disclosed (Clément, 2021).

Lally and Whitehill (2018) note that in the United States, in some cases, boards of directors of public companies are required to disclose harassment complaints to shareholders, which can negatively impact stock prices and leave the company vulnerable to shareholder lawsuits. The authors report the case of a company that had disclosed multiple sexual harassment settlements and was the subject of a federal investigation to determine whether it had properly disclosed those settlements to shareholders.

19.2 THE BOARD OF DIRECTORS NEEDS TO KNOW WHAT CONSTITUTES WORKPLACE HARASSMENT

19.2.1 Knowing the Criteria Used to Recognize Illegal Workplace Harassment

People might differ on what they consider to be harassment in the workplace. Hence, boards of directors and business leaders need to adhere to basic criteria put forward in most relevant legislations. In many countries, laws include protection against moral or psychological harassment, which may integrate the concept of sexual harassment into their definitions. Let's consider the following examples:

> … any vexatious behaviour in the form of repeated and hostile or unwanted conduct, verbal comments, actions or gestures, that affects an employee's dignity or psychological or physical integrity and that results in a harmful work environment for the employee. For greater certainty, psychological harassment includes such behaviour in the form of such verbal comments, actions, or gestures of a sexual nature. A single serious incidence of such behaviour that has a lasting harmful effect on an employee may also constitute psychological harassment. (Act respecting labour standards, Québec. Canada. Bill 176, Art. 81.18)
>
> … any action, conduct or comment, including of a sexual nature, that can reasonably be expected to cause offence, humiliation or other physical or psychological injury or illness to an employee, including any prescribed action, conduct or comment. (Canadian Labour Code. LRC, 1985, c, L-2, art. 122 (1))
>
> … a range of unacceptable behaviours and practices, or threats thereof, whether a single occurrence or repeated, that aim at, result in, or are likely to result in physical, psychological, sexual, or economic harm, and includes gender-based violence and harassment. (International Labour Organization. OIT, 2019, article 1a)

However, whatever the countries where workplace harassment is legislated, jurisprudence seems to use and recommend the use of the following constitutive and cumulative criteria or principles to determine if a situation constitutes illegal workplace harassment:

- **Vexatious conduct:** The conduct humiliates or hurts the person's self-esteem and causes torment. It does not necessarily manifest itself in action. Failure to act and passivity may constitute vexatious conduct in certain circumstances. This criterion relates to the effects of behaviors on the victim rather than the malicious intent of the alleged harasser, which is not necessary to conclude that there is vexatious conduct. This condition may be identified by applying the test of the 'reasonable' person: would a person in the same circumstances also conclude that harassment is present? It is important to exclude the subjectivity linked to the alleged victim's emotion from the objective facts.
- **Repetitive nature of the behaviors:** It is necessary to ascertain whether the accumulation of gestures and behaviors constitutes psychological harassment. Conduct that does not constitute psychological harassment may become so if it occurs frequently. Each behavior, taken alone, may seem harmless; the synergistic and repetitive nature of the behavior leads to adverse effects. Workplace harassment is the repeated and persistent attempt to torment, diminish, or frustrate a person or to provoke a reaction such as fear, intimidation, and pressure. However, laws refer to an exception to the repetitive nature of behaviors: a single serious manifestation may be viewed as harassment if it causes lasting harm.
- **Hostile or unwanted behaviors:** It is important to consider the attitudes, behaviors, gestures, or words of a person or group that intentionally or unintentionally harm the safety or physical or psychological integrity of other persons. In evaluating this test, it is necessary to adopt the perspective of the reasonable victims who cannot have sought, wanted, or desired (explicitly or implicitly) such conduct towards them.
- **Violation of dignity or integrity:** Such an impairment must affect the person's fundamental physical or psychological attributes and leave marks or sequelae that affect the victim's physical, psychological, or emotional well-being without necessarily being physical or permanent.
- **Harmful work environment:** This criterion must be assessed objectively and reveal a toxic, unhealthy, and dangerous environment for the person. The fact that a person continues to work in the workplace does not mean that it is not harmful. The objective of a legislation is to clean up the workplace, not exclude the victim, to solve the problem.

19.2.2 Distinguishing Between Various Forms of Workplace Harassment: Psychological, Sexual, Discriminatory, and Cyberharassment

Sexual harassment is often considered a form of psychological harassment that must be analyzed using the same evaluation criteria (vexatious conduct, repetitive nature, etc.). Nevertheless, the behaviors that give rise to psychological harassment and those associated with sexual harassment are distinct.

Psychological harassment may involve acts such as the following if they are repetitive (St-Onge, 2012):

- *Victims are prevented from expressing themselves, isolated, or ignored.* They are constantly interrupted or not spoken to. Their calls, emails, and so on, are left unanswered. Indirect communication with them (via emails, memos, and intermediaries) is preferred. They are left to take their breaks and dinners alone and uninvited to meetings, holiday meals, and so on. Their colleagues are forbidden to talk to them.
- *Victims are discredited or humiliated.* They are spoken to aggressively and blamed, judged on unsubstantiated and unverified gossip. Their behaviors, decisions, skills, work, personality, and ethics are constantly questioned. Their reputation is damaged by spreading rumors and gossip. They are said to have psychological problems, be too susceptible, or to imagine things. They suffer public trivial humiliation/mockery. Their achievements are undervalued, and they are unfairly deprived of support and rewards (e.g., training, promotion, raise).
- *There is a concerted effort to drive victims to take sick leave or leave the organization.* They are given humiliating tasks that require far fewer skills than they have or, on the contrary, unachievable mandates or tasks that require more skills than they have so that they are bound to fail. They are told they are not in their place or do not 'fit' in the group without specific reasons.
- *Victims or anyone associated with them are intimidated or threatened.* They are the target of camouflaged threats (insinuations, exaggerations, veiled reproaches, ambiguous requests) or open abuse (e.g., shouting, sarcasm, insults, swearing, threatening gestures). They are subjected to excessive control or administrative harassment (e.g., reprimand emails, unnecessary assignment of urgent tasks). Their health is harmed, and their property and loved ones are attacked.

Sexual harassment covers various behaviors with unpleasant, inappropriate, or unwanted sexual connotations, such as:

- adopting gestures with sexual connotations (whistling, brushing, touching, insistent looks, pinching, grabbing, kissing, rape, assault);
- insistently, repeatedly, explicitly, or implicitly soliciting sexual favors by flirting or expressing compliments and invitations;
- engaging in actions (e.g., offering gifts) or abusing power (e.g., blackmailing) in return for sexual favors;
- expressing comments about the victim's body, physical appearance, privacy, gender orientation, or gender identity;
- using crude sexual language, asking intimate questions, making silly, rude, degrading, shocking, vulgar, insulting jokes or using nicknames ('my beautiful', 'my pretty', etc.);

- undressing another person with one's eyes, staring at his/her chest, buttocks, or private parts;
- posting, sending, or disseminating degrading, pornographic, or exhibitionist photographs or images by various means, propagating or fueling rumors of a sexual nature, and so on.

It is also important to consider *discriminatory harassment*. Many countries have human rights laws that make it illegal to make management decisions or infringe on the rights of individuals based on unlawful criteria related to individual characteristics. In Quebec, for example, victims of this type of behavior are protected by the *Charter of Human Rights and Freedoms*:

> Every person has a right to full and equal recognition and exercise of his human rights and freedoms, without distinction, exclusion or preference based on race, colour, sex, gender identity or expression, pregnancy, sexual orientation, civil status, age except as provided by law, religion, political convictions, language, ethnic or national origin, social condition, a handicap, or the use of any means to palliate a handicap.
>
> Discrimination exists where such a distinction, exclusion or preference has the effect of nullifying or impairing such right. (art. 10).

Finally, we should extend the previous types of harassment to modern-day *cyberbullying* (Vranjes et al., 2020). The workplace has changed dramatically due to rapid information and communication technology (ICT) developments (e.g., smart devices, new modes of communication). Interactions have become more virtual and take place faster. Workers, employees, or external stakeholders (e.g., customers) are more vulnerable. For example, cyberbullying or cyberstalking is not limited to the workplace; it can go viral nationally and internationally, causing exponential damage to victims. Cyberbullying can manifest itself in different ways: transmitting unsolicited or threatening emails, overloading a person with a very large number of email messages, sending viruses by email, merging rumors or defamatory comments online about a person, using the identity of a person online to post controversial content, sending the victim offensive material electronically, creating online content that negatively portrays the complaining party, over-checking logins, not including a person in team emails, and so on (St-Onge and Bachini, 2023). Governments need to strengthen protection against cyberbullying and ICT-based harassment at work (Stefano et al., 2020).

19.2.3 Recognizing the Diverse Types of Harassers and Victims

Harassment can take various forms depending on the characteristics of the complainant and respondent, including their number, hierarchical level, position, place, employment relationship, and so on. Harassment might involve people at the same or different hierarchical levels; it can thus be descending, ascending, and at the same level. In addition, both alleged stalkers and victims can be one person or several people. Thus, one senior person may harass one team member or many, just as a group of employees may harass their supervisor. Many authors use *bullying* and *mobbing* to refer to workplace harassment. Bullying refers to aggressive behaviors by one person toward one or more target persons, whereas mobbing describes hostile behaviors adopted by several members against a single target person and those who defend the latter (Raza et al., 2022). Box 19.1 lists the indicators of mobbing identified by Professor Westhues of the University of Waterloo (Ontario). It is also important to indicate that harassment may be perpetrated not only by one or more employees but also by customers, visitors, suppliers, subcontractors, and past employees. Harassment may occur in the workplace and outside (telework, business trips) and during or outside normal working hours (social events organized by the employer, conventions, training, fundraising evening, etc.).

BOX 19.1 SIXTEEN INDICATORS OF WORKPLACE MOBBING

1. By standard criteria of job performance, the target is at least average, probably above average.
2. Rumours and gossip circulate about the target's misdeeds: 'Did you hear what she did last week?'
3. The target is not invited to meetings or voted onto committees, is excluded, or excludes self.
4. Collective focus on a critical incident that 'shows what kind of man he really is.'
5. Shared conviction that the target needs some kind of formal punishment, 'to be taught a lesson.'
6. Unusual timing of the decision to punish, e.g., apart from the annual performance review.
7. Emotion-laden, defamatory rhetoric about the target in oral and written communications.
8. Formal expressions of collective negative sentiment toward the target, e.g., a vote of censure, signatures on a petition, meeting to discuss what to do about the target.
9. High value on secrecy, confidentiality, and collegial solidarity among the mobbers.
10. Loss of diversity of argument, so that it becomes dangerous to 'speak up for' or defend the target.
11. The adding up of the target's real or imagined venial sins to make a mortal sin that cries for action.
12. The target is seen as personally abhorrent, with no redeeming qualities; stigmatizing, exclusionary labels are applied.
13. Disregard of established procedures, as mobbers take matters into their own hands.
14. Resistance to independent, outside review of sanctions imposed on the target.
15. Outraged response to any appeals for outside help the target may make.
16. Mobbers' fear of violence from target, target's fear of violence from mobbers, or both.

Source: Westhues, K. (2004). *The Waterloo Anti-Mobbing Instruments.* https://www.kwesthues.com/wami.pdf.

19.2.4 Knowing what Workplace Harassment is Not

Although some situations may seem difficult to live with, they do not constitute harassment when they do not meet all the criteria previously outlined. This is often the case with *conflicts* between people, although their persistence without intervention can potentially lead to harassment. Second, *incivility* involves behaviors that deviate from the norms or rules of life at work in terms of respect, collaboration, politeness, courtesy, and good manners; this phenomenon harms the work climate but does not constitute harassment. Decisions related to the *managerial right* to control the performance and quality of work do not constitute harassment even if they cause inconvenience or dissatisfaction for one or more employees. When making decisions regarding discipline, performance, schedules, absenteeism, task assignment, and so on, employers need to act in a legitimate, fair, and egalitarian manner and not make arbitrary, abusive, discriminatory, and biased decisions.

19.3 THE BOARD MUST BE AWARE OF CONTEXTS CONDUCIVE TO WORKPLACE HARASSMENT

Many contextual and individual characteristics influence workplace harassment (St-Onge, 2012). It is important for management teams and boards of directors to be aware of these situational factors to prevent harassment successfully.

First, work culture or climate, strongly linked to *performance evaluation and compensation*, is an important trigger or inhibitor of harassment. Some cultures contribute to the spread of harassment because managers and leaders do not or will not see it and take it seriously. By tolerating harassment and doing nothing, these employers delegate, in a way, their management rights to harassers who decide who stays or not in the company, who is rewarded or not, and so on. Tolerance for incivility, abuse of power, and ignored or poorly managed conflicts also form a spiral that fuels the emergence and aggravation of harassment cases. A laissez-faire climate that tolerates or forgives the adoption of unacceptable behavior or language by managers and leaders fosters a culture of silence that discourages staff members from complaining or making things better. For example, the CEO of Uber resigned in 2017 after an internal investigation revealed the sheer number of harassment cases that occurred under his leadership (Wong, 2017). In recent years, many cases of harassment in the cultural sector (e.g., film, TV, radio, museum) and sports have fueled much public debate. Employees or individuals in these sectors are subject to high expectations. They often have precarious jobs that make them more prone to abuse of power by people with hierarchical authority over them. Moreover, a high potential for variable compensation can encourage and legitimize harassment behaviors to achieve results. Leaders and executives should not be over-evaluated and rewarded (or punished) based on their results alone. Their performance assessment and bonuses should take into account their civility and good manners, their skills and ability to interact respectfully with others, and their ability to intervene and resolve conflicts in the workplace.

Concerning performance management, strong resource constraints (e.g., budget, information) combined with the *intensification of work* encourage the emergence of harassment. Thus, an environment where performance is glorified at the expense of health, unreasonable or ambiguous objectives are imposed, and competition among staff is exacerbated to increase productivity is also conducive to harassment.

A workplace under a lot of pressure is a more fertile ground for aggression and violence, and harassers are prone to use the context to justify and legitimize their actions and words. This is the case in a context of *significant or sustained organizational change* (e.g., expansion, restructuring, merger, rationalization, hiring staff, reorganization of work and positions) that can also encourage harassment as it fuels stress, fears, and insecurities. To safeguard their status and privileges, individuals may take all means, including harassment, to preserve their achievements and reach their goals.

A *deficient work organization* where people have little autonomy, do not use their skills, have to take on ambiguous or conflicting roles, and need to perform work that has little meaning may also lead to harassing behaviors. Similarly, *difficult working conditions* (e.g., heat, humidity, noise, lack of workspace, disorder) are irritants that may trigger aggression.

19.4 THE BOARD OF DIRECTORS MUST BE AWARE OF EMPLOYERS' RESPONSIBILITIES FOR HARASSMENT

Before a board understands its responsibilities for workplace harassment, it must clearly understand employers' responsibilities. In most countries where harassment is governed by law, employers are responsible for providing employees with fair and reasonable working conditions and ensuring the well-being, safety, and respect for the dignity and physical and psychological integrity of all their staff. For example, under the *Act respecting labour standards* in Quebec:

> Every employee has a right to a work environment free from psychological harassment.
>
> Employers must take reasonable action to prevent psychological harassment and, whenever they become aware of such behaviour, to put a stop to it. They must, in particular, adopt and make available to their employees a psychological harassment prevention and complaint processing policy that includes, in particular, a section on behaviour that manifests itself in the form of verbal comments, actions or gestures of a sexual *nature*. (art. 81.19)

In short, the legislator gives employers an obligation of means rather than results in matters of harassment: they do not have a duty to guarantee that no situation of harassment will occur, but rather to guarantee that they will take reasonable measures to ensure that there is no harassment or, if it happens, that they will intervene immediately to put an end to it. In concrete terms, this means that employers need to meet the following obligations:

- Not committing harassment: behaving ethically and with integrity both internally and externally.
- Adopting and disseminating a clear policy regarding complaint prevention and handling (e.g., how to report harassment).
- Preventing harassment through various actions such as training all staff (especially managers) and diligent intervention in the face of conflicts or incivilities, which may lead to harassment.
- Following up on all allegations, reports, or complaints. Intervening promptly as soon as they are informed (formally or informally) of an alleged situation of harassment. If necessary, investigating promptly and objectively, or entrusting responsibility to an external expert.
- Preserving the dignity and privacy of the persons concerned (complainant, respondent, and witnesses). Treating them humanely, fairly, and objectively and providing adequate support. Offering mediation between the persons concerned. Communicating the conclusion of the investigation.
- Taking all reasonable steps to resolve the situation and stop the harassment, including but not limited to disciplinary or non-disciplinary measures appropriate to staff members. If a third-party (suppliers, subcontractors, etc.) has caused the harassment, employers must intervene with the persons involved or their employers.

An anti-harassment policy is important to prevent harassment and manage harassment reports or complaints internally (rather than before the courts). In Quebec, there is a legal requirement to adopt such a policy and a complaint-handling process. Given the emotions and actors at stake, this policy is important to reduce fears and conflicts. Box 19.2 lists some of the topics covered in a policy. Like all major human resources policies, this policy must be approved by the board of directors and revised at a given frequency (e.g., four years) or earlier, if necessary.

BOX 19.2 EXAMPLE OF A WORKPLACE HARASSMENT POLICY CONTENT

- **Preamble, Policy Objective and Employer Commitment**
- **Scope**: targets (employees, customers, suppliers, autonomous workers, etc.), location (establishment, social media, etc.), time horizon.
- **Definitions of harassment**: definitions, examples of what it is and is not.
- **Roles and sharing of responsibilities**: employer, managers, employees, partners, and so on.
- **Reporting and complaint procedures**: describing the remedies or possible channels to notify the employer of a situation of workplace harassment (written, verbal, etc.) and specifying the name (or title) of the person(s) formally designated to receive a complaint. Plan to whom and how to report if the alleged harasser is the immediate superior or a senior officer.
- **Protection of complainant and whistleblower from reprisal**: protecting the complainant or whistleblower from intimidation or revenge and disciplinary actions for those who engage in such conduct.
- **Mechanisms and steps for handling reports and complaints**: receivability, process, mediation, investigation, deadlines, the conduct of the inquiry, the appointment of a mediator, and so on.
- **Investigations conducted at the employer's request**: if employers have reason to believe that the policy has been violated, they may institute an inquiry by appointing an internal or external investigator.
- **Confidentiality**: clarifying the importance of keeping information confidential for all stakeholders (complainant, suspect, witness, etc.).
- **Sanctions and corrective actions**: acts of harassment are breaches subject to various disciplinary measures taken according to multiple criteria.
- **False accusations**: a person who deliberately and maliciously abuses the policy by making false or unfounded accusations will be subject to disciplinary action.
- **Assistance measures offered to staff**: training, employee assistance program, changes in work or job organization, professional assistance, and so on.
- **Communication of and training on the policy**
- **Application, evaluation, and review of the policy**: designating the person who will be responsible for the application of the policy.

Before acting on a potential case of harassment, employers cannot hide behind a policy and argue that they must wait until the victim files a complaint. They need to train or educate employees about their responsibility to make the workplace free from harassment. They are legally responsible for preventing and stopping harassment. When employers (executives, human resource professionals, managers) are informed, they cannot invoke ignorance. They need to quickly investigate and intervene to end the harassment. They should not minimize the acts of harassment even though the alleged victims may have at some point provoked their alleged aggressor.

It is important to remember that people are generally reluctant to report or complain for a variety of reasons: shame, hope that the problem will resolve itself, fear of further harassment, ignorance of the policy, lack of available support. Human resource professionals have the responsibility to deal with their situation. As provided for in the policy, companies are responsible for hiring competent staff employees can trust and raise their concerns with.

Employers cannot justify not intervening because they considered the complaint frivolous and unfounded. All complaints must be followed up or promptly investigated. Should there be reasonable grounds to believe that the complaint is filed in bad faith, employers may mandate the appointed investigator to judge the admissibility of the complaint and to analyze the frivolous, vexatious, or bad faith nature of the complaint.

Employers need to investigate quickly and diligently to increase the chances of knowing what happened and resolving the problem. Employers need to meet with each party and compile all the statements in writing to guarantee the integrity, objectivity, impartiality, and neutrality of the investigation. The investigation procedure adopted should follow the policy and may be conducted by an internal or external investigator, as appropriate.

In compliance with information protection laws, personal information provided by stakeholders (e.g., complainants and respondents, witnesses) must be protected. Employers should take many precautions to ensure the confidentiality of their investigations, such as:

- Reminding parties and others involved of the need to observe the confidentiality rule, subject to their rights to consult with a third party for advice.
- Requiring escorts and witnesses to sign a confidentiality agreement.
- Imposing on stakeholders and those who are investigating the obligation of confidentiality, except when they need to disclose information while handling the complaint.
- Holding meetings in private places, remaining vigilant when using technological communication tools, and keeping documentation and notes in a secure file or locked place.

Finally, employers are not exempt from their responsibility to prevent and intervene in harassment involving third parties (e.g., customers, visitors, suppliers, or users such as patients, students) (Furtado, 2020). They must formulate clear requirements for mutual respect and inform employees and third parties that vexatious conduct is unacceptable and will not be tolerated. This could involve expelling aggressive or violent clients from an establishment, if possible. Employers must also ensure that employees working in a client's establishment are not harassed by adopting preventive actions and making regular follow-ups with them. This may also be the case for universities with respect to employers who hire students to offer them an internship as part of their studies.

19.5 BOARD MEMBERS MUST BE AWARE OF THEIR RESPONSIBILITIES FOR HARASSMENT

In line with stakeholder theory (Freeman, 1984; Freeman et al., 2010), boards of directors must take into account multiple stakeholders such as investors, customers, staff, unions, citizens, legislators, or members of the community. Compliance with laws is at the heart of their control or monitoring function (compliance) and their advisory role (value creation) by promulgating or ensuring ethics and respect for the organization's values in how leaders manage operations. The board must act as a guardian of the organization's values.

As trustees, board members have prudence, loyalty, and diligence duties. The board must ensure compliance with workplace harassment laws and regulations and monitor the quality of workplace risk management by approving a workplace harassment policy that is consistent with best practices on the subject. The employers need to report to the board what has been done regarding harassment management, mainly through their organizational policy. The board of directors need to be kept informed of the employers' policy application, including the number of complaints and reports, prevention measures, and so on, to exercise control, follow-up, and manage risks.

19.5.1 The Board Must Act Proactively, Question Management, and Request Reports

Boards of directors need to impart on-going attention to the issue of workplace harassment (Desjardins and Chebin, 2018; Lally and Whitehill, 2018; Perlman and Boland, 2017).

19.5.1.1 Monitoring corporate culture

Organizational values and culture are created by the CEO and the board of directors to provide a reference frame to members of an organization. Although the CEO implements the extent of communication, disclosure, and transparency, it is the board's duty to champion this culture and values both internally and externally, formally and informally, for example, by ensuring that key personnel supporting these values are placed in units such as environmental health and safety, corporate social responsibility, internal audit, human resources, and diversity (Maharaj, 2008).

According to the National Association of Corporate Directors Blue Ribbon Commission report (2017), the board must look after organizational culture by adopting indicators (i.e., voluntary turnover, absenteeism, grievances) and holding regular discussions on the risk factors or contextual characteristics conducive to harassment (i.e., performance criteria, variable compensation, workload, organizational changes, deficient or difficult job content or conditions). Board members must ask questions and be on the lookout for any changes that could disrupt the work climate. They may require that employee surveys be conducted on the work climate and see their results. They must ensure that leaders are hired and evaluated in terms of the alignment of their behaviors with the organization's values and code of ethics.

Harassment may be closely related to diversity issues. The board, or its governance committee, needs to work with management to establish and monitor progress on diversity, inclusion, and equity. It must ensure that company policies and communications emphasize zero tolerance and openness to diversity and set the tone by building a diverse board where possible. Initiatives in diversity management may have unexpected results if poorly managed (Leslie, 2019). Therefore, it is important to gain leadership support and allocate the resources required to properly manage diversity to leverage its positive effects while reducing its potential negative impacts (Lachapelle et al., 2022; St-Onge et al., 2021). The complexity of the labor climate challenges may require a review of the process for appointing board members. Directors must be aware of their control and value-added roles regarding diversity and harassment issues in the workplace and within the board.

19.5.1.2 Ensuring that policies are kept up to date

The board needs to request a copy of the policies to see how the organization handles harassment complaints and obtain examples of unacceptable behavior concerning the various forms of harassment and the incivilities and conflicts that can lead to them. The board ensures that harassment is addressed using new technologies and in a hybrid way of working and that the organization has the right to review exchanges in situations of reasonable doubt. It makes public the various and confidential means of reporting and complaining and the absence of reprisal. It analyzes the pros and cons of adopting other mechanisms depending on the case and organization (e.g., ombudsman, anonymous helpline). In a small non-profit, depending on the situation, board members may help management revise the harassment policy or handle complaints.

In case of doubts or questions, the policy needs to be validated with external experts. The board must ensure that employees at all hierarchical levels feel comfortable filing a harassment complaint or making reports early to prevent the situation from deteriorating and risking making headlines and social networks. For public companies in the United States, claims may need to be disclosed to shareholders in a particular format. The board needs to be informed promptly of the complaint where the alleged harasser is the CEO or a member of management and to approve the resolution of the complaint.

19.5.1.3 Requesting management to report on the monitoring and management of its policies and procedures and assessing the risks and means put in place

Some CEOs or chairs might wish to keep their board of directors passive, isolated, or distant by saying that harassment, diversity, or cultural issues are entirely under the management team's responsibility rather than included in the board's duties. However, the board of directors must fulfill its oversight responsibility and monitor these risks, as all others, by receiving an annual review of harassment situations in the organization. It must obtain data on the number of complaints and reports, their origin, processing time, the complaints rejected, actions undertaken, claims costs, trends over time, and so on. Boards should closely look at the impartiality, confidentiality, and timeliness of complaint handling. They should inquire about the employer's application of sanctions, their fairness, and their modulation according to the seriousness of the alleged facts as well as the handling of frivolous complaints. Above all, a board should adopt a crisis management plan and make every member aware of who should do and say what to external and internal stakeholders.

19.5.1.4 Investing in active, regular, and mandatory training

It is important that board members, officers, all staff, and other stakeholders, depending on the nature of the organization (e.g., volunteers, students), are trained on the subject. Actions include the following: making clear that no one is above the policy and that there is zero tolerance for harassment by employees, officers, executives, and board members; clarifying the behaviors to adopt and dealing with diversity, inclusion, and equity in the workplace; ensuring that harassment and diversity forms are offered to all staff and adapted to their hierarchical level and type of employment.

19.5.1.5 Reviewing the provisions for indemnity, termination, and variable remuneration in employment contracts

Principles need to guide actions. Any policy violation should lead to dismissal for cause without severance pay, especially for the management team, when faced with proven allegations of harassment or turning a blind eye to them. The variable compensation schemes (e.g., equity, options) may also be revised in order to reward behaviors rather than just achieving outcomes. Company leaders may be tempted to fuel a culture favorable to harassment to achieve the very risky targets imposed by their variable compensation plans.

19.5.2 The Board Must Deal Diligently with Cases of Harassment Referred to It

In almost all cases, harassment complaints or reports are managed internally according to the guidelines of the organization's policy. However, there may be cases where the board becomes the body receiving the complaints or reports (see Box 19.3), as when the CEO is accused of harassing a management team member, or a management team member claim to be harassed by a subordinate. Considering the duties of loyalty, diligence, and prudence of boards of directors, they must ensure that cases of harassment that may be submitted to them – as the ultimate decision-making body – are correctly handled, as shown in the guidelines below.

BOX 19.3 LETTER TO THE BOARD CHAIR REGARDING THE ALLEGED INAPPROPRIATE BEHAVIOUR OF THE CEO

February. You are the chairman of the board of directors of a large organization. You have received a letter from a professional who works under the direct authority of the organization's CEO, Mr. Leroux. The latter has great expertise, and organizational performance has improved since he was recruited abroad a few months ago.

The letter reads:

Mr. Chairman of the Board of Directors,

At the end of September, I was hired to join a team of professionals reporting to the CEO of our organization, Mr. Alexandre Leroux. I must inform you that I had a relationship with Mr. Leroux last December and January. I feel deep sadness and distress for everything that has happened.

I am concerned when I write to you because I do not want a leak about these sad events, both internally and externally. Married for a few years, you will understand that it is important for me, as for my spouse, my family, and my friends (this is also the case for Mr. Leroux) that this matter remains confidential to avoid any public humiliation and damage to reputation.

I think Mr. Leroux is a brilliant leader with a great vision for our organization. Although he is charming, he is an aggressive man. I fear this man has a problem that makes him unsuitable for running an organization where women work under him. I think Mr. Leroux abused his position. He summoned me to his office several times to make inappropriate suggestions. Despite my professional experience, I was not prepared to receive advances from a president. I didn't know what to do: I felt incorrect if I gave in to his advances and *incorrect if I didn't. After a while, I made the mistake of getting caught up in a brief fling.*

The relationship with Mr. Leroux ended a few days ago, and I don't know what to do: change positions, leave the organization, etc. I hope to be able to hear the board's enlightening conclusions about me soon and that these conclusions will help me find a solution.

Respectfully

Source: Case written and translated by Vincent Calvez and Sylvie St-Onge (2013) and filed at the HEC Montréal Case Center. Reprinted with permission of the Case Center.

19.5.2.1 Immediately acknowledging receipt of the allegation of harassment

The board needs to thank the person who informs them, tell that person that the board of directors will diligently and seriously analyze the complaint or report, and ensure the protection and support of the victim of harassment. It might be worth preparing a sample letter that can be adjusted to different situations.

If a situation is made public, the board must prepare a statement to the media, staff, and other stakeholders. The board's message should emphasize the organization's and the board's commitment to a workplace free from discrimination and harassment and refer to the harassment policy. The board must also be aware of potential reprisal against individuals who have made a report or complaint and act if reprisal occurs.

19.5.2.2 Obtaining information and asking questions to be able to analyze the case by demonstrating integrity, objectivity, and independence of mind

Directors must also meet with the persons concerned to obtain additional information. They need to conduct an objective investigation without delay or entrust responsibility for it to an external expert. They must decide whether the situation should be mediated or investigated internally or externally based on the seriousness of the allegations, the position or hierarchical status of the alleged harasser, and the impact on the company's reputation if the complaint is well-founded. An allegation against the CEO or a management team member should be referred exclusively to an independent board with non-conflicting external experts (e.g., lawyers and advisors) to conduct an impartial investigation.

A case in point may be the saga over Hockey Canada's board of directors in 2022 regarding sexual misconduct by young players over the years. Malsch and Tremblay (2022) argue that beyond the deficient internal governance, other factors to be deplored include the resistance of the board of directors to exercise its control function by firing the CEO and its inability to understand the expectations of its stakeholders and to measure the risk of inaction. The defensive reaction of the directors during the parliamentary hearings and their collective resignation appear to reveal the presence of groupthink (see Box 19.4), where it is more important for board members to remain cohesive and unanimous at all costs than to act in the best interests of all stakeholders. Groupthink occurs when blind trust in management, a committee, or certain experts leads directors to follow their recommendations or thoughts without fulfilling their own duties and responsibilities as trustees (St-Onge, 2024; St-Onge and Serret, 2018). An excessively cohesive board includes members who 'naturally' always trust, without due vigilance, the management team, the chair of their committees, or internal or external experts.

BOX 19.4 THE THREE INDICATORS OF GROUPTHINK WITHIN A BOARD OF DIRECTORS

1. There is strong pressure for unanimity among board members not to express criticism, doubts, questions, and opposition and to make individual compromises to remain cohesive at all costs. These pressures emanate, for example, from a culture of self-censorship or extreme loyalty, direct pressure on dissidents (for example, from the CEO or the board chair), the presence of 'gatekeepers of thought' who conceal dissenting information, or who proclaim themselves as the expert whose advice others must blindly follow.
2. Directors are narrow-minded; they express bias or discredit individuals or stakeholders (competitors, investors, financial analysts, employees, government) who take different views, or they rationalize decisions that are excessively questionable or risky to appear rational or legitimate.
3. Directors overestimate their skills, share an illusion of invulnerability ('hubris'), and blindly believe in the board's moral superiority and company management.

Source: Excerpt adapted and translated from St-Onge, S., (2022). "L'esprit d'équipe au conseil d'administration? Oui, mais sans dérive vers la pensée de groupe", *La gouvernance en 15 épisodes*, Collège des administrateurs de sociétés, Laval, Québec. pp. 38–41.

Boards should also be aware of conflicts of interest when dealing with harassment cases involving the CEO or executives. Appointing independent directors may be insufficient since it does not guarantee independence of mind (Leblanc, 2016). Directors may be guilty of conflict of interest, given their many pecuniary and non-pecuniary rewards. Directors of listed companies receive a particularly high remuneration, often with a significant equity component (Magnan and St-Onge, 2014; St-Onge, 2020). Even for benevolent directors, there are various non-pecuniary benefits: increased value in the labor market, visibility, social events, personal experience and development, networks, and so on. Moreover, to the extent that the CEO and the board chair have contributed to directors' appointments, a sense of indebtedness or the desire to please them or even protect them lead directors to accept management's point of view more readily, hence giving up some of their free will or independence of mind (Epstein, 2016).

19.5.2.3 Treating information with discretion and confidentiality and all stakeholders equitably

Boards need to clarify the scope and timing of the investigation and ensure that it is conducted impartially and expeditiously by consulting with internal or external resources, as appropriate. They should advise the complainant, respondent, and all participants in the investigation that retaliation or revenge will not be tolerated. The intervention process needs to be kept confidential.

19.5.2.4 Making a fair and reasonable decision in the best interests of the company and its stakeholders in the circumstances

Deviant behaviors in the workplace are not respectful of organizational policies, and they are unethical (Robinson and Bennett, 1995) because they include unethical or socially disapproved behaviors and practices (Henle et al., 2005). It is important to recognize this ethical dimension of harassment in the workplace. Boards of directors must acknowledge the importance of ethical considerations in their activities and follow the following steps: 1) Learn about the facts; 2) Identify stakeholders; 3) Act with integrity; 4) Consider the consequences; 5) Make a good decision (Arnold et al., 2020).

Using all relevant evidence, appropriate corrective measures (compensation, etc.) need to be taken, regardless of who the harasser is. The board needs to inform the parties of the findings and take all reasonable steps to resolve the situation, including but not limited to appropriate disciplinary action against the person at fault. Furthermore, even if an investigation does not confirm harassment or the violation of company policy, the board may take action against persons guilty of frequent inappropriate behavior, including executives. Filing a complaint reveals discomfort about a person's work climate that may be due to incivility or an inappropriate, autocratic mode of supervision, and so on. In such a case, requiring executive coaching may be relevant.

19.5.3 The Board Must Intervene to Put an End to the Harassment Exercised by Its Members

Harassment may occur in the form of bullying or mobbing among board members or as part of their relations with company staff. Board harassment may result from a dictatorial board chair who intimidates, humiliates, and ostracizes, perhaps even in tandem with a CEO, sidelining the member who expresses doubts or takes an unpopular position (St-Onge, 2022, 2023). A board member may also sexually harass another member.

St-Onge (2023) explains that the team spirit that makes it possible to create real collective added value can survive only in a climate of openness to fundamental questions, debates, conflicts, and so on. Directors should be concerned when asking a simple question or expressing legitimate doubt or an idea is perceived as blasphemy. They should be wary of excessive pressures based on partial data to fuel consensus. Nothing justifies harassing or putting directors in the spotlight by questioning their skills, motives, personality, and so on. In such a climate within a board, directors need to quickly discuss the situation with their chair. In-camera sessions without organizational members are important to deal with these elements that hinder board effectiveness or open the door to conflict and possibly mobbing or bullying within the board (Maharaj, 2008).

Harassment may also occur in the context of staff-board relations. A chairperson or board members may exert undue pressure and intimidate a CEO or a management team member to focus on a strategic direction or project, hire a particular candidate to fill a management position, or adopt a variable compensation plan or other benefits for directors. Directors may retaliate against internal whistleblowers or fail to act or ignore employees' concerns brought to their attention.

It is not easy to intervene in these situations, which require case-by-case handling. Before the situation becomes critical, it is important that one or more directors quickly express their discomfort, as it is the responsibility of the board to hold meetings in a respectful atmosphere where conflicts are managed constructively. Members must act in exemplary fashion and be aligned with the values of respect for staff and each other. Confronting a board member guilty of incivility or disrespect can be effective. However, the laws clearly define cases of sexual harassment or retaliation; therefore, internal and external remedies officially exist. To intervene in these situations, it is often important to consult external experts specializing in law, group psychology, governance, and so on.

CONCLUSION

Recent media hypes about harassment and its various negative consequences show the need for organizations to ensure that workplaces remain free from harassment. Employers need to use effective strategies to prevent and manage workplace harassment. This responsibility rests with top management, the human resources department, and the board of directors who all need to work in concert. To better understand the responsibilities of boards concerning the prevention and handling of workplace harassment, this chapter has defined it, presented the criteria of its presence, discussed its various negative impacts, and explained what contextual factors might lead to it. We explained the main legal duties of employers concerning harassment and examined the board of directors' control and value-added responsibilities in dealing with workplace harassment, including issues involving them directly.

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20. Knowing your supply chain to implement environmental sustainability effectively

Valentina De Marchi

20.1 INTRODUCTION

Despite environmental sustainability and green supply chain management becoming mainstream concerns in the operations of companies worldwide, the pace of improvements is lagging the urgency linked to escalating climate change disruptions. According to Accenture's 2022 survey, while 72 percent of Global CEOs agree that sustainability remains an immediate priority for their business and 49 percent are grappling with supply chain interruptions due to extreme weather events, half of the companies report their analysis of supply chain risks to be at either a basic level or non-existent. In addition, 48 percent recognize that extending their sustainability strategy across the entirety of their global supply chain is a top barrier to effective implementation of their CSR strategies (Accenture, 2022). This is a particular threat considering that the supply chain is indeed where most emissions are produced. Emissions generated by the supply chain of a company (also called Scope 3 emissions) are on average 11.4 higher than those produced by the company itself (Scope 1 emissions), a percentage that gets even higher in industries such as electronics, automotive, food or fashion (Carbon Disclosure Project, 2020; World Economic Forum and Boston Consulting Group, 2021). Such a gap – between the perceived importance of emissions in the supply chain and the ability to understand and measure them – is magnified by the complexities of Global Value Chains (GVCs), and the cascading effects of social and green practices along their tiers (Carmine & De Marchi, 2023; Soundararajan, 2023; Van Assche & Narula, 2022). Hence, it is a major challenge for managers to determine the correct decisions to effectively implement sustainability along GVCs. In the following chapter, I support managerial decision-making by describing the functioning of GVCs and their implications for managers aiming at ensuring that all activities needed to realize firms' products or services can be effectively labeled sustainable. Relying on a selective literature review, I address what are the major threats and opportunities for firms that engage in GVCs that are interested in effectively reducing the environmental impacts related to the realization of their products.

20.2 UNDERSTANDING GLOBAL VALUE CHAINS

GVCs emerged as a key feature of the global economy in the 1970s, as major corporations began to move production offshore, mostly to countries characterized by lower costs of production. More and more, the full extent of activities needed to realize products – pre-production, production, and post-production activities – are not developed by a single company but within complex networks of inter-firm relationships spanning borders (De Marchi et al., 2020; Gereffi, 2018; Gereffi & Lee, 2012). Consequently, an increasing number of firms are working within such sticky networks, which span between market-driven types of organization of activities and fully owned operations. While it is not possible to fully estimate the reach of GVCs in economies worldwide, World Trade Organization (WTO) estimates using World Input-Output databases suggest that domestic value-added activities have declined consistently over the last 20 years, which is reflected in the growth of trade in intermediate goods relative to final goods (WTO et al., 2019). Even after the pandemic, growth in intermediate goods have not declined. Such an outcome can be interpreted as a reflection that an increasing number of firms are not selling final products, but intermediate products that are then included in the products of their overseas clients, having been developed under their specifications.

While all those actors are independent firms, their commercial relations are sticky, to the point that in many cases a client can represent a proportion of a supplier turnover that exceeds 80 percent. A key feature of GVCs is that value is not produced and appropriated evenly among firms belonging to those networks: global lead firms (GLFs), usually based in developed countries, are capturing by far the largest share of the value produced. GLFs are final-product manufacturers holding the leading technological skills or, more often, retailers or marketers, who shape consumption thanks to their brand names and knowledge of the market. Because of the high bargaining power developed thanks to those skills, they are able to govern their upstream chain, even beyond their first-tier level, setting up what is to be produced, by whom and under which circumstances (Gereffi, 1994; Gereffi et al., 2005). The case of the iPod described in Dedrick et al. (2009) represents an example of how a lead firm (Apple) can capture a great deal of the value from an innovative product, a more modest share being retained by the producers that manufactured or assembled it. Out of the $299 retail price, Apple's gross margin has indeed been estimated to be 36 percent (data referring to 30GB Video iPod); assembly suppliers having captured a gross margin of just 8.5 percent.

Especially for firms located in developing countries, the proliferation of GVCs has been advocated as an important channel for growth and economic development, thanks to the learning opportunities given to local suppliers to interact with large MNEs – what has been termed upgrading (Humphrey & Schmitz, 2002; Pietrobelli & Rabellotti, 2011). Having to meet MNEs requests, being provided specific trainings or simply being exposed to the latest technological or market trends might indeed represent for local firms an opportunity to develop new capabilities and capture higher share of value – in global markets or in the local markets – thanks to process improvements, development of higher quality market lines, or upgrades of value-added activities realized.

20.3 STRATEGIES TO CASCADE SUSTAINABILITY ALONG THE SUPPLY CHAIN

Given the centrality of GVCs for the global economy, it is not by surprise that an increasing amount of scholarly and practitioners' attention has been devoted to understand if and how GVCs might represent also an important channel for environmental and social improvements in local contexts (De Marchi et al., 2020; Golgeci et al., 2021). Considering their large power, lead firms are expected to be able to lead the process of environmental or social upgrading, cascading practices and standards along their supply chain (Alexander, 2020; Lund-Thomsen & Lindgreen, 2014).

Such a cascading process can be achieved implementing different strategies (De Marchi et al., 2019):

- *Requiring suppliers to meet (social and environmental) standards* at least as tight as required by the regulations of the strictest country they commercially operate in (Nadvi & Raj-Reichert, 2015; Ponte & Gibbon, 2005). Forest Stewardship Council (FSC) or Marine Stewardship Council (MSC) are examples of third-party certifications that are well-diffused within in their industry; Nescafé's Better Farming Practices or Mondelēz's Cocoa Life examples of code of conducts (CoC) developed by the GLF itself. Auditing is a big part of this strategy, aiming at verifying that the standards required by the certification have indeed been achieved (and are maintained) by the suppliers.
- *Engaging in (sustainable and circular) product design* – providing suppliers with product specifications that will ensure them to enact minimization of material and energy usage is another key strategy (De Marchi et al., 2013). Especially in captive value chains – where suppliers are simply realizing manufacturing activities under the exact specifications of a GLF that is fully responsible for the design of the product – decisions such as which raw material to use, how much materials to be used to realize each unit of product can have important, direct impact on suppliers' emissions.
- *Transmitting sustainability-related knowledge* – transferring know-how in eco-efficiency and sharing best practices or even co-engaging in procurement activities can be another powerful – yet more costly – strategy too (De Marchi et al., 2013; Ivarsson & Alvstam, 2011). Indeed, GLFs that deal with several suppliers specialized in the same production activities and that hold extensive resources, can learn, and share more effective practices.

Most GLFs are engaging with at least some of those practices – the first, entailing less-costly and 'hands-off' mechanisms being by far the most diffused – the most effective being those that engage with all of those strategies at once (Lund-Thomsen et al., 2016), as they are reinforcing each other.

20.4 CHALLENGES IN EFFECTIVELY ACHIEVING BETTER ENVIRONMENTAL AND SOCIAL PERFORMANCES

However, implementing strategies to cascade better practices along the supply chain does not guarantee that better (environmental and social) performance is going to be achieved. Indeed, other than a *policy-practice decoupling* – not walking the talk – another, more subtle form of decoupling could occur – and should be tackled: a *means-ends decoupling*, that is, doing sometimes that is not reaching the targeted outcomes (Halme et al., 2020). Despite implementing several activities aimed at reducing impacts along the supply chains, emissions might not get reduced (and may even increase).

Several cases in the literature suggest that such a means-ends decoupling is far from rare. For example, Heron et al. (2018) discovered that private sustainability certification standards in the soy industry are connected to deforestation and habitat loss at soy producers and processors. In other cases, the improvements have been in place, but they are so small not to effectively motivate the big investments sustained by the suppliers to change the practices to achieve the certifications (Khan et al., 2020; Khattak & Stringer, 2017). Furthermore, there is evidence that improving environmental performance may actually undermine the attainment of social performance targets (or vice versa). For instance, Giuliani et al. (2017) use a cross-country survey covering 575 farms in different regions of Brazil, Colombia, Costa Rica, Guatemala and Mexico, to show that farms that have been granted private (in-house) certification use more environmentally friendly practices such as water and waste management, but not better social and employment practices relative to non-certified farms. Loconto and Simbua (2012) found the margins of Tanzanian farmers squeezed as GLFs continued to pay low prices to smallholders. Furthermore, many lead firms that owned large estates paid very low wages to workers and increasingly hired contract workers, leading to precarity. In Ghana, farmers not only had to adhere to lead firm standards (e.g., Fair Trade), but also to the intermediary codes of conduct set by processors and other large trading firms (Amanor, 2012). These efforts left farmers with almost no income. However, Krauss and Krishnan (2022) show that in Nicaraguan cocoa and Kenyan horticulture, some social upgrading was achieved through the transfer of training and better farm management practices, along with written contracts providing farmers with some security of livelihoods. At the same time, however, environmental downgrading was rampant as monocropping practices (growing only one crop) degraded soil quality, while intensive spraying for cocoa reduced biodiversity.

The case of UK-Kenyan Green Beans and Avocados GVCs described in Krishnan et al. (2023), is a clear case in point to explain why this misalignment between actions and outcomes might happen in GVCs, even despite the best intentions of the key actors involved. United Kingdom (UK) supermarkets, such as Tesco, are compelling suppliers to comply to voluntary standards such as Global GAP or to adopt their CoC, entailing a move toward organic production, in the interest to offer (and communicate) more sustainable products. Local farmers are heavily invested to modify their operations accordingly, being asset-specific investments. Support is provided by GLFs and/or local industry associations and public bodies, but it is directed mostly to local exporting firms (1st tier suppliers), that mediate the relation between UK supermarkets (GLFs) and farmers (2nd tier suppliers). In other words, support by GLFs was not reaching the 2nd tier suppliers, the farmers. Because of how contracts are formulated, local farmers are absorbing the highest share of increasing costs needed to implement the new production processes, and the risks associated with the implications of the new production processes (e.g., slow regenerative capacity of soil fertility), which are not compensated. Furthermore, they are required to adopt 'integrated pest management, irrigation schedules, and soil testing, which are often complex and considered alien to the local context' (ibidem, p. 15). Indeed, local farmers, holding deep knowledge on the territories, would implement very different practices to ensure better environmental conditions; yet they hardly find a voice along the GVC. The outcome of this misfunctioned GVC organization, is that meanwhile GLFs are (correctly) claiming environmental upgrading, because most products they sell come from organic agriculture, indicators or environmental quality and farmers' interviews disclose a very different picture, where soil, water, biodiversity quality has reduced.

That case highlights that having a well-crafted CoC or requiring strict certifications is not enough to ensure GLF to effectively drive a positive change at the suppliers. Accordingly, while GLFs might claim to have certified suppliers, this might not necessarily mean that the overall negative impacts of the GVCs have been reduced thanks to the change provided.

20.5 OVERCOMING THE RISK OF MEANS-ENDS DECOUPLING IN GVCs

To make sure developing corporate social responsibility strategies that are not only ensuring the development of actions targeting climate crises and sustainability issues, but that are also reaching important, and measurable outcomes, it is important to be aware of GVCs dynamics. In the following I am distilling the key aspects that board of directors should pay attention to, to avoid investing in practices and strategies that are not going to achieve better environmental performance.

- *Know your value chain*. What are the key activities needed to realize the product/service you are selling and what are the highest (social and environmental) problems at any of those stages? Who is performing those activities and where? Which are the most powerful actors? Who are the second or third tier suppliers that contribute to my chain? Starting point for any strategy aimed at reducing environmental and social impacts is to develop a clear activities/actor map, enabling to understand where major impacts lie, in a Life Cycle Analysis approach, and the interconnections among stages, taking a system view. This will allow identifying bottlenecks and triggers for the cascading of social and environmental standards along the value chain.[1] To ensure an effective understanding of the evil and find the cure, it is important for GLFs not to go alone: engaging in multi-stakeholders' initiatives and listening to the POV of other actors in the chain are needed steps to ensure avoiding a means-ends decoupling. Furthermore, moving to a sustainable production poses significant costs and investments at suppliers; it is needed for GLF to ensure providing enough incentives for them to change, to avoid sustainability to become just yet another means to 'squeeze' suppliers.[2]
- *Beware simplistic definitions of sustainability*. What are the outcomes that should be achieved to ensure better social and environmental performance when it comes to every specific product or service we are working with? Sustainability is a multifaceted concept, difficult to achieve and measure. Measuring certain environmental effects is well established, like carbon dioxide emissions, however, measures for other issues like biodiversity are not widely accepted. Some aspects of sustainability are hard to assess, such as the extinction of species. This is made worse by a lack of data collection by GVC actors, especially small and informal firms operating in lower levels of the chain. It is important to develop figures and measures that are not conflating all aspects considered at once – for example, emissions on air, land or water and respect of human rights and raising working conditions; and that capture both upgrading and downgrading as they do not represent the two ends of the same continuum (Fiaschi et al., 2020; Giuliani, 2018). To ensure environmental improvements are not achieved at the expense of social ones or vice versa, it is important to measure those different aspects separately. Furthermore, measures considered should be aimed at capturing reduction of impacts (e.g., reduction in total CO_2 emissions) rather than the actions implemented to aim at those outcomes (e.g., investing in changing production processes or in ensuring all raw materials are certified). Finally, measures should account for the fact that actions that might lead to better outcomes at one stage of the value chain might be detrimental for the following one: the goal should be to identify strategies that ensure the overall reduction of impacts (vs the 'outsourcing' of the impacts to an upstream or downstream firm).

- *Context matters*. What are the environmental and social impacts that are going to accrue at suppliers of every specific country once one strategy will be implemented? How are impacts going to change across suppliers located in different (geographical or sectorial) contexts? Managers and boards should resist the temptation to apply a 'one size fits all' measure of sustainability. What might be the best environmental solution in one country, might not work well for another country – depending on local cultural, orographic, or operational features.[3] A GVC-focused approach enables a more in-depth examination of specific factors that affect upgrading paths, such as industry specialization, the presence of institutional players, the state's role, and local innovation capacities (Gereffi et al., 2021; Pietrobelli & Rabellotti, 2011; Pietrobelli et al., 2021). Developing strategies that effectively reduce impacts require a thorough knowledge of the local context – one which cannot be accrued without deep collaboration and reciprocal trust with suppliers and local institutions.

NOTES

1. For instructions on how to build a map of a given GVC see Fernandez-Stark, & Gereffi (2019).
2. For a critical discussion of risks for suppliers read Ponte (2019).
3. For a discussion of the local and global dimension of sustainability consider Perey (2014).

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21. The ladder of Indigenous governance

Paul Kalyta[1]

21.1 INTRODUCTION

Despite being the traditional caretakers of natural and economic resources for millennia, Indigenous peoples have been left on the margins of corporate governance throughout colonial and post-colonial times, routinely bearing the most adverse consequences of corporate actions.[2] These impacts have taken multiple socio-environmental forms, including physical violence, sexual abuse, child exploitation, destruction of natural habitat, degradation of biodiversity, water contamination, spread of diseases, destruction of sacred sites, deepening economic inequalities, and loss of traditional culture (Horowitz, 2017; Nolin and Russell, 2021). Certainly, corporations are not solemnly responsible for all these impacts, sharing the responsibility with governments and other colonial and post-colonial agencies. However, as primary actors in the economy that largely control the usage of natural resources and the creation of wealth, corporations operating in the territories inhabited by Indigenous peoples possess tremendous influence on essentially all aspects of the lives of these peoples.

Historically, at the extreme end of such influence is the example of the Hudson's Bay Company, a corporation that served effectively as a state body in British America until the late nineteenth century, sovereign over the land it controlled, having monopoly over 40 percent of what eventually became Canada, and affecting the livelihood of generations of Indigenous peoples who inhabited those lands for centuries. In modern times, a mining corporation operating in a remote Indigenous community is often the community's one and only significant employer, capable of affecting, directly or indirectly, all economic, social and cultural aspects of the communal life—in much the same way as the Hudson's Bay Company did less than two centuries ago (Kalyta and Malsch, 2018). Across the post-colonial world, Indigenous peoples continue to be impacted by corporate decisions involving the usage and allocation of natural and economic resources. However, the participation of Indigenous peoples in corporate governance has been minimal until most recently.

The turn of the millennium marked a notable change in the global attitude towards the problems faced by the Indigenous peoples. National and supranational bodies, government agencies and NGOs, started paying closer attention to Indigenous issues. In 2007, the United Nations passed the Declaration on the Rights of Indigenous Peoples, affirming, among others, the rights of the Indigenous peoples to pursue their economic, social and cultural development; the right to be actively involved in developing and determining economic and social programs affecting them and, as far as possible, to administer such programs through their own institutions; and the right to the conservation and protection of the environment and the productive capacity of their lands or territories and resources (UN General Assembly, 2007). The 2015 Paris Agreement on climate change further recognized the role of Indigenous peoples and their knowledge systems in the implementation of adaptation policies. In 2016, the Global Reporting Initiative issued GRI 411, a standard that set out the reporting requirements for companies on the topic of the rights of Indigenous peoples. In Canada, in 2019, the CBCA

Amendment Act mandated corporations to disclose the number and percentage of members of the board and senior management who are Indigenous.

The increasing attention of the global community to Indigenous issues coincided with highly publicized cases of Indigenous activism in response to corporate and government actions. A notable recent example is the series of protests in Canada against the construction of the Coastal GasLink Pipeline through unceded traditional land of the Wet'suwet'en First Nation in British Columbia, which started with a small protest camp in 2010 and lasted for a decade, culminating with the blockade of railways across Canada. In 2014, Guatemala's Xinca people won a legal suit against Tahoe Resources ordering the corporation to close its Escobal mine that was contaminating the water sources of the Indigenous community. Following the suit, Tahoe lost more than 40 percent of its market value (Gneiting, 2017).

In light of these processes, corporations, particularly in resource-intensive industries, operating in areas traditionally inhabited by Indigenous peoples or relying on the physical, natural, or human resources provided by them, have been facing increasing pressures to engage with their Indigenous stakeholders. However, the extent of Indigenous engagement is a wide spectrum that, in theory, can range from a simple acknowledgement of the existence of Indigenous issues to delegating governance functions and control to Indigenous stakeholders. The lack of consensus as to what constitutes a desirable or reasonable level of participation of Indigenous stakeholders in corporate governance, as well as the lack of understanding of how to even categorize these levels, make it difficult to analyze existing engagements between corporations and Indigenous peoples in individual cases and to set goals for the future.

The aim of this chapter is to provide a practical tool that would help assess and categorize the extent of participation of Indigenous stakeholders in corporate governance. Building on Arnstein's (1969) model of citizen participation, I develop the ladder of Indigenous governance, with nine levels of Indigenous engagement, from *neglect* to *control*. I then use examples from documented cases, complemented with ethnographic observations from working in the Indigenous communities, to describe these levels of engagement.[3]

21.2 INDIGENOUS PARTICIPATION IN CORPORATE GOVERNANCE

21.2.1 Arnstein's Ladder

Arnstein (1969) drew on personal experiences with federal social programs in the US, such as anti-poverty or urban revitalization programs, to design a typology of citizen participation in these programs. The typology is based on the levels of power accorded to citizens, and consists of eight degrees, or rungs, of citizen participation, including two degrees of non-participation, three degrees of tokenism, and three degrees of citizen power. Arnstein acknowledged inherent limitations of the model, stressing that the real world of people and programs may require as many as 150 degrees to cover the range of actual citizen involvement levels. Nonetheless, the intuitive simplicity of the model made it a popular choice for research in multiple areas of social studies, including communal participation in government programs, student participation in educational programs, patient engagement in health care, the rights of children, women's empowerment, and other areas involving re-distribution of power between ex-ante powerholders and participants (Alderson, 2008; Bryson, 2014; Carman et al., 2013; Dominelli and Campling, 2006).

The original Arnstein's study remains one of the most highly cited research papers in social sciences. However, Arnstein's ladder is overlooked in the global management literature and remains unfamiliar to most scholars and practitioners in this field.[4] The historical struggle between colonial powers and Indigenous peoples over the distribution of resources, and the resulting power imbalance, make Arnstein's ladder an intuitive lens to study the relationship between modern corporations and Indigenous peoples and to develop the taxonomy of Indigenous participation in corporate governance.

21.2.2 Indigenous Governance

Table 21.1 presents the ladder of Indigenous governance, adapted from the original Arnstein's model, taking into account the specifics of the Indigenous context.

Table 21.1 Ladder of indigenous governance

9. Indigenous control	Indigenous stakeholders can lead governance processes, be in full charge of policy and managerial aspects, and be able to negotiate the conditions under which outsiders may change them.	Degrees of Indigenous power
8. Delegated power	Giving up a significant degree of control, management, decision-making authority, or resources to Indigenous stakeholders.	
7. Partnership	Allowing Indigenous stakeholders to negotiate better deals, veto some decisions, share funding, or put forward requests that are at least partially fulfilled.	
6. Placation	Indigenous stakeholders are granted a limited degree of influence in a process, but their participation is largely tokenistic; Indigenous stakeholders are being involved mostly to demonstrate that they were involved.	Degrees of tokenism
5. Dialogue	Inviting opinions from Indigenous stakeholders and creating a dialogue, with little to no assurance that their concerns and ideas will be taken into account.	
4. Informing	Informing Indigenous stakeholders of impacts and options, with no real channel provided for feedback and no power for negotiation.	
3. Therapy	Creating pseudo-participatory programs for Indigenous stakeholders that shift the attention away from the real impacts on such stakeholders by providing 'remedies' to other, less onerous issues.	Degrees of nonparticipation
2. Ceremonial	Acknowledging the existence of Indigenous nonparticipation stakeholders, as a formality, without actively engaging with them, or doing it superficially.	
1. Neglect	Ignoring Indigenous stakeholders.	

The ladder includes nine levels of Indigenous participation in corporate governance, categorized based on the level of involvement and power of Indigenous stakeholders in corporate decisions affecting such stakeholders. At the lower extreme of the ladder is *neglect*, the level at which the Indigenous voice is entirely ignored by a corporation. At the extreme top of the ladder is *control*, the level at which Indigenous stakeholders assume governance over a project, policy or decision. The rungs of the ladder shall not be viewed as discrete, clearly defined levels. Rather they represent markers on the continuum of Indigenous engagement, ranging from degrees of nonparticipation in the lower tierce of the ladder, to degrees of tokenism in the middle of the ladder, to degrees of Indigenous power on top. The model can be applied to all areas of corporate governance, from strategic decisions to specific projects, programs or policies affecting Indigenous stakeholders. The description of specific levels of the ladder, along with examples of Indigenous engagement at each level, follows.

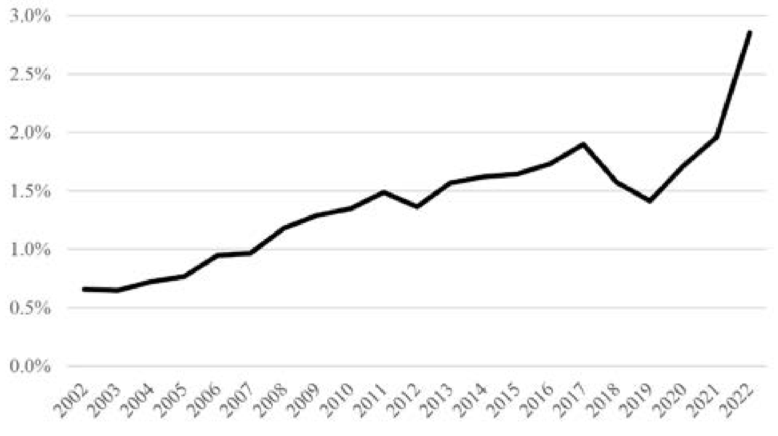
21.2.2.1 Neglect

The lowest level represents the absence of Indigenous engagement. It is the ground floor of the ladder of Indigenous governance. At this level, corporations not only ignore opinions of and the impacts on Indigenous stakeholders, but also make little to no effort to acknowledge the very existence of such stakeholders.

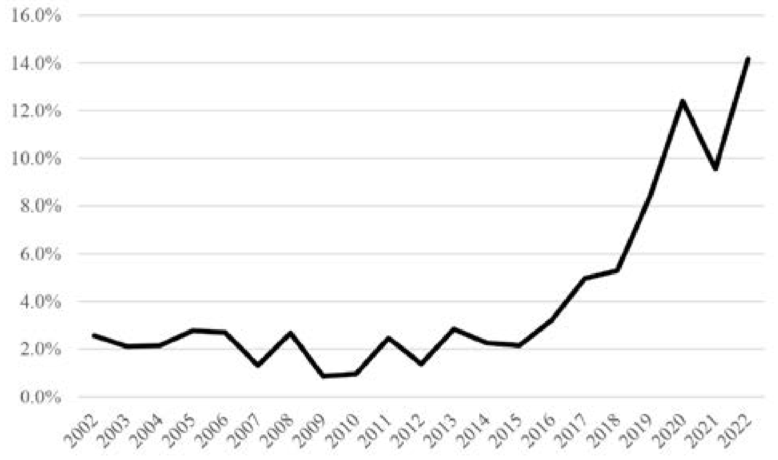
For a simple assessment of the trends related to the acknowledgment of Indigenous stakeholders in corporate disclosures, I performed a word search on EDGAR of annual reports (10-K) filed with the Securities and Exchange Commission between 2002 and 2022, for the occurrence of words ‘Indigenous’ or ‘Aboriginal’. Figure 21.1 reports the results. While the actual numbers should be interpreted with a grain of caution, the overall trends offer an interesting insight. Over the last two decades, the proportion of corporations explicitly mentioning Indigenous issues in their annual reports has been steadily increasing, quadrupling in size. Among the firms headquartered in Canada, a country where Indigenous people account for 5 percent of the total population, the proportion of annual reports referring to Indigenous issues has increased from around 2 percent to almost 15 percent during this time. Overall, however, these businesses remain a minority. Certainly, an annual report is not the only vehicle of corporate disclosure; however, it is a document in which corporations disclose the most important and material information to stakeholders. As the saying goes, ‘out of sight, out of mind’. From this perspective, the majority of corporations continue to ignore Indigenous issues, or treat them as immaterial.

21.2.2.2 Ceremonial

This level of Indigenous nonparticipation includes purely ceremonial, formalistic acknowledgements of Indigenous stakeholders that have no real implications and place no concrete obligation on the corporation. Common examples include starting a business presentation on the development of a new construction project with the acknowledgement that it takes place on the traditional unceded land or including the land acknowledgment statement in a business email signature. In the absence of other mechanisms of stakeholder engagement, these activities recognize the existence of Indigenous stakeholders, but do not give any voice to them. Another notable example of ceremonial activities is corporate involvement in commemorative Indigenous holidays or events, such as the Indigenous Peoples’ Day in the US or the NAIDOC Week in Australia. In Canada, many businesses encourage staff to wear orange shirts on the National Day for Truth and Reconciliation, as a symbol of solidarity and remembrance of the forced assimilation of Indigenous children into the residential school system. These efforts,



Panel A: All SEC filers, 2002–2022



Panel B: SEC filers headquartered in Canada, 2002–2022

Figure 21.1 References to indigenous issues in annual reports

however, quickly fade, as companies often don’t do much more to elevate Indigenous voices and causes (Deschamps, 2022).

For instance, the corporate land acknowledgement policy at Pearson Canada, the company recognizes that its head office in Toronto is located on the traditional territory of the Huron-Wendat and Petun First Nations, the Seneca, and the Mississauga of the Credit River. The company pledges to ‘honour and respect the history, languages, ceremonies, and cultures of the First Nations, Metis, and Inuit peoples who call this territory home’. Clearly, such a pledge puts no obligation on the company to engage with Indigenous stakeholders. The ceremonial nature of this policy is apparent from the way it is used in practice: the land acknowledgement is made at *every* national internal or external meeting, *every* regional internal meeting, and *every* webinar or event hosted by the company.[5]

21.2.2.3 Therapy

At this level, companies engage with Indigenous stakeholders by offering remedies to various secondary issues, without addressing the primary issues. Therapy is a form of *participatory nonparticipation*. Examples include donations and gifts to the community, or various programs for Indigenous youth, such as donating the company's written-off gym equipment for the community center or sponsoring a minor hockey team. Another form of therapy involves presenting mitigations to the problems the companies created themselves as *benefits* to Indigenous stakeholders. The author witnessed a presentation, made by the mining corporation operating in Arctic Canada, in which the Vice-President of Sustainability presented as a 'good deed' and 'great achievement' the company's decision to close the road from the mining site to the Inuit settlement during the caribou migration season, reducing the negative effect of mining operations on Inuit hunters. However, it was the company that built the road in the middle of tundra in the first place, disrupting caribou migration patterns and affecting the livelihood of family's dependent on subsistence hunting.

Therapy actions for Indigenous stakeholders are often relegated to the periphery of corporate disclosures. For example, in the overview of stakeholder engagement actions disclosed in the annual sustainability report of Hess Corporation, a company involved in the exploration and production of crude oil and natural gas, with operations in the Gulf of Mexico, Canada, Guyana, Suriname, and Southeast Asia. Despite operating in the regions with a significant presence of Indigenous peoples, the company places Indigenous groups at the bottom of the list of stakeholders, below firefighters and other 'special interest groups'.[6] As the example of engagement with Indigenous stakeholders, Hess reports providing funding for a roping chute, obstacle course, and playground equipment. Such therapy is oddly reminiscent of the colonial practice to give inexpensive gifts to Indigenous peoples, in exchange for their far more valuable resources.

21.2.2.4 Informing

In the middle tier of the ladder, Indigenous nonparticipation gets gradually replaced by Indigenous tokenism. At the lower range of tokenism, Indigenous stakeholders receive ample information about corporate impacts, but have no real channels for feedback or any power of negotiation. It is a *one-way* stakeholder engagement, in which the company determines and controls the flow of information.

In most cases, the informing stage is a result of a poorly organized consultation process. The duty to consult Indigenous stakeholders is protected by law in some jurisdictions with a sizeable population of Indigenous peoples. For instance, in Canada, the Crown (the governments of Canada and the provinces, as representing the King) has an obligation to consult with Indigenous groups before beginning an undertaking that may alter their rights or impact land within their traditional territories.[7] In practice, corporations often play the central part of these consultations. At this level of the ladder, the consultation process, which is supposed to be a two-way information exchange with Indigenous stakeholders, resulting in sharing of ideas and finding mutually beneficial solutions, becomes a façade for pushing the corporate agenda. Such consultations get reduced to hastily organized presentations in community halls, filled with technical terms and concepts that are unfamiliar to the audience, creating the conditions in which the Indigenous stakeholders can easily feel intimidated by corporate ‘knowledge’ and ‘authority’. The minutes of community consultations organized for the Inuit elders to get approval for the development of Tahera Corp’s Jericho Diamond Mine (NIRB, 2004) in the Canadian Arctic illustrate the problem: ‘Moses Koihok stated that at such public gatherings, issues have to be looked at carefully. The company talked about things that were foreign to him and also talked about wildlife, Elders, and aboriginal people being affected. These are big concerns for him.’

Another quote from the community consultation on the Jericho project conveys the sense of alienation and inevitability: ‘What I want to say is … this final public hearing is a major event because it will encounter the project, which is of great dimension, I guess. They do things and talk about things that is foreign to us, a lot of strange concepts.’

Unsurprisingly, the Jericho project went ahead. For a consultation to be meaningful, both parties in the consultation process need to speak the same language and understand each other. At the informing stage of the Indigenous governance ladder, consultation gets reduced to pure tokenism.

21.2.2.5 Dialogue

At this level of the ladder, corporations create two-way communication channels with Indigenous stakeholders that allow for feedback, but give little to no assurance to Indigenous peoples that their concerns and ideas will be taken into account. Establishing the dialogue is usually achieved by using a combination of engagement strategies, such as conducting semi-regular meetings with different stakeholder groups in Indigenous communities (e.g., elected officials, elders, Hunters and Trappers Associations, women’s groups), to listen to heterogenous voices within these communities, or creating a community liaison position in the corporate hierarchy. Many of the mining companies operating in the Canadian Arctic maintain small offices in the Indigenous communities significantly affected by these operations, staffed with Indigenous employees, to facilitate the dialogue and create a sense of belonging in the community.

A dialogue between two parties is meant to benefit both parties. However, these benefits are rarely equitable—it is the party in the position of power, authority, or influence, including economic influence, that usually receives greater benefits in the long run, as evidenced in the long history of treaties between the colonial powers and Indigenous peoples. For a corporation proposing an exploration project in the Indigenous community, establishing a dialogue with Indigenous stakeholders and demonstrating that it fulfilled its legal or social duty to consult with them, often becomes the necessary condition to claim community support and get the ‘green light’ for the project.

The case of Sabina Gold & Silver Corp’s proposal for the Back River gold mine project in the Kitikmeot region of Nunavut in Canada, traditionally populated by the Inuit, illustrates how establishing dialogue with Indigenous stakeholders can give the upper hand to the corporation. In June 2016, following a four-year assessment process, the Nunavut Impact Review Board (NIRB), the government agency tasked with the review of exploration projects in Nunavut, recommended to the then Minister of Indigenous and Northern Affairs of Canada to reject the Back River project, citing concerns about potential impacts on caribou populations in the region, among other factors (NIRB, 2022). In response, Sabina embarked on a tour of the Inuit communities in Kitikmeot to solicit feedback regarding NIRB’s recommendation from various community stakeholders. In the course of this engagement, Sabina was able to get numerous letters of support for the Back River project from various stakeholders on the ground, including the Kitikmeot Inuit Association, an organization representing the economic interests of the Inuit people in the region, urging the Minister to reconsider NIRB's decision. In January 2017, the Minister rejected NIRB's recommendation and referred the report back to NIRB for further review. Sabina's project was finally approved in December 2017, highlighting the power of stakeholder dialogue.

21.2.2.6 Placation

At this level, Indigenous stakeholders are granted a limited degree of influence in a process, but their participation remains largely tokenistic; they are being involved mostly to demonstrate that they were involved. Placation is characterized by more formal and continuous engagements with Indigenous stakeholders than a simple dialogue with the community. These engagements also generally take place at a higher level in the corporate hierarchy—to demonstrate the importance of Indigenous issues for the company's mission and strategic direction. Examples include senior management appointments with an Indigenous title (such as Vice President, Aboriginal Banking, or Senior Vice President, Indigenous Stewardship), or various Indigenous councils, boards, committees or circles, tasked with the advisory function to senior management.

The degree of actual power accorded to such Indigenous advisory bodies in most cases is questionable, with form prevailing over substance. News of the creation of Indigenous advisory bodies are heavily advertised by corporations.[8] Members seem to be carefully cherrypicked—to allow the company to showcase the diversity of Indigenous peoples consulted. For instance, the ten members of the CN's Indigenous Advisory Council represent different Indigenous groups and come from different regions of Canada—including the regions *without* CN operations, such as Nunavut. Such a formalistic approach to Indigenous engagement is largely consistent with window dressing and tokenism.[9]

21.2.2.7 Partnership

The upper tertile of the Indigenous governance ladder is characterized by various degrees of power shared by corporations with Indigenous stakeholders. At the partnership level, Indigenous stakeholders are allowed to negotiate better deals, veto some decisions, share funding, or put forward requests that are at least partially fulfilled. While signs of tokenism and formalism may still be omnipresent at this level of engagement, and corporations still retain the upper hand on most issues, the impacts of Indigenous stakeholders on corporate actions become tangible and usually cover a range of issues.

Such relationships can be found where the expected long-term benefits from a meaningful partnership with Indigenous stakeholders clearly outweigh the costs of giving up a certain degree of power for the corporation. An example of long-term corporate partnership with Indigenous stakeholders is the Raglan nickel mining complex in the Nunavik region of northern Quebec, currently operated by Glencore. The Raglan Mine, which sits on one of the world's finest and richest sulphide nickel deposits, is located on the traditional Indigenous territory, near the Inuit communities of Salluit and Kangisujuak, which are located in northern Québec near the Arctic circle. Exploration and negotiations related to this mining project lasted over 30 years and culminated with the signing, in 1995, of the comprehensive Raglan Agreement, between the corporation and five Indigenous stakeholder groups representing the interests of the Inuit population in the region.[10] The objective of the agreement was to facilitate equitable and meaningful participation for Inuit stakeholders with respect to the Raglan project, and ensure that these stakeholders derived direct and indirect social and economic benefits at all stages of the mine's lifecycle (The Raglan Agreement, 1995). The agreement covered multiple areas of concern for the Indigenous groups, including environmental mitigations, opportunities for Inuit training and employment, and priorities for Inuit enterprises in performing work or supplying goods and services for the Raglan mine. It also established the Raglan Committee to serve as the formal forum for stakeholder engagement, oversee the implementation of the provision of the agreement, and resolve the disputes, composed of three representatives of the corporation and three representatives of the Inuit parties—an example of direct representation of Indigenous stakeholders in corporate governance.

21.2.2.8 Delegated power

At the penultimate level of the ladder, in addition to allowing Indigenous stakeholders to directly participate in the governance processes, corporations give up a significant degree of control, management, decision-making authority, or assets. Such sharing of power and resources is uncommon; in most cases, corporations delegate power to Indigenous stakeholders in response to corporate crises, in anticipation of highly controversial projects, or due to various regulatory or societal pressures—to offset the costs of compliance, minimize reputational risks, and create a positive image in the community.

The evolution of the relationship between Enbridge and its Indigenous stakeholders illustrates the impact of such pressures. Enbridge, one of the world's largest corporations operating in the natural gas and oil industry, has been at the heart of a series of high-profile protests involving Indigenous communities since as early as 2010, when the Wet'suwet'en hereditary chiefs and their supporters set up a camp directly in the path of the Enbridge Northern Gateway Pipelines, voicing their opposition to the construction of pipelines through the traditional Wet'suwet'en First Nation territory in British Columbia, Canada, without proper representation or permission from the Indigenous stakeholders. After taking a series of reputational hits in the early 2010s, Enbridge gradually changed the narrative of stakeholder engagement, seeking new and deeper forms of partnership with Indigenous communities. Such a strategy culminated in September 2022 with the announcement that Enbridge would sell 11.57 percent of non-operating interest in seven pipelines of the company, for CAD$1.12 billion, to 23 First Nation and Metis communities in the Athabasca region of northern Alberta.[11] The investment would be monitored by a newly created Indigenous entity, Athabasca Indigenous Investments, creating the largest energy-related Indigenous economic partnership transaction in North America (Johnson, 2022). In another similar transaction, in November 2017, Suncor Energy sold 49 percent of its interest in the East Tank Farm Development facility in Alberta to Fort McKay First Nation and Mikisew Cree First Nation for CAD$503 million. Both cases serve as examples in which companies transfer a sizeable portion of their resources, to Indigenous peoples, aligning, *to some extent*, the economic objectives of the corporation and its Indigenous stakeholders.

21.2.2.9 Indigenous control

At the top level of the ladder, Indigenous stakeholders can set governance processes, be in full charge of policy and managerial aspects, and be able to negotiate the conditions under which outsiders may change them. Here, corporate governance *becomes* Indigenous governance. At the time of writing, this level exists only in theory. As the examples of Enbridge and Suncor in the preceding section suggest, even in the most progressive forms of stakeholder partnership, set to align the interests of corporate and Indigenous parties, it is the corporation that retains the controlling interest, and therefore has the upper hand in decision-making and governance. Thus, the ladder of Indigenous governance begins and ends with vacuum. At the bottom of the ladder, corporations pretend that there are no Indigenous stakeholders. At the top of the ladder, there are no Indigenous stakeholders.

21.3 CONCLUSION

Participation of Indigenous peoples in corporate governance is a complex, novel and an increasingly important issue in the business world. Approaching this topic for a board director or senior manager is difficult—few guidelines and recommendations on the subject exist. This study maps Indigenous participation in corporate decision-making, proposing a simple practical tool that could be used to critically assess Indigenous engagement for specific companies, programs, or projects. Through examples of Indigenous engagement at various levels of the governance ladder, this study sheds light on the spectrum of relationships between companies and their Indigenous stakeholders. The proposed taxonomy should be useful not only for all sides of the stakeholder dialogue, but also for researchers studying the participation of Indigenous peoples in various organizational processes.

The ladder of Indigenous governance shall not be seen as prescriptive. Any sort of optimal or acceptable level of Indigenous engagement would depend on the nature of a company's operations, location, and many external factors. Rather, this ladder serves as an opportunity for every organization to critically review its own relationship with Indigenous stakeholders—or lack thereof. What is not assessed, cannot be improved. With this in mind, the central goal of this study is not to provide answers, but to show the directions, encouraging boards of directors and senior managers to ask themselves one simple question: *Shall we climb?*

NOTES

1. The views expressed in this chapter are those of the author and do not necessarily reflect the views of any organization the author is affiliated with.
2. While no universal definition of Indigenous peoples exists, according to the working UN definition,

   > Indigenous communities, peoples, and nations are those that, having a historical continuity with pre-invasion and pre-colonial societies that developed on their territories, consider themselves distinct from other sectors of the societies now prevailing in those territories, or parts of them. They form at present non-dominant sectors of society and are determined to preserve, develop, and transmit to future generations their ancestral territories, and their ethnic identity, as the basis of their continued existence as peoples, in accordance with their own cultural patterns, social institutions and legal systems (Martínez Cobo, 1986).

   In various jurisdictions, Indigenous peoples may be referred to as Aboriginal, tribal, traditional, autochthonous, Indian, or native, among other terms. There are about 500 million Indigenous peoples worldwide (International Labour Organization, 2020).
3. The author spent two years collecting ethnographic data as part of a project on stakeholder dialogue between corporations operating in Arctic Canada and local communities (see Kalyta and Malsch, 2018).
4. A notable exception is Cummings (2001) study of stakeholder engagement in 29 UK and transnational companies.

5. https:// www .pearson .com/ ca/ en/ truth -and -reconciliation/ pearson -canada -corporate -land -acknowledgements.html.
6. https://www.hess.com/sustainability/social-responsibility/stakeholder-engagement.
7. See, e.g., Haida Nation v. British Columbia (2004).
8. See, e.g., https:// www .cn .ca/ en/ news/ 2021/ 11/ cns -new -indigenous -advisory -council -holds -inaugural-meeting-and.
9. Some companies use the 'black box' approach. In June 2021, ATCO announced the creation of its Indigenous Advisory Board on the corporate website and in the YouTube video, 'to support economic reconciliation, encourage the sharing the traditional knowledge, draw upon values of the community, and respect the rights and knowledge of elders, which includes opportunities and equitable partnerships for Indigenous community'. However, ATCO did not disclose the composition of the Board; nor could the author find any reference to the Board's activities at the time of writing. The only reference to the Indigenous Advisory Board in ATCO's 2021 Sustainability Report was the news of its creation. Such cases may therefore reflect ceremonial nonparticipation, rather than placation.
10. These stakeholders included Makivik Corporation, Qarqaliq Landholding Corporation of Salluit, Northern Village Corporation of Salluit, Nunatulik Landholding Corporation of Kangiqsujuaq, and Northern Village Corporation of Kangisujuaq.
11. For further details, see: https:// www .newswire .ca/ news -releases/ indigenous -communities -and -enbridge-announce-landmark-equity-partnership-856722519.html.

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22. Promoting women on African boards: An examination of board diversity provisions in corporate governance codes

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22.1 INTRODUCTION

The achievement of gender equality and empowerment of women and girls is a crucial sustainability and development theme as reflected in the 2015 Sustainable Development Goals (SDG 5), and from which one key objective is SDG 5.5, that is, how to ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic, and public life. However, the extent to which these aspirations have become a mainstream part of policy interventions and development plans in different countries (Dominelli, 2019), and notably in Africa, is open to question. While there has been more recently an emerging emphasis on the development or strengthening of state frameworks to monitor and implement SDG targets (Lauwo et al., 2022; Onditi & Odera, 2017), including those relating to gender equality and empowerment, corporate expectations of gender diversity and female representation in the workforce and at the highest levels of corporate leadership, management and oversight are less clear. This leads to questions as to whether such policy interventions do matter in addressing the long-standing and structural under-representation of women on boards. Of particular interest has been the role of corporate governance codes and other similar guidelines in conveying gender diversity ideals (e.g., Mateos de Cabo et al., 2022), typically in terms of encouraging (rather than mandating) companies to increase the number and/or proportion of women on the board. Over the last two decades, corporate governance codes in the Global South have increasingly shifted to a stakeholder model, moving away from a shareholder emphasis. Gradual stakeholder-oriented reforms to the Organization for Economic Cooperation and Development (OECD)'s corporate governance model as well as the insights from the South African code (e.g., 'King' IV Code) and the recent African Union and Guidelines on Corporate Governance have demonstrated the potential to embed more inclusive forms of governance and ownership, including the notions of board diversity and women on boards.

Admittedly, there is a significant body of literature that examines the existence and corporate-level economic, social and environmental consequences of board diversity in some of the larger African countries, for example, Nigeria, Ghana, South Africa, Kenya, Egypt (Ararat et al., 2021; Attah-Boakye et al., 2020; Waweru, 2020). Other than reported mixed findings, these studies tend to rely on quantitative, and inherently narrow indicators and are often reported in isolation of (i) the subtleties of diversity expectations set out in governance standards/codes of each African country (in cases where such standards/codes exist), and (ii) the prevailing social, cultural, political context vis-à-vis the role of women in African society and more generally in terms of the dominance of patriarchal leadership in African organisations and businesses (Kimani et al., 2021; Ouedraogo, 2018). In addition, qualitative work on the implementation of codes and embedding of diversity at board and organisational level tends to be scarce in the African context (Areneke et al., 2022; Kimani et al., 2021; Maloiy, 2020; Gunesh Ramlugun & Stainbank, 2023; Ronnie & Glaister, 2020). Prior research in the case of African codes (ACCA, 2017; Areneke et al., 2022) also suggests that while many of these codes may have similar requirements to the ones set out in non-African settings, they also include context specific (and even sector-specific) provisions. We therefore raise the following research questions: (i) How are board diversity and gender board diversity addressed (if any) within African corporate governance codes? (ii) What are the potential reasons for differences and similarities across African codes, (iii) and Where applicable, how are these guidelines reflected in the company's governance report?

The objective is thus to explore how SDG related commitments to gender equality and women empowerment are translated in national/sectoral codes of corporate governance in the African context and by extension how companies embed and communicate these commitments. Empirically, we collect and analyse 32 African codes of corporate governance in terms of their expectations/rationale on board gender diversity and equality. This review is complemented by a content analysis of selected companies implementing the code in their respective country and how they, in turn, report on their progress/commitment on board diversity and gender board diversity in annual reports.

In summary, we find notable differences in the way board diversity and board gender diversity are conceptualised, acknowledged and/or articulated in the African codes. Our findings contribute to the literature at the intersection of SDG commitments with regards to women's representation/empowerment at the corporate/board level (Dominelli, 2019; Onditi & Odera, 2017) and on board composition expectations in corporate governance codes (Mateos de Cabo et al., 2019; 2022; Ouedraogo, 2018). The findings are relevant to policymakers on the development of appropriate gender representation/empowerment policies and practices. The next section reviews the literature, followed by a section on data collection and research methods. The findings and analysis are then presented, followed by the conclusion, contributions, and recommendations.

22.2 LITERATURE REVIEW

22.2.1 Use and Consequences of Board Gender Diversity Initiatives

International instruments and agreements have been pressing for greater gender diversity on corporate boards and at senior management level in efforts to implement international pronouncements on human rights and sustainable development, (MacMaster & Seck, 2020). In addition, some companies have started promoting more gender diversity on corporate boards. For instance, BNP Paribas' (BNPP) voting and engagement policy places a high priority on enhancing gender diversity. In companies in which BNPP AM invests, women hold an average of 27 percent of board positions, up 2 percent from 2021 (25 percent). This is two percentage points higher than in 2021 (18 percent) and compares with an average of 20 percent for businesses in the Institutional Shareholder Services database.[2] Mateos de Cabo et al. (2019) evaluated the success of the first 'soft' quota adopted by the European Union (EU) which set a target of 40 percent of each gender to serve on boards of directors by 2015. Based on a sample of 767 Spanish firms and 2,786 firm-year observations (2005 to 2014), they report that less than 9 percent of surveyed firms fully met the quota. According to Mateos de Cabo et al. (2019), the adoption of gender-balanced boards was not prompted by the normative requirements of the quota. In a similar vein, Htun and Jones (2002) contend that political quota laws in Latin America only operate when institutions and practices are respectively reformed and introduced to ensure such a quota requirement can adequately function. Contrastingly, Iceland's mandatory regulation of gender quotas for corporate boards led to a change in mind-sets and improved board gender representation (Arnardottir & Sigurjonsson, 2017); while the different versions of the local corporate governance code, although acknowledging the need for more board diversity (including gender), appeared to have little impact.

Examining further the dichotomy of mandatory board quotas vs. corporate governance code guidelines, Mateos de Cabo et al. (2022) considered the impact of these two types of affirmative action policies in a sample of European countries on the social capital of women on boards through their positions within director networks. Relying on data from listed firms in 37 countries (1999 to 2014), the authors found that diversity guidelines in European codes often only improve the visibility and network connectivity of women on boards by drawing on women's pre-existing ties to established networks. Since corporate actors are not sufficiently motivated to foster higher and/or more effective levels of gender participation on the board, the authors contend that it is difficult for gender representation within such a 'voluntary' regime to progress beyond token representation. At the same time, mandatory quotas are associated with a considerable increase in women's network connectivity, rendering them as 'bridges' with an advantage over their colleagues as information intermediates between the network's core and edges. Therefore, while codes are effective in terms of facilitating women directors' access to information in the network, quotas tend to boost the authority of women directors as distinctive bridges to enable the flow (or stoppage) of information in the directors' network.

Mensi-Klarbach and Seierstad (2020) also bring forward the need to consider institutional settings when introducing and constructing corporate board quotas because on the one hand, a soft corporate board quota may not result in the targeted increase in women on boards, whereas on the other hand, within a supportive institutional context, even a soft corporate board quota may produce desired change or a progress towards such change. They also argue that a law's potential impact will be influenced by how precisely it is written. Mensi-Klarbach and Seierstad (2020) suggest that less stringent laws, with clear and ambitious goals, within supportive institutional frameworks, and involving numerous players, may be able to facilitate change since they tend to involve more corporate strategic options, actors, and actions. These points again highlight the need to think beyond the dichotomy of mandatory vs. voluntary board diversity ratios given the complex nature of the institutional settings in which codes or quotas are formulated. In conclusion, extant research, mostly carried out in developed country contexts, find limited evidence in support of 'softer' approaches to improve board gender diversity. There is still significant opposition in some countries to the use of quotas to address structural levels of under-representation on boards, while some recent evidence (e.g., Mateos de Cabo et al., 2022) does highlight the substantive impact of quota regimes with due consideration of the institutional settings.

22.2.2 Evidence from Developing and Emerging Economies

There is notable research examining gender diversity of boards in Africa. For instance, Ibrahim et al. (2019) reports a positive relationship between board gender diversity and the performance of insurance firms in Kenya. Findings from a Nigerian study (Chijoke-Mgbame et al., 2020), based on panel data of 77 companies, revealed that having more female members on the board had a favourable and significant impact on financial performance, and the more so in cases where there were two or more female directors on the board. In the case of Egypt, Ararat et al. (2021) found that the presence of women on corporate boards improved firm performance following changes in gender quota regulations. Relying on large-scale data from 21 emerging economies (including African countries) and corporate data from 2009–2018, Attah-Boakye et al. (2020) found a positive relationship between gender diversity and firm innovation. While these quantitative studies do enhance our understanding of the role of gender board diversity on organisational outcomes, the quantitative measure (typically the ratio of women on the board to the size of the board) only reflects a limited dimension of gender diversity without considering how diversity requirements are expressed in the different codes. Additionally, quantitative approaches in ascertaining the influence of board diversity on organisational outcomes (e.g., firm performance; disclosure) are open to debate since they hardly take into consideration variables of interest (Özbilgin et al., 2016) that precede, or contribute, to changes in board diversity at a corporate, sectoral, or national level. In a similar vein, these studies tend to ignore the prevailing social, cultural, and political context with regards to the role of women in Africa and do not sufficiently consider the drivers behind the persistent lack of, or low, representation of women on African boards. The male-dominated culture within African organisations and the structural predominance of men in positions of power are yet other challenges that explain the underrepresentation of women on boards of directors (Ouedraogo, 2018). Opportunities for women to climb to higher positions with organisations remain subject to a 'glass ceiling' while socio-cultural dimensions pertaining to the role of women in the African household contribute to exclusionary practices from boardrooms (Ouedraogo, 2018; Ronnie & Glaister, 2020).

Beyond the mandatory quotas and recommendations in corporate governance codes, various policy efforts have also been considered to operationalise how gender inequality in boards might be resolved (Adesua Lincoln & Adedoyin, 2012). Mentoring, networking, and professional certification or development schemes have been introduced by various Institute of Directors in Africa. For example, in Mauritius, the Women Leadership Academy was established by the Mauritius Institute of Directors (MIoD) in association with Dale Carnegie Mauritius. The goal was to create a pool of capable female executives who can address the gender gap at the C-suite level.[3] In addition, the MIoD currently makes use of their platform to support female leadership through various programs, such as the Women Leadership Academy (Investors Mag, 2022). In Egypt, the Egyptian Institute of Directors (EIoD), has initiated a directors certification program for women,[4] while the Institute of Directors Nigeria operates a Women Directors Forum and Conference. Yet, the outcome of these programs remains limited or at an early stage. For instance, women represented only 13 percent of board seats in Egypt in 2020, albeit this increased by 30 percent from 2019.[5]

At the last count, 26 African countries have adopted codes of corporate governance (Areneke et al., 2022), either at national and/or sectoral level, and while board diversity aspects have been acknowledged (ACCA, 2017), the details thereof have not emerged. Research also suggests that there is a need for a better fit between codes and the eclectic socio-cultural backgrounds of African countries (Areneke et al., 2022; Wanyama & Olweny, 2013). So far, codes in many African countries appear to have had very limited practical impact and in code-adopting countries, firms continue to exhibit poor performance and inadequate accountability (Areneke et al., 2022). The application of provisions in codes also depends on how they were initiated. For instance, Wymeersch (2006) and Cuomo et al. (2016) identified different models of code development, namely those issued by academic institutions, stock markets, public authorities, professional associations (e.g., Institute of Directors) through legislation and finally those supervised by a government body. Adherence to the codes and the different levels of compliance tend to be closely associated to the type of issuing body. Furthermore, the 'comply or explain' approach, which remains a common requirement worldwide despite long-standing criticism, is not binding in nature (MacMaster & Seck, 2020; Wymeersch, 2006). Lastly, corporate governance codes specify gender diversity targets differently (if at all), leaving it to companies to determine their own. Since there is little accountability for non-compliance, the effectiveness of such targets can be limited because the primary purpose of a code is to recommend. As a result, one would expect women's representation at the board level to emerge only at a symbolic level (Mateos de Cabo et al., 2022).

In conclusion, Nakpodia et al. (2018) argue that a country's decision to choose a principle-based or rule-based regulatory approach on corporate governance is not always influenced by the country's fundamental features, but rather by the idiosyncrasies of its institutional context. The African case provides good illustrations of such idiosyncrasies. Whilst some codes would mirror those of developed countries, others might take greater consideration of their settings when developing the codes (Okpara, 2011; Wanyama & Olweny, 2013); the South African 'King' codes being a clear example of the latter (Ntim & Soobaroyen, 2013). Notwithstanding the above, at the corporate level, a combination of lax regulatory frameworks, corrupt or unethical behaviour, and interference by political, ownership and/or business elites may lessen incentives for companies to meaningfully and transparently engage with a code (Waweru et al., 2019). Adding to this research agenda, we argue that prior studies on African boards, role of corporate governance codes (including issues such as board gender diversity) and consequences thereof tend to disregard the subtleties in the way requirements and guidelines are formulated. Many countries have also developed new iterations of their code that are not always mirrored from international trends. We also contend that the way board diversity provisions become operationalised (or not) in codes do influence the way in which they are taken on board and eventually disclosed in annual reports. Given the limited insights, we therefore focus our analysis on provisions present in codes of corporate governance regarding board diversity and board gender diversity and where applicable, how these provisions are translated in corporate annual report disclosures.

22.3 DATA AND METHODS

We first identify and collect all available African codes of corporate governance, whether issued as a national pronouncement (national code) or as 'sectoral' code, focusing for example on the banking and insurance sector (typically published by the Central Bank or Insurance regulator) or on listed companies (stock market regulator). Although many corporate governance studies rely on the European Corporate Governance Institute (ECGI) website to access a record of codes worldwide, the coverage for African codes is relatively incomplete (Areneke et al., 2022). As in the case of Areneke et al. (2022), we drew on other official sources (e.g., the WB's World Development Indicators, Reports on Observance of Standards and Codes (ROSC), African Development Bank publications), a recent report by the Association of Chartered Certified Accountants (ACCA, 2017) and the worldwide survey by Cuomo et al. (2016). Finally, we reviewed the academic literature (including Francophone articles) to identify any reference to codes of corporate governance in the African context. This combined search yielded a total of 32 codes, associated to 22 African countries published in the years 2008 to 2022. Eleven of these codes alone relate to either Ghana (5) or Nigeria (6), covering a variety of economic sectors and public sector organisations. Seven codes are specifically associated to listed firms while 12 codes cover all types of organisations, the most recent one being Ghana's national code of corporate governance (2022) issued by the Institute of Directors-Ghana. We also considered the regulations issued by *l'Organisation pour l'Harmonisation en Afrique du Droit des Affaires3 (OHADA)*[6] via an *Acte Uniforme Révisé relatif au Droit des Sociétés Commerciales et du Groupement d'Intérêt Economique*,[7] which sought to establish a common set of legal provisions relative to corporate governance in African Francophone countries. The *Acte Uniforme* of 2014 refers to some rules on board composition and structure (e.g., board size, audit committee) for listed companies but it does not prescribe detailed provisions one would usually find in mainstream corporate governance codes, including on board diversity and gender diversity. The same applies to the stand-alone corporate governance code (2017) for banks and financial institutions issued by the West African Economic and Monetary Union[8] consisting of eight (mainly French speaking) West African countries.

We carried out a line-by-line reading and analysis of the codes and sought to capture (i) year and coverage of the code; (ii) whether it refers to the need for balance/diversity, and specifically reference to gender representation; (iii) any specific requirements (e.g., quotas or minimum numbers); and (iv) whether the code refers to additional guidance on achieving diversity expectations (e.g., through recruitment policies). We examined any board diversity and gender diversity-related disclosures in the annual report of large established companies to consider how companies might have responded to requirements (where applicable); the intention being to provide a snapshot of how companies addressed such requirements (where specified). Given the limited number of observations, we rely on descriptive statistics and tabular presentations to tease out commonalities/differences and discuss the findings thereof.

22.4 FINDINGS AND ANALYSIS

22.4.1 Code References to Board Diversity

Appendix 22.1 provides a tabulation of the origin, scope, issuing authority, year, applicability/coverage of the code followed by the extent to which (if at all) aspects of board and gender diversity are addressed in the code. Period wise, the 32 codes span a 20-year period (Ghana, 2022; Uganda, 2003) with the majority (19) being issued in the last ten years. While an initial emphasis of codes was on listed companies and financial institutions, more recent initiatives have recognised the need to encompass a far wider constituency of African entities, including state-owned entities, unlisted/private businesses, and non-profit/social enterprises given their social and economic significance on the continent (e.g., Egypt, 2016; Ghana, 2022; Nigeria, 2018; Sierra Leone, 2018; South Africa, 2016). The State, through its different regulatory agencies, central banks and stock market authorities, remains at the forefront of the development of codes in two-thirds of cases compared to private sector initiatives (e.g., from Institute of Directors). As highlighted by other authors (Areneke et al., 2022; Kimani et al., 2021), it is likely that many of the state-led initiatives have been spurred on by pressures to adhere to international standards or as part of private sector development reforms financed by supra-national agencies (i.e., World Bank, European Union, African Development Bank). However, how these pressures translate on the ground with regards to board and gender diversity appears to vary considerably.

A first review of the codes reveals that most of them (27/32) do embrace diversity in a multi-dimensional way, considering a blend of professional (skills, competences, qualifications) as well as social aspects of diversity (independence, age, race, nationality, religion and gender). Only five codes (Nigeria 'with three distinct codes'; Zambia; Zimbabwe) make no reference to diversity or only imply it as a mix of executive/non-executive directors. The most referred forms of diversity are in terms of experience, competence, skills, and independence. In fact, only the Kenya, South African and Namibian cases (#10, #16, #26) define what diversity means in the context of the code. Specifically, they generally argue that diversity is about reflecting the varied perspectives and approaches offered by members of different identity groups, be it from a knowledge, experience and/or personal viewpoint (e.g., character, gender, age). However, the reasons or motivations underlying a diverse board are not articulated in most codes which can be symptomatic of a normative logic (e.g., it is self-evident to have a diverse board) or that it is a taken-for-granted practice. For example, the Algerian case (#1) contends that the board needs to be balanced (similar for Ghana, #8) but does not state why. In contrast, specific reasons are offered in ten codes to underpin the diversity expectation ranging from ensuring a 'balance of power' (Botswana, #2), to fulfil the board's responsibilities and protect shareholders (Ghana, #6; Nigeria, #17), to provide proper oversight (Liberia, #12), to add value to the strategic role of the board (Malawi, #13), to foster genuine debate and steer clear of a systematic search for consensus (Morocco, #15; similarly Rwanda, #23), to ensure decisions are taken in the social interest (Senegal, #24), to be effective (Sierra Leone, #25) and to ensure that the board is not 'perceived to be representative of a single or narrow constituency interest' (Kenya, #10). It follows that the absence of an explicit statement motivating a board diversity requirement and/or the emphasis on one reason (rather than recognising there are different reasons for a diverse board) may lead to a vague appreciation, at an organisational or sectoral level, of what might board diversity 'stand for' in a setting. At the same time, the social and cultural context can explain an emphasis. For example, as highlighted by Kimani et al. (2021), community and tribal representation remain a key concern in Kenyan organisations and the code's reference to single or narrow constituency may reflect such a concern. Yet, while Adegbite (2015) highlights the dimension of ethnicity and tribalism in the case of Nigerian boards, only one code (#17) refers to culture as an important consideration.

More specifically, seven codes refer to nationality, religion and/or race as elements of board diversity, notably in the case of Egypt (#3; faith), Ghana, Kenya, Morocco, Namibia, South Africa (#5, #10, #15, #16, #26; nationality/race), and Mauritius (#14, race, religion, and belief). In the case of the Ghanaian banks only, there is a defined percentage in terms of nationality (30 percent nationals on the board). Such an emphasis reflects a concern with ensuring local representation in contexts where there are diverse religious/ethnic communities and concerns about actual or potential social unrest. For example, the original code for Mauritius (Soobaroyen & Mahadeo, 2016) explicitly mentioned this point. Furthermore, the South African legacy of apartheid has led to major initiatives to empower black South Africans in various aspects of society, including employment, business ownership and board representation. Finally, as in the case of Ghana, there is an interest in ensuring that local investors and executives can be involved in banking business with a view to foster local growth and exposure; and by extension, to mitigate foreign ownership and control.

In terms of expertise (qualifications, experience, technical/business competence), very few sectoral codes were specific about the knowledge and skills required of board members. For example, the Ghanaian codes for the banking business (#5) and rural community banks (#8) together with the code for financial institutions in Liberia (#12) list a range of professional competency fields expected of board members (e.g., Banking, Law, Risk), potentially to underpin the 'fit and proper' test bank regulators are expected to apply when approving board appointments. Most of the other codes (sectoral or otherwise) did not specify the professional expertise/experience that is expected of board members although this differs for board committees. For example, the King IV Code (#26) and Kenyan code (for listed companies, #10) require the audit committee member(s) to be financially literate, implying that the nominations committee is expected to take this factor into account in the appointment process. The Ethiopian code (#4) provides an interesting example; at least one third of the directors should have verified competence and expertise, suggesting that up to two-thirds may not be required to exhibit such characteristics. This may be related to the need for board positions to be retained for specific interests (e.g., family ownership, representatives of major shareholders) and not subject to the mainstream requirements.

Finally, with regards to independence (of non-executive directors), it is noteworthy that just a third of codes (10/32) specify independence as a facet of board diversity, albeit that later paragraphs on board composition/appointment may refer to the need for independent directors in addition to the existence of policies and procedures that will ensure their independence. For example, the Nigerian codes of governance issued by the Financial Reporting Council (#17) and the Securities and Exchange Commission Nigeria (#19) state that the board must appoint individuals with a balance of skills and diversity without compromising independence. The Rwandan code (#23) also stipulates that the board should have a mix of executive, non-executive, and independent directors. In terms of specifying an appropriate proportion of independent directors on the board, only Ethiopia (#4; at least one third), Liberia (#12; not less than one-third) and Tanzania (#28; at least one-third) do provide a (similar) quantitative threshold. It is likely that companies in other countries may elect to appoint independent directors along similar proportions. While there has been a body of research supporting the positive contribution of independent directors on African boards, the question lies as to the ability to identify suitable independent directors in these settings and for them to remain and act independently (Areneke et al., 2022).

In conclusion, a general notion of board diversity, as a multi-dimensional concept, is present in most African codes but the concept is articulated quite differently in the pronouncements when one considers aspects relating to race/nationality, expertise/competence, and independence. Cross-country differences are noted but equally codes within the same country do not always follow the same pattern (e.g., Nigeria and Ghana). Notwithstanding the many governance studies examining board diversity characteristics and their consequences in Africa, codes approach diversity in different ways. Such heterogeneity is also reflected in the specific case of gender diversity as explained below.

22.4.2 References to Board Gender Diversity and Gender Diversity More Generally

With reference to a gender representation requirement on the board, 14 codes (about 44 percent) explicitly referred to the need to consider gender diversity. A further review indicates that the majority (60 percent) of the codes that are silent about gender board diversity have been published almost ten years ago and arguably, the need to embed gender as a facet of board diversity was less salient. A number of observations emerge, firstly, the 14 codes are associated to a variety of national contexts (Egypt, Ghana, Kenya, Mauritius, Morocco, Namibia, Nigeria, Sierra Leone, South Africa, and Tunisia) and sectors. While some might be viewed to be at the forefront of corporate governance developments on the continent and have revised codes over time (e.g., South Africa, Ghana, Nigeria), others have been less involved (e.g., Sierra Leone, Tunisia). It is likely that the board gender diversity requirement has surfaced due to specific influences at the local or international level. Interestingly, not all codes within the same country have similar requirements. For example, while Ghana's 2015 Corporate Governance Manual (#7) stipulates that gender balance shall be *imperative*, the 2018 directive issued by the Bank of Ghana (#5) only emphasises nationality and competence. Furthermore, Nigeria's 2021 guidelines for the insurance sector (#20) do not specify gender but the 2016 code (#21) for the telecommunications industry states that the board should ensure it has a mix of skills, diversity of experience and gender. Relatedly, one can also note the difference in the language and rhetoric relating to board gender diversity. On the one hand, some codes express gender diversity as a matter of course and alongside other professional and personal characteristics (e.g., Egypt, #3; Ghana, #9; Kenya, #10, #11; Nigeria, #21). Others can be deemed more activist, such as Sierra Leone's statement that a gender *balance* shall be imperative (#25) as similarly set out in the Moroccan code (#15).

Secondly, it is noteworthy that other codes only mention gender diversity in later sections referring to the appointment process, thereby pointing to a type of voluntary practice, which is why we did not classify them as having a board gender diversity requirement. For instance, Ghana's code for listed companies (#6) requires the board to adopt a policy on an appropriate gender balance for board appointments but does not require gender diversity per se. Similarly, the Malawi code (#13) highlights that the selection process may consider an appropriate diversity of gender, depending on the type of organisation but without further specifying the circumstances for doing so. Further oblique references to gender diversity within the board are also noted in the case of Nigeria's code for public companies (#19) as well as for Tanzania and Uganda, whereby it is stated that the process of appointment should be sensitive to gender representation (#28, #30). Being 'sensitive' or giving 'due consideration' to gender within the recruitment process appears to provide a leeway for addressing gender inequalities in the board without being too upfront or potentially confrontational. It also reflects different attitudes and social norms relative to the role of women on boards. As in the case of Wiersema and Mors (2016), it is likely that there is some resistance to an explicit approach of recognising gender board diversity within the code. Instead, a more subtle strategy (through the development of policies and procedures) seems to be privileged.

Thirdly, the analysis of the codes reveals that among those that mention board gender diversity, most tend not to provide quantitative ratios (e.g., minimum percentage/ratios) of gender representation to further guide implementation. Of the 14 codes, the Ghana (#8) code on rural community banks and the Mauritius code (#14) require that at least one female director should be on the board. Sierra Leone's code refers to a minimum gender representation of about 30 percent while Tunisia considers 25 percent to be a minimum threshold. Thus, if one considers that the requirement for at least one female director is effectively a tokenistic approach, only two codes and two African countries have actually formulated expectations that are consistent with a quota and critical mass approach. This positions the continent quite far away from the European perspective (e.g., Mateos de Cabo et al., 2022). At the same time, five additional codes (Ghana, #6; Kenya, #10; Nigeria, #17, #19; South Africa, #26) state that the board should develop its own policy, approach, and targets for gender diversity. While this provision sidesteps the potentially thorny issue of having to agree on a sector- or country-wide ratio and leaves it to boards to develop their own strategy, it arguably does not provide sufficient impetus to the achievement of a sufficient critical mass on the board.

Fourthly, and beyond the codes' expectations about gender representation, it would be useful to consider the extent to which the codes would guide organisations in achieving greater gender representation. In other words, as highlighted by Mensi-Klarbach and Seierstad (2020), what type of institutional support would be in place to underpin actions to improve board gender diversity? The review of the codes indicated very little in terms of such support although some evidence was noted in the case of Mauritius, Nigeria, and Egypt (in the form of women director development programmes). One aspect related to an accountability and disclosure requirement for companies to communicate their progress with the implementation of a board gender diversity policy. Such a disclosure requirement was only noted in the case of five codes, namely Ghana (#6), Mauritius (#14), Nigeria (#17), Sierra Leone (#25) and South Africa (#26). This implies that even if more codes expect organisations to engage with a board gender diversity policy, there will be limited opportunity for stakeholders to be made aware of their actions and progress thereof. Furthermore, it was also noted that some codes referred to gender diversity from a staff/employee perspective but not from a board viewpoint. For instance, the Ethiopian code (#4) does not stipulate any requirement for gender representation on the board but refers, in the social responsibility theme, to ensuring gender equality for its staffing policy (similarly for Zambia, #31). Overall, the near absence of detailed provisions in the codes to explain how board gender diversity will be operationalised and/or communicated suggests an emphasis on rhetoric and symbolic commitments, that are open to wide interpretation by the boards. At the same time, we sought to consider some examples where some corporate-level disclosures might be expected.

22.4.3 Board Gender Diversity: A Selected View from Selected Annual Reports

A total of 11 annual reports from Kenya, South Africa, Tunisia, Senegal and Algeria were reviewed and the results summarised in Table 22.1. Board gender ratios were only disclosed in the annual reports of Kenyan and South Africa companies (6/11; 55 percent), although one could infer the ratio from the board profile and list of directors for the other companies. On the disclosure of gender targets, only three companies disclosed board gender targets (two from South Africa and one from Kenya) alongside a brief narrative, despite the fact that the South African code prescribes such disclosure. In addition, a higher proportion of companies (8/11) provided current gender ratios for staff.

Table 22.1 Gender diversity disclosures in the annual report (selected countries)

Country	Requirement for a policy in the code	Disclosure			
		Existence of diversity policy:	Gender disclosures in annual report:		
		Gender targets for board:	Gender ratios for board:		Gender ratios for staff:
Kenya	‘The Board shall have a policy to ensure the achievement of diversity in its composition’. ‘Where companies establish a diversity policy, the companies shall introduce appropriate measures to ensure that the policy is implemented’. Section 2.1.5	Kenya Airways (2020)			
		Yes.	Not disclosed in annual report and diversity policy (available on website).	Not disclosed (but could be viewed from the list of directors).	Disclosed.
		Diamond Trust Bank (2021)			
		Yes.	Not Disclosed.	Not disclosed (but could be viewed from the list of directors).	Disclosed.
		BRITAM (2019)			
		Yes.	Disclosed.	Disclosed.	Disclosed.
South Africa	‘The need for governing body to set and disclose progress towards targets for race and gender diversity has specifically been included in the Code’.	British American Tobacco (2021)			
		Yes.	Yes (the company did set annual targets).	Disclosed.	Disclosed.
		Standard Bank (2021)			
		Yes.	Disclosed.	Disclosed.	Disclosed.
		Shoprite Holdings Ltd (2021)			
		No*.	Not disclosed.	Disclosed.	Disclosed.

Country	Requirement for a policy in the code	Disclosure			
Tunisia (translated from French)	Section 2.1.5 - The board should be small enough to facilitate rapid decision-making and large enough to benefit from the richness and diversity of skills and experience of its members. Section 2.1.6 - The competences of the board members should be as broad and diverse as necessary to understand the scope of the company's activities. Section 2.1.6 - The composition of the board should be balanced and diverse. As such directors should be women and men of different ages, experiences, profiles and expertise that are varied yet complementary. Footnote, page 25 - Within the possibilities of each company, it is recommended that the board be increasingly open to women directors. The threshold of 25 percent of women directors is thus considered to be a floor.	Tunisie leasing and factoring (2020 & 2021)			
		No.	Not disclosed in annual reports.	Not disclosed (but could be inferred from the list of directors).	Not disclosed.
		Tunis Re (2020 & 2021)			
		No.	Not disclosed.	Not disclosed (but could be viewed from the list of directors).	Not disclosed.
		Banque internationale arabe de Tunisie (2020)			
		No.	Not disclosed.	Not disclosed.	Disclosed.

* The report does not explicitly indicate existence of a diversity policy. However, the report indicates attention to diversity. 'Having a Board of Directors and Board committees with diversity and experience and structured in a way to best benefit the Group'.

We also considered whether companies indicated the existence of a diversity policy in their annual reports, in terms of communicating the company's concern about the issue and drawing attention to its activities/policies. All three companies from Kenya mentioned they were complying with their board diversity policies on the appointment of directors, albeit the details of the policy are spelt out. Only one company had a diversity policy uploaded on the website and further scrutiny indicated no reference to board gender targets. Two of the South African companies also communicated evidence of a policy and commitments to meet targets. In the case of Senegal, Tunisia and Algeria, there was little information although the code provided clear aspirations. For instance, the Tunisian code (#29) recommended a particular threshold (25 percent minimum) but there was limited disclosure in relation to their 'performance' by three selected companies. Overall, while some companies appeared to comply with the expectations to be accountable with regards to their board gender diversity policies and performance, others remained silent. Admittedly, this is a small sample of annual reports and there may be firm-level motivations influencing the level of disclosure.

22.5 OVERALL DISCUSSION AND CONCLUSION

Board diversity and gender diversity have been studied extensively in the last two decades (Ararat et al., 2021; Yarram & Adapa, 2021), with debates and policy-making interventions to address low levels of gender representation. The African context provides a setting to examine these developments in the presence of discriminatory traditions, conventions, and cultural prejudices hindering women from fully exercising their rights and contributing to national progress (Adesua Lincoln & Adedoyin, 2012).

Firstly, our findings point to a rather 'elastic' understanding and articulation of board diversity in African codes. Notwithstanding the point that some codes have been published over two decades ago, the majority of the reviewed codes place different emphasis on race/nationality, expertise/competence and independence. Relatively few codes provide the reason(s) for pursuing a diverse board, with some appeared to be driven by considerations of race, ethnicity and nationality – potentially reflecting legitimate concerns about maintaining social harmony (e.g., Adegbite, 2015). Others followed a rather more functional approach in couching diversity as a resource to ensure the organisation can be effective in the context in which it operates. As an illustration, it is noteworthy that even the notion of board independence is not a settled one and as previous authors (Kimani et al., 2021; Soobaroyen & Mahadeo, 2012) have suggested, it is quite challenging to find truly independent directors in close-knit business elites. Hence, the conceptualisation of board diversity arguably matters in terms of how gender diversity might in turn be seen by the designers of the code, presumably in consultation with the wider constituency of companies, directors, shareholders, and managers.

Secondly, only 14 African codes (about 44 percent) refer to gender diversity, with few specifying the appropriate balance and mechanisms for achieving it. Our review of the provisions points to differences in the language and rhetoric relating to board gender diversity. Some codes express gender *diversity* as a matter of course and alongside other professional and personal characteristics while others speak of an imperative for gender *balance*. There does not seem to be any common explanation behind the different formulations and emphasis about gender diversity except that more recent codes seem more sensitive to gender representation concerns. Equally, the selected review of annual reports finds a more settled view about disclosing gender board diversity policies and targets only in the case of Kenya and South Africa.

These findings have several implications. First, the eclectic nature of how (and why) board gender diversity is expressed in codes does put into question the comparative value of various country studies in Africa. Many of these studies implicitly consider that board gender diversity is similarly conceptualised across codes and countries and that board gender ratios are readily comparable in terms of gender representation 'performance'. However, these studies, and other cross-country comparisons, do not appear to sufficiently take into consideration the spectrum along which board diversity and board gender diversity are enacted in codes and the reactions thereof by companies. Their formulation appears to be the result of lobbying, local considerations and embedding requirements from other codes. Secondly, there is an insufficient focus on operationalising board gender diversity in practice (whether voluntary or mandatory) within the codes. Strongly worded declarative statements and commitments are made but not often followed up in the code on how board gender diversity might be improved. At one level, the decision of many codes not to mandate a board gender ratio is understandable given the practicalities of imposing a given percentage across all entities. However, at another level, the lack of a defined ratio (even on an advisory basis) and the concomitant decision to leave it to companies to develop their own board gender representation-enabling policy potentially provide entities with leeway to adopt policies at their own speed and not disrupt the status quo. Given current good practice efforts being considered in several countries to capacity build and mentor women to join a pool of board members, it seems appropriate that corporate governance codes and their issuers should ensure practical steps (e.g., training, mentoring, shadowing of directors) are taken to achieve higher levels of gender representation. Finally, in revealing the nuances within African codes, there is scope for corporate governance supra-national entities (e.g., Organisation for Economic Cooperation and Development, OECD; African Peer Review Mechanism, APRM) to articulate guidance to support the review of codes with regards to board diversity. Such an integrated approach can help address the SDG expectations which, otherwise, would arguably lead to very limited or uneven changes in women representation.

In terms of limitations, we acknowledge the limited data set with regards to the corporate disclosures and that many of the issues pertaining to diversity may also apply to non-African codes. We therefore recommend further investigations on how companies, sectors and enabling organisations (e.g., Institute of Directors) engage with the board diversity and gender diversity agenda and how companies communicate their commitment and progress thereof.

NOTES

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2. https://mediaroom-en.bnpparibas-am.com/news/bnp-paribas...t-study-shows-strong-growth-in-female-board-membership-7546-0fb7a.html.
3. https://mauritiushindinews.com/ion-news/the-mauritius-institute-of-directors-celebrates-the-graduates-of-the-women-leadership-academy/.
4. https://exam.eiod.org/.
5. https://enterprise.press/stories/2021/04/01/women-made-up-only-13-of-board-seats-in-egypts-companies-in-2020-36922/.
6. Translated as 'The Organisation for the Harmonisation of Business Laws in Africa'.
7. Translated as 'Revised Uniform Act Relative to Commercial Companies and Economic Entities'.
8. Union Économique et Monétaire Ouest Africaine (UEMOA).

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APPENDIX 22.1

Table A22.1 Board and gender diversity references in African codes of governance

List of African Codes of Governance							
Country	Code *(Issuing Institution)*	Year	Applicability/Coverage	Does the code refer to the need for balance/ diversity and specifically gender?		Whether more guidance is provided by the code regarding gender diversity composition (qualitative, quantitative, quota)?	Are there any additional guidance on recruitment of board members (i.e., how to achieve diversity)?
				Whether diversity is required:	Whether diversity by gender is required:		
1. Algeria	Algerian Corporate Governance Code *(Goal 08 Taskforce)*	2009*	Focus on private family-based SMEs but also applicable to listed companies	Yes	No	None	None
2. Botswana	Botswana Code of Corporate Governance *(Directors Institute of Botswana)*	2013	All companies	Yes	No	None	None
3. Egypt	The Egyptian Code of Corporate Governance *(Egyptian Institute of Directors)*	2016	Listed and unlisted companies, banking and non-banking financial institutions, industrial, commercial and service companies, regardless of their size, nature of activity and ownership	Yes	Yes	None	None
4. Ethiopia	Corporate Governance Code *(Ethiopian Institute of Corporate Governance)*		Private and public companies	Yes	No	None. Requirement relates only to competence and independence.	None. (Only reference to gender equality for staffing in its social responsibility section.)

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5. Ghana	The Banking Business – Corporate Governance Directive *(Bank of Ghana)*	2018	Banks and Specialised Deposit Taking Institutions	Yes Diversity dimensions relate only to competence and nationality.	No	None. Only detailed guidance on required competencies (Banking, Law, Finance, Risk Management, etc.) and nationality/residence (30 percent Ghanaian).	None. All appointments will be vetted by the Bank of Ghana on the basis of the 'fit and proper person' test.
6. Ghana	The Corporate Governance Code for Listed companies *(Securities and Exchange Commission)*	2020	Listed companies	Yes	No (but appointment process emphasis a gender balance policy).	None	'The Board shall adopt a policy on the appropriate gender balance on the Board and the minimum time necessary to achieving that policy and shall take this into account when making each appointment'. Nominating committee expected to report on achievements about gender balance.

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7. Ghana	Corporate Governance Manual for Governing Boards/Councils of the Ghana Public Services *(Public Services Commission)*	2015	Government agencies (public entities)	Yes Diversity set out in terms of personal attributes expected of board/council members, notably competence, financial literacy, communication and interaction skills, qualifications, knowledge and experience, character and commitment.	Yes 'Gender balance shall be imperative'.	None	None
8. Ghana	Corporate Governance Directive for Rural and Community Banks *(Bank of Ghana)*	2021	Rural and Community Banks	Yes	Yes 'An RCB shall consider gender diversity in its Board composition'.	Yes 'There shall be at least one female Director on the Board of every RCB'. Detailed guidance on required competencies (Banking, Law, Finance, Risk Management, etc.).	None. All appointments will be vetted by the Bank of Ghana on the basis of the 'fit and proper person' test.
9. Ghana	The National Corporate Governance Code *(Institute of Directors-Ghana)*	2022	All entities in Ghana (public, private, non-profit, listed, unlisted, informal and semi-formal entities).	Yes	Yes. 'Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths'.	None	None. Although mention of considering gender for both appointments and succession plans.

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10. Kenya	Code of Corporate Governance Practices for Issuers of Securities to the Public *(Capital Markets Authority)*	2015	Listed and unlisted firms that issues securities to the public	Yes	Yes	No quantitative guidance on gender representation on the board.	Yes. Code requires a policy on how to achieve board gender diversity.
11. Kenya	Mwongozo: The Code of Governance for State Corporations *(Public Service Commission and State Corporations Advisory Committee)*	2015	State corporations	Yes	Yes	None	None
12. Liberia	Corporate Governance Regulation for Financial Institutions *(Central Bank of Liberia)*	2012	Financial institutions	Yes	No	None. General requirement of at least two-thirds of directors possessing demonstrable expertise and experience, while not less than one-third shall be independent board members. No less than two-thirds of the board must reside in Liberia.	None. General requirement on demonstrable skills and expertise in bank business, preferably in ‘banking, finance, economics, law, accounting’.
13. Malawi	The Malawi Code II - Code of Best Practice for Corporate Governance in Malawi *(Institute of Directors Malawi)*	2010	All organisations	Yes	No (with consideration in some cases).	None. Requirement only applies to ensuring that ‘only competent and reliable persons with appropriate knowledge, skills and experience are elected or appointed to the board’.	Guidance on gender during selection process limited to some (unspecified) cases.

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14. Mauritius	National Code of Corporate Governance for Mauritius *(National Committee on Corporate Governance)*	2016	Public interest entities and public sector organisations (as defined by the Financial Reporting Act 2004). Other companies are encouraged to apply the code.	Yes	Yes	Yes. At least one male and one female director.	Yes. The search for Board candidates should be conducted, and appointments made, on merit, against objective criteria (to include skills, knowledge, experience, and independence and with due regard for the benefits of diversity on the Board, including gender). The corporate governance report should identify the gender balance on the board.
15. Morocco	Moroccan Code of Good Corporate Governance Practices *(National Commission on Corporate Governance).*	2008*	All companies	Yes	Yes	None	None

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16. Namibia	NamCode: The Corporate Governance Code for Namibia *(Namibian Stock Exchange)*	2014	Code applies to listed companies	Yes	Yes	None	None. Generic statement stating ‘Shareholders are ultimately responsible for the composition of the board and it is in their own interests to ensure that the board is properly constituted from the viewpoint of skill and representation’.
17. Nigeria	Nigeria Code of Corporate Governance *(Financial Reporting Council)*	2018	All companies (public, private, regulated private, privatised, listed or unlisted)	Yes	Yes. ‘The Board should promote diversity in its membership across a variety of attributes relevant for promoting better decision-making and effective governance. These attributes include field of knowledge, skills and experience as well as age, culture and gender’.	None. But the board should set targets for diversity (including gender).	The director appointment criteria should take into account diversity, including gender diversity. The corporate governance report should include a plan for achieving gender diversity set by the board in accordance with its diversity policy, progress towards achieving them and the proportion of women employees, managers and on the board.

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18. Nigeria	Code of Corporate Governance for Banks and Discount Houses in Nigeria *(Central Bank of Nigeria)*	2014	Banks and discount houses	No	No	None	None. 'Members of the Board shall be qualified persons of proven integrity and shall be knowledgeable in business and financial matters, in accordance with the extant CBN Guidelines on Fit and Proper Persons Regime'.
19. Nigeria	Code of Corporate Governance for Public Companies *(Securities and Exchange Commission Nigeria)*	2011	Public companies	Yes	No (but appointment criteria do specify the need to consider gender composition).	None	'The criteria for the selection of directors should be written and defined to reflect the existing board's strengths and weaknesses, required skills and experience, its current age range and gender composition'.
20. Nigeria	Corporate Governance Guidelines for Insurance and Re-Insurance companies in Nigeria *(National Insurance Commission)*	2021	Insurance and re-insurance companies	No Focus on split between executive and non-executive directors.	No	None	None
21. Nigeria	Code of Corporate Governance for the Telecommunication Industry *(Nigerian Communications Commission)*	2016	Telecommunication companies, based on license, turnover, staff size or subscriber base	Yes	Yes	None	None

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22. Nigeria	Code of Corporate Governance for Licensed Pension Operators *(National Pension Commission)*	2008	Licensed pension operators	No Focus on split between executive and non-executive directors.	No	None	None
23. Rwanda	The Capital Market Corporate Governance Code *(Capital Markets Authority)*	2012	Listed firms	Yes	No	None. General requirement that at least half the board should comprise of non-executive directors, with the majority of such directors being independent.	None. When nominating directors, the nominating committee should consider the mix of directors' characteristics, experiences, diverse perspectives, and skills.
24. Senegal	The Code of Governance for Companies *(Institut Sénégalais des Administrateurs)*	2008*	All organisations	Yes	No	None	None
25. Sierra Leone	National Corporate Governance Code *(Corporate Affairs Commission)*	2018	Private or public companies, social clubs, Sole Traders and Partnerships, State-Owned Enterprises, NGOs, Professional bodies associations, registered CBOs, Trade Unions	Yes Diversity in terms of personal attributes.	Yes 'Gender balance shall be imperative'.	Yes. A minimum representation in the region of 30 percent, either gender.	Yes. The nominations committee shall consider candidates on merit and against objective criteria and with due regard for the benefits of diversity on the board, including gender, taking care that appointees have enough time available to devote to the position (Appendix 3). Organisations should be required to disclose the split of men/women on their boards, as part of their annual report.

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26. South Africa	King IV Report on Corporate Governance for South Africa 2016 *(Institute of Directors in Southern Africa)*	2016	Applicable to all organisations irrespective of their form or manner of incorporation	Yes	Yes	None. But the board should set targets for race and gender representation in its membership.	Yes. The code requires the organisation to have a policy on how to achieve diversity and disclose its progress with regards to gender/race representation targets.
27. South Sudan	Code of Corporate Governance *(Table E, Section 17, Companies Act 2012)*	2012	All private and public companies	No Diversity is not clearly spelt out in the code. However, it is a requirement for the board to evaluate its effectiveness and composition by considering its mix of skills, experience, demographics, and diversity.	No	None	None
28. Tanzania	Guidelines on Corporate Governance Practices by Public Listed Companies in Tanzania *(Capital Markets and Securities Authority)*	2022	Listed firms	Yes	No (but later specifies that the appointment of directors should be sensitive to gender representation).	None	Yes 'The process of appointment of Directors should be sensitive to gender representation'.
29. Tunisia	Guide on Good Governance Practices for Tunisian Firms *(Centre Tunisien de Gouvernance d'Entreprise)*	2012	All organisations	Yes	Yes	Yes, it is recommended that the board become increasingly open to women directors. The threshold of 25 percent of women directors is thus considered to be minimum. Also recommends thresholds for age diversity.	None. (Only reference in stakeholder section about avoiding discrimination in staff recruitment, remuneration and promotion based on individual characteristics (including sex).)

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30. Uganda	Capital Markets Corporate Governance Guidelines *(Capital Markets Authority)*	2003	Listed firms	Yes	No (but later specifies that the appointment of directors should be sensitive to gender representation).	None	Yes 'The process of appointment of Directors should be sensitive to gender representation'.
31. Zambia	Governance Code for Listed and Quoted Companies *(Lusaka Stock Exchange)*	2005	Listed companies	No	No	None	None (Only reference to gender equality relates to human capital development.)
32. Zimbabwe	Zimbabwe National Code of Corporate Governance (*Institute of Directors Zimbabwe, Zimbabwe Leadership Forum and Standards Association of Zimbabwe Institute)*	2015	Code applies to all private and state-owned entities	No	No	None	None

* Translation of French language codes.

23. Relying on offshore financial centers: A social issue that raises governance concerns for multinationals

Tie Mei (Sarah) Li

In this chapter, I first introduce the background of offshore financial centers (OFCs), then discuss how operating in OFCs affects the governance mechanisms of multinational corporations (MNCs). Finally, I present two issues of interest for market participants that raise broader social responsibility concerns from the use of OFCs by MNCs, that is, its impact on accounting information quality and on corporate disclosure. Accounting information quality and transparent disclosure enhance the efficiency and effectiveness of communication between a company and its stakeholders such as shareholders, creditors, employees, surrounding communities or the government while facilitating rational decision-making. Opportunities for tax evasion, along with low quality financial reporting and insufficient disclosure via OFC operations may undermine a board and stakeholders' ability to scrutinize management behavior in a MNC and potentially compromise the board's ability to conduct a MNC's affairs in a socially responsible way.

23.1 BACKGROUND OF OFFSHORE FINANCIAL CENTERS

23.1.1 A General Perspective on OFCs

With the advent of globalization, more and more companies have been going offshore by registering their headquarters or setting up subsidiaries in countries or jurisdictions called offshore financial centers. In 2016 around one trillion U.S. dollars of global profits were booked in 'investment hubs' such as the Cayman Islands, Ireland and Singapore, whose average effective tax rate on profits is 5 percent. In 2015, the shifting global profits in OFCs is approximately public coffers of $100–240 billion U.S. dollars a year, equivalent to 4–10 percent of global corporate-tax revenues.[1]

Although there is not a 'precise' definition of an OFC, it can be broadly defined as any financial center where offshore finance takes place. Offshore finance is, at its core, financial services that are provided by banks and other agents to non-residents. The primary role of the financial service provider is borrowing and lending money to non-residents. This can take the form of lending to corporations and other financial institutions, funded by liabilities to the lending bank elsewhere, or to market participants. Such off-balance sheet, or fiduciary, activity is not generally reported in financial statements or other disclosure formats. Furthermore, most funds are believed to be held in OFCs by mutual funds and trusts. In addition to financial activities, other services provided by offshore financial centers include insurance and tax planning.

The International Monetary Fund (IMF) defines OFCs as: '1) jurisdictions that have relatively large numbers of financial institutions engaged primarily in business with non-residents; 2) their financial systems with external assets and liabilities out of proportion to domestic financial intermediation designed to finance domestic economies; and 3) more popularly, centers which provide some or all of the following services: low or zero taxation; moderate or light financial regulation; banking secrecy and anonymity.'[2] In terms of an academic definition, Zoromé (2007) states that 'an OFC is a country or jurisdiction that provides financial services to non residents on a scale that is incommensurate with the size and the financing of its domestic economy'. Errico and Musalem (1999) and Park (1994) posit that an OFC provides a low-or zero-taxation scheme while Hampton and Christensen (2002) use the terms tax haven and OFC interchangeably in their survey of OFC activity. In addition, Coates and Rafferty (2006) and Masciandaro (2008) use the same definitions in their studies. This chapter adopts the definition of an OFC following the IMF surveys and Zoromé (2007). In an OFC, there are relatively large numbers of financial institutions engaged primarily in business with non-residents, low or zero taxation, loose regulations and secrecy of banking and company information. Countries or jurisdictions with some or all of these characteristics are called OFCs (or tax havens) (IMF, 2000; Zoromé, 2007). Tax havens largely overlap with OFCs based on the report of the Tax Foundation ('Identifying Tax Havens and Offshore Finance Centres').[3] More than 40 OFCs can be found around the world.[4] However, their development has not been consistent. Some of them, such as Ireland and Hong Kong, have well-developed financial markets and modern infrastructure that add significant value to the investments of non-residents, while others are in developing economies, such as the Cayman Islands.

Business in OFCs is booming. Some OFCs have become the richest jurisdictions in the world. In 2021, for example, Luxemburg and Ireland were the first and second richest countries in the world with a GDP per capita of about $131,302 U.S. and $102,394 U.S. respectively, compared with $69,375 U.S. for the United States. Moreover, the citizens of the Cayman Islands are richer than most people living in Europe, Canada and Japan.[5] This is encouraging other countries to actively foster offshore business as a development tool, such as in Dubai and Cape Verde.[6] However, the recent release of the Panama Papers (2016), Paradise Papers (2017) and Pandora Papers (2021)[7] have drawn worldwide attention to companies and wealthy individuals using OFCs to hide information about business operations or individual assets and to avoid taxes.[8] Therefore, OFCs as a jurisdictional entity have been developing rapidly and can no longer be ignored in the global economy.

23.1.2 Specific Features of OFCs

OFCs exhibit various features that raise concerns as to a MNC underlying commitment to conduct its affairs in a socially responsible way. I now briefly describe three of these features: taxation, regulation and secrecy.

23.1.2.1 The taxation of OFCs

Low taxation is by far the most attractive characteristic of OFCs as many OFCs originally were important in the financial world because they created structures that helped to minimize tax. As a result, companies registered in OFCs can greatly reduce their tax burden. For example, from 1996 to 2000, Enron only paid $17 million in taxes on its $2 billion of earnings through its 692 affiliates incorporated in the Cayman Islands and about 200 other offshore affiliates in other OFCs around the world (Brittain-Catlin, 2005).

Recently, however, steps have been taken to reduce the opportunities for tax evasion[9] provided by OFCs. In 2000, the OECD identified over 30 countries or jurisdictions that were engaging in harmful tax evasion practices. Countries on the list were given deadlines to change their policies and avoid sanctions.[10] Another reform being discussed, and supported by America's Biden administration, is about a global minimum corporate tax rate, perhaps of 15 percent.[11] In addition, although most OFCs still charge no or a minimal amount of tax, the increasing sophistication of onshore tax codes has meant that tax avoidance has played a less significant role in OFC operations.

23.1.2.2 The loose regulations of OFCs

Most OFCs now promote themselves as regimes with 'light but effective' regulation, and generally only seek to regulate high-risk financial business, such as banking, insurance and mutual funds. In his book 'Offshore: The dark side of the global economy', Brittain-Catlin describes the freedom of companies in the Cayman Islands. Except for an annual charge of a few hundred dollars, a company can in practice do most of what it wants to do, as long as it does it outside the Cayman Islands (Brittain-Catlin, 2005).

Masciandaro (2008) argues that there are gaps between the regulations of developed countries and those of OFCs. When designing the regulatory framework the OFCs policymakers define the optimal degree of compliance as one that maximizes a political cost-benefit function.[12] The loose regulations of OFCs lead some companies to pursue 'regulatory arbitrage'. For example, Japanese credit card companies can set up structured finance deals in OFCs that they could not do in Japan. In this way, companies who have operations in OFCs can engage in very aggressive and complex trading on the world's markets using derivatives and other financial instruments to hedge loans, do deals and swaps, convert currencies, buy contracts and so on. It is well known that OFCs have loose regulations that are easy to follow, influence and change. 'Supervisors of OFCs are willing to listen and change. They are not rigid like regulators in Japan and Korea,' says one banker at a British firm.[13]

LaPorta, Lopez-de-Silanes, Shleifer and Vishny (2000) and Nenova (2003) suggest that well-functioning legal and judicial systems limit insiders' private control benefits by making wealth expropriation legally riskier and more expensive in an international context. A good legal regime will prevent insiders from expropriating the benefits of outside investors. In contrast, insiders' private control is considerable in countries or jurisdictions where the legal protection of outside investors is weak. Therefore, in most OFCs, it may be easier for insiders of a company with OFC operations to reduce information transparency, which determines the monitoring of board of directors. Therefore, it is easier for insiders to expropriate the wealth of public investors due to the unique legal regimes and flexible regulations of OFCs.

23.1.2.3 Secrecy of OFCs

Excessive secrecy is another characteristic feature of OFCs, particularly in relation to both the beneficial ownership of companies operating in OFCs,[14] and to OFC bank accounts. In most OFCs, banks will protect the confidentiality of their customers. On the one hand, OFCs excessively protect the secrecy of offshore firms. As a result, it is very difficult for public investors to get transparent information about firms operating in OFCs. On the other hand, OFCs do not disclose the benefits derived by the controlling investors, especially those related to OFC bank accounts.

Thus, if a person wants to get information about an offshore firm or affiliate, he can only obtain the complete name, the registration state, and file number of the firm, in addition to the type and status of the company (Brittain-Catlin, 2005). For investors, it is difficult to get concrete information about firms operating in OFCs, and this secrecy helps them, and their owners accumulate capital without any disclosure, even for public firms.

23.2 OFFSHORE FINANCIAL CENTERS AND MULTINATIONAL CORPORATIONS

MNCs represent a pivotal and still evolving organizational form in today's business world (Aguilera, Marano, and Haxhi, 2019; Cuervo-Cazurra and Ramamurti, 2014). However, there is limited knowledge about the forces driving their corporate social responsibility (CSR), particularly given that in contrast to firms operating in a single country, MNCs face more severe agency costs and information asymmetry arising from foreignness, tax policies, cultural and language differences, geographic distances, and divergent operating and legal institutions (Bushman, Chen, Engel, and Smith, 2004; Kostova and Zaheer, 1999; Kostova, Roth, and Dacin, 2008, 2009; Shroff, Verdi, and Yu, 2014). A MNC typically conducts its international activities through foreign subsidiaries or affiliates operating in different institutional environments.

New research reveals that MNCs have invested $12 trillion U.S. globally in empty corporate shells in OFCs (Zucman, 2014). Through subsidiaries or affiliates to conduct business in OFCs provides MNCs with an opportunity to legally minimize corporate tax of the entire company. These aggressive but legal tax schemes or arrangements that significantly minimize tax are broadly defined as tax avoidance. The opportunity for tax avoidance is often put forward as the key driver underlying the trend toward MNCs setting up OFC-based subsidiaries or affiliates, since many OFCs have zero or low taxation (Scholes, Wolfson, Erickson, Maydew and Shevlin, 2009). Graham and Tucker (2006) report that tax avoidance is a widespread and growing problem and find that, on average, S&P 500 firms paid federal taxes of only 29 cents per dollar of reported profits. Furthermore, Borek, Frattarelli and Hart (2014) report that, in recent years, a large amount of litigation has focused on tax shelters created by manipulating many parts of the tax code or regulations, a practice the Internal Revenue Service (IRS) has deemed abusive. However, from a societal perspective, corporate tax avoidance generates significant concern. The payment of corporate income tax ensures the financing of public goods. Corporate tax under-payments from MNCs imply that governments cannot collect their 'fair share' for public services. This shortfall in corporate income tax revenue produces a significant and potentially irrecoverable loss to society (Slemrod, 2004). Thus, tax avoidance via OFCs may be viewed as socially irresponsible.

Institutional investors with a focus on CSR have begun to screen their investments with such a criterion. For instance, the *Caisse de dépôt et placement du Québec (CDPQ)*, one of the world's largest institutional investors with close to $Canadian 400 billion in assets, recently announced that it sold its entire investment in Gildan, a Canadian-based clothing manufacturer with operations in several countries. The argument put forward by CDPQ was to the effect that Gildan was not paying enough taxes and, therefore, an investment in the firm did not fit anymore with CDPQ's responsible investment policy. Gildan owns most of its manufacturing operations in Central America and the Caribbean via a Barbados-based holding company, Barbados being an OFC.[15]

In addition, regulation arbitrage and secrecy policies (Dyreng and Lindsey, 2009; Masciandaro, 2008) also provide alternative reasons for MNCs to establish subsidiaries or affiliates in OFCs. Cumming, Filatotchev, Knill, Reeb, and Senbet (2017) develop the theory of international mobility of corporate governance, pertaining to how MNCs' divergent institutional contexts in headquarters and their subsidiaries define MNCs' strategic choices. International mobility of corporate governance rests on two fundamental mechanisms, which are corporate governance bonding and corporate governance arbitrage. The corporate governance bonding view largely relates to the mobility of good governance, such as through a MNC parent country with a stronger legal regime (Cumming et al., 2017). In contrast, the corporate governance arbitrage view refers to the mobility of weaker governance, such as placing subsidiaries in weaker legal institutions to circumvent some corporate governance requirements (Aguilera et al., 2019; Allred, Findley, Nielsen, and Sharman, 2017). Hence, within a given MNC, tensions may arise as to which view prevails, with implications for various corporate outcomes. Thus, the legal structure of an MNC is a multi-tiered configuration encompassing its country of listing, its country or jurisdiction of incorporation, and the countries in which it conducts business or financial affairs through foreign subsidiaries or affiliates. These subsidiaries or affiliates evolve under legal environments that differ from their parent firm, potentially helping to cover a MNC's social irresponsibility, including tax avoidance. Furthermore, operating in OFCs also imply nontax related costs to a MNC's stakeholders such as investors and debtholders as it makes their oversight of a firm's management more difficult and allows management greater latitude in hiding business practices that are ethically questionable.

23.3 BEYOND TAX AVOIDANCE: HOW OFCs UNDERMINE THE QUALITY OF FINANCIAL REPORTING

During the last ten years, several financial reporting scandals involving companies operating in OFCs (e.g., Enron, Parmalat, and Xerox) have drawn worldwide attention to companies and wealthy individuals operating their business in OFCs. For example, according to a U.S. Congressional report (2003), Enron's more than 700 subsidiaries in the Cayman Islands allowed management not only to minimize taxes but also to manufacture earnings. Enron moved its debts to OFC partnerships to keep them off its balance sheet. These OFC subsidiaries' opaque financial disclosure allowed Enron to artificially inflate its profits, substantially increasing the firm's stock market value, while company insiders exercised their options, reaping gains of hundreds of millions of dollars. Another example is Parmalat, the Italian milk-product multinational, which used a Cayman-based subsidiary (Bonlat) to hide massive operating losses. Responding to the financial reporting scandals related to OFCs, in 2009 President Obama issued a plan to reform regulations to curb tax evasion and eliminate loopholes for the 'disappearing' in OFC subsidiaries of U.S. companies.[16] In 2009, 2012 and 2016, G20 countries called for increased global cooperation on attacking tax evasion and asset loss. However, the information leaked about OFCs (e.g., Panama Papers in 2016, Paradise Papers in 2017 and Pandora Papers in 2021) illustrates that OFC opacity, along with their tax avoidance potential, has not changed significantly.[17]

Although zero or low taxation in OFCs reduces the corporate tax base, which is perceived to be value-maximizing activities, Slemrod (2004) argues that because of the separation of ownership and control, corporate tax decisions also reflect managers' private interests. Desai and Dharmapala (2009) find that although managers can get a small bonus increase from tax avoidance without earnings management, the benefits of tax avoidance are not enough to motivate managers to pursue a tax avoidance strategy. In contrast, using accruals management along with tax avoidance, managers can increase after-tax earnings and their bonuses by a multiple of four or five compared to only using tax avoidance. It is recognized that self-interested managers have an incentive to use a complex tax structure for facilitating transactions that reduce corporate taxes and divert corporate resources for private use. This agency theory of tax avoidance points out that tax avoidance and managerial diversion are complementary, as it is easier for managers to divert resources from income that is hidden from tax authorities. For instance, Desai and Dharmapala (2006) state that, 'Thus, obfuscatory actions taken to shelter income from tax authorities (e.g., the use of offshore tax havens or the creation of complex structures involving tax-indifferent parties) tend to facilitate diversion. In this vein … recent reports of corporate malfeasance at Tyco and Enron suggest that complex tax avoidance activities generated sufficient obscurity to allow for managerial self-dealing. Hence, positive feedback effects tend to reflect a fairly straightforward intuition' (p. 166).

Moreover, the study of corporate governance arbitrage (e.g., Li, Magnan and Shi, 2022) posits that firms set up shell companies or operate subsidiaries in countries with less stringent legal institutions to bypass corporate governance requirements. Huang (2018) finds that the legal institutions of MNCs' subsidiaries influence their earnings management. Secrecy policies in most OFCs imply that bank and tax information of offshore firms is rarely if ever shared between OFCs and countries in which the parent companies of their subsidiaries are located, thus contributing to the agency problem of tax avoidance. For instance, Chip (2007) shows that although a U.S. company with subsidiaries in OFCs must report its profit shifting in its subsidiaries based on Subpart F,[18] its OFC subsidiaries can use contractual arrangements to avoid monitoring by the IRS. Without bank and tax information from OFCs, companies operating in OFCs reduce the potential scrutiny of tax bureaus, lowering legal costs normally associated with poor financial reporting.

There has been a significant growth in accounting literature examining how tax avoidance through OFC operations affects accounting quality. Accounting quality is the extent to which accounting information accurately reflects a company's current operating performance, which is useful in predicting future performance, and helps assess firm value (Hribar, Kravet, and Wilson, 2014). Dyreng, Hanlon and Maydew (2012) find that tax havens, which overlap with OFCs, are more desirable locations for earnings management because there is little or no local tax cost as a result of managing pre-tax income. However, most prior studies use accounting data to measure both tax avoidance (e.g., book-tax conformity) and its outcome (e.g., accrual-based earnings management), but do not investigate the source of tax avoidance, leaving readers to imagine the source of the tax avoidance and its effects on accounting quality. Dyreng, Hanlon and Maydew (2012) point out that 'a great deal of tax avoidance involves accelerating deductions and deferring income for tax purposes relative book purposes, which reduces current taxes but increases deferred taxes. Because GAAP effective tax rates include both current and deferred taxes, they will not reflect such forms of tax avoidance' (p. 65). The tax avoidance measures could be subject to various measurement errors (Dyreng et al., 2012; Hanlon and Heitzman, 2010).

Using firms operating in OFCs through subsidiaries or affiliates as a direct input-based measure, which avoids using indirect tax avoidance measures constructed by accounting data to test accounting quality, Durnev, Li and Magnan (2017) extend evidence reported by Dyreng et al. (2012) to an international perspective. They document that non-U.S. offshore firms have less poor accounting quality than that of U.S. offshore firms—perhaps due to U.S. tax policy with respect to repatriating profits overseas.

Contrasting to prior literature (Desai and Dharmapala, 2009; Dyreng et al., 2012), Armstrong, Blouin, Jagolinzer and Larcker (2015) argue that aggressive tax avoidance is accompanied by substantial observable and unobservable costs, such as fines, legal fees, and excess risk. Thus, tax avoidance per se may not be the only explanation for the accounting quality of offshore firms. After breaking down OFC status into three dimensions that capture (1) the opportunity for tax avoidance, (2) regulation arbitrage, and (3) secrecy policies, the results of Durnev et al. (2017) suggest that the opportunity for tax avoidance via OFCs does not play a dominant role for accounting quality. Combined with the quality of the legal environment, for example, flexible regulations and secrecy policy, the opportunity for tax avoidance via OFC operations may induce managerial rent extraction. In fact, regulation arbitrage and secrecy policies significantly impact accounting quality as well, which helps resolve the controversy between Dyreng et al. (2012) and Armstrong et al. (2015). Overall, the institutional environments of OFCs—characterized by low taxation, flexible regulations and secrecy policies—may tempt managers to do so if parts of a firm's operations are hidden from tax authorities and public investors with little chance of discovery or penalty.

Furthermore, using OFCs as their research setting, Li et al. (2022) contend that an MNC's accounting quality hinges on the tension among heterogeneous and conflicting external/internal institutions. They use the proxy of cross-listing as a strong visible of external legal institutions, whereas the use of OFC subsidiaries is a less visible internal institutions. Under the OFC setting, they examine the interactions between external and internal governance mechanisms. They find that the positive association between cross-listing and accounting quality is negatively moderated by a MNC's OFC subsidiaries, suggesting that the internal governance mechanisms of an MNC interact with external mechanisms to impact its accounting quality. Moreover, a MNC's OFC subsidiaries negatively moderate the relation between home-country governance and accounting quality.

Some anecdotal evidence provides support to Li et al.'s (2022) conjecture. For example, on December 21, 2016, Braskem S.A., a Brazil-registered entity with American Depositary Receipts (ADRs) traded on the New York Stock Exchange (NYSE), agreed to pay $325 million U.S. in disgorgement of profits under the terms of a resolution with the SEC. Over a decade until 2014, in conjunction with its parent company, Odebrecht S.A., a large Brazil-based engineering firm, Braskem engaged in a sophisticated bribery operation of government officials as well as executives at Petrobras, Brazil's national oil company, to obtain political, tax, and commercial advantages. OFC affiliates played a key role in the scheme as the funds for the bribery operations were '…funneled…to a series of off-shore entities.'[19] This conduct resulted in corrupt payments and/or profits totaling approximately $465 million U.S. for Braskem, leading the firm to restate its previously issued financial statements.[20]

23.4 OFCs AND CORPORATE TRANSPARENCY: A GOVERNANCE CONCERN

Globally, OFCs serve as the domicile for over two million on-paper companies and thousands of banks, funds, and insurers (The Economist, 2013a), and have become channels for at least one-third of all international lending and global foreign investment (The Economist, 2013b). Examining whether OFCs have any corrosive[21] effect on the disclosure strategy of MNCs responds to concerns expressed by regulators, governments, investors and the public in general. Known for the services they provide for 'clean as well as dirty money,' OFCs are controversial due to their use for money-laundering and tax-dodging activities. In recent years, the opacity of companies with OFC operations has attracted increasing attention (Brittain-Catlin, 2005; Desai, 2005; Shaxson, 2011). The U.S. Senate has held hearings examining the tax avoidance activities of MNCs conducted via OFC subsidiaries.[22] At G20 meetings in 2009, 2012 and 2016, the Organization for Economic Co-operation and Development (OECD) unveiled a global plan to close OFC related tax loopholes. More recently, responding to the leak of the Paradise Papers, finance ministers of the European Union vowed to take action against tax sheltering through OFCs (Chrysoloras, Dendrinou, and Strauss, 2017).[23]

As tax reduction is the primary or ostensible purpose of MNCs to establish OFC subsidiaries, previous research about the impact of tax avoidance on corporate transparency sets the stage for future in-depth research. Desai, Dyck and Zingales (2007) and Balakrishnan, Blouin and Guay (2018) argue that tax avoidance reduces corporate transparency for two reasons. First, implementing intricate tax strategies usually increases a company's financial and organizational complexity. Second, managers often refrain from communicating such complexity to outsiders since tax avoidance implies that firms obscure their activities from tax authorities. Thus, companies pursuing tax avoidance have more opaque information environments, demonstrated by larger bid-ask spreads, larger analyst forecast errors and dispersion (Balakrishnan et al., 2018; Chen, Hepfer, Quinn and Wilson, 2018), and higher stock price crash risk (Kim, Li and Zhang, 2011).

Facing the opacity issue, do managers of MNCs exercise discretion in an efficient or opportunistic manner in their disclosure? This is a long-standing question of positive accounting research (Bowen, Rajgopal and Venkatachalam, 2008; Christie and Zimmerman, 1994; Watts and Zimmerman, 1978). According to the efficiency view, managers maximize firm value by employing transparency-enhancing disclosure practices to compensate for the higher opacity caused by tax avoidance. Prior research documents that better disclosure and higher transparency lead to lower cost of capital, higher share prices (Easley and O'Hara, 2004; Merton, 1987), and higher market liquidity (Diamond and Verrecchia, 1991). Alternatively, the opportunism view predicts that managers adopt disclosure policies that maintain or even exacerbate opacity because a more transparent information environment likely inhibits managers from maximizing their expected utility. Research suggests that managers take advantage of firm opacity to extract rents for themselves (e.g., Desai et al., 2007; Hölmstrom, 1979).

Managers of companies having operations in OFCs face competing motivations to adopt either transparency-enhancing (the efficiency view) or opacity-increasing (the opportunism view) disclosure strategies. Especially for voluntary disclosures, managers have considerable discretion in deciding their practices. They have control over whether to provide a piece of information, how frequently to issue it, whether and how frequently to release bad news that is lower than the market's expectation, and how precise or vague the disclosed information is.

Being forthcoming in voluntary disclosure benefits the firm (as well as managers), in terms of increasing its value, reducing the cost of capital, and enhancing its shares' liquidity (e.g., Diamond and Verrecchia, 1991; Verrecchia, 2001). Voluntary disclosures, however, can also create considerable private costs to managers. Thus, a cost-benefit analysis underlies managers' decisions on voluntary accounting information disclosures.

On the other hand, managers are reluctant to disclose their superior inside information about the firm because it reduces their personal benefits (Nagar, Nanda and Wysocki, 2003). Information deficiency limits the ability of capital and managerial labor markets to effectively monitor and discipline managers, therefore enabling managers to obtain private benefits through higher compensation, greater job security, more freedom of action, or perquisite consumption (Shleifer and Vishny, 1989). Disclosures of inside information especially about the firm's earnings can cause the markets to evaluate managers' performance and reassess their human capital. Nagar (1999) shows analytically that risk-averse managers are loath to disclose if they are uncertain about their performance evaluations. In a similar vein, Edlin and Stiglitz (1995) propose that self-interested managers have incentives to invest in activities that obscure company performance. Additionally, practitioners also share the view that managers tend to withhold information from investors, even in the U.S. capital markets where voluntary disclosure is highly encouraged (Nagar et al., 2003).[24]

Using the length-related aspects of conference calls and MD&A (the number of all words and the number of tax-specific words), Balakrishnan et al. (2018) investigate whether tax savings via operating in OFCs leads to transparency problems. They find evidence that aggressive tax planning is related with lower corporate transparency. Moreover, managers at tax aggressive companies face a trade-off between tax benefits and financial transparency. Ben Amar, He, Li and Magnan (2019) extend Balakrishnan et al. (2018) by examining voluntary disclosure as reflected in management earnings forecasts, a key mechanism through which managers of U.S. firms voluntarily provide private information to outsiders (e.g., Healy and Palepu, 2001; Nagar et al., 2003). They include U.S. multinationals with OFC subsidiaries (i.e., offshore firms) and those without such subsidiaries (non-offshore firms) as their research sample. They find that offshore firms are less likely to disclose and release less frequently management earnings forecasts, exhibit a stronger tendency to withhold bad news forecasts, and issue less precise/specific management earnings forecasts than non-offshore firms. Besides tax avoidance considerations, they construct measures for the three characteristics of OFCs and find that each of the three is associated with offshore firms' opaque disclosure practices. Their study documents that, beyond the legal environment of a firm's headquarters, tax avoidance combined with the weak institutional environments of subsidiaries is related to less forthcoming voluntary disclosure as reflected in management earnings forecasts. Results suggest that the use of OFCs has a corrosive effect on U.S. firms' transparency and market oversight capability.

23.5 CONCLUSION AND IMPLICATION

Hence, while the debate on OFCs typically revolves around tax issues, it does appear that investors, analysts, regulators, other stakeholders and governments should also be concerned about their potential to undermine markets' information dynamics, especially since the use of OFCs helps conceal MNCs' social irresponsible activities.

Overall, there is reason to believe that the unique tax and confidentiality policies of OFCs, combined with MNCs' legal structures, significantly impact accounting quality and corporate transparency of companies having operations in OFCs. Shackelford and Shevlin (2001) point out that while agency costs have been recognized since Scholes and Wolfson (1992) as a potential factor in effective tax planning, there has been little progress in research beyond identifying areas in which incentives affect tax management. LaPorta, Lopez-De-Silanes, Shleifer and Vishny (1998; 2000), Leuz, Nanda and Wysocki (2003), and Francis and Wang (2008) document significant country-level differences in legal institutions and investor protections, and discuss accounting information implications stemming from these differences. Recent literature (Ben Amar et al., 2019; Beuselinck, Cascino, Deloof, and Vanstraelen, 2019; Durnev et al., 2017; Dyreng et al., 2012; Li et al. 2022) sheds a great deal of light on the prior literature by going beyond tax considerations to disentangle the joint effects of tax avoidance and the configuration of firm-level governance. Although the headquarters of offshore firms may be registered in the strictest legal environments, OFCs allow them to shift or modify their underlying legal structures at the firm level.[25] These complex corporate structures make it difficult for government, stakeholders and investors to see through how a firm's activities are actually socially responsible. In fact, social irresponsibility may be a logical outcome of the use of OFCs that facilitate tax evasion, weak regulatory oversight and secrecy.

Furthermore, recent research breaks down the impact of OFC status into three dimensions (the opportunity for tax avoidance, regulation arbitrage, and secrecy policies) and show that all three underlie the lower accounting quality and opacity exhibited by offshore firms, with the opportunity for tax avoidance not being the dominant factor. Therefore, those studies extend the simple one-country mappings that are used in most prior accounting research by encompassing multi-tiered legal structures, indicating that the difficulty of overseeing complex corporate structures via operating in OFCs may compromise stakeholders' ability to gauge the extent and reach of a MNC's corporate socially responsible activities. Moreover, as the use of OFCs increases, its potential impact on actual taxes paid by MNCs undermines and may even discredit any other CSR activities it engages into.

NOTES

1. *The Economist* Jan. 15, 2022.
2. IMF website: http://www.internationalmonetaryfund.com.
3. Data source: https://www.taxjustice.net/cms/upload/pdf/Identifying_Tax_Havens_Jul_07.pdf.
4. Data source: IMF surveys and Financial Stability Forum (2000).
5. Data source: the World Bank Databank https://data.worldbank.org/indicator/NY.GDP.PCAP.CD.
6. IMF 2008 Surveys of Offshore Financial Centers.
7. Data source: https://offshoreleaks.icij.org/.
8. BBC News 'Panama Papers: How assets are hidden and taxes dodged' (April 3, 2016 by Jonty Bloom).
9. Tax evasion is an inherently illegal activity that is punishable by criminal sanctions (Brown, 1983).
10. Data source: http:// www.oecd.org/dataoecd/9/61/2090192.pdf.
11. *The Economist* June 5, 2021.
12. *The Economist* February 22, 2007 Survey.
13. *The Economist* February 22, 2007 Survey.
14. In this chapter, an offshore company (firm) is defined as a corporation that establishes its headquarters or subsidiaries in OFC(s).
15. https://www.lapresse.ca/affaires/entreprises/2022-11-16/gildan-largue-par-la-caisse.php.

16. 'It is a tax code that makes it all too easy for a small number of individuals and companies to abuse overseas tax havens to avoid paying any taxes at all.' Calmes and Andrews (2009) quoting U.S. President Barack Obama.
17. A report also reveals that Airbus Group, a multinational European aerospace and defense company (original named EADS), used two mysterious Cayman companies as conduits for bribes related to a long-term Saudi contract. (*The Economist* 2/16/2013, 406, pp. 3–16).
18. Refer to the anti-abuse tax rules on U.S. companies' shifting income.
19. Data source: https://www.justice.gov/opa/pr/odebrecht-and-braskem-plead-guilty-and-agree-pay-least-35-billion-global-penalties-resolve.
20. Data source: https://www.sec.gov/Archives/edgar/data/1071438/000119312517291642/d446350d20f.htm#fin446350_5.
21. The word 'corrosive' in this context means 'harmful or weakening in a way that is not apparent'. The usage of the word is consistent with the dictionary definition. According to the Merriam-Webster Dictionary, one meaning of 'corrosive' is 'tending or having the power to corrode,' and one meaning of 'corrode' is 'to weaken or destroy gradually.'
22. Firms inspected include Microsoft Corporation, Hewlett-Packard Company, and Apple Inc. The hearings and the related press releases are available via the following links: http://www.hsgac.senate.gov/subcommittees/investigations/hearings/offshore-profit-shifting-and-the-us-tax-code; http://www.hsgac.senate.gov/subcommittees/investigations/hearings/offshore-profit-shifting-and-the-us-tax-code_-part-2.
23. The Paradise Papers are 13.4 million leaked documents from two offshore service providers and corporate registries in 19 secrecy jurisdictions. The leak exposes the tax engineering via OFCs of over 100 multinational corporations and reveals offshore interests of many political leaders, celebrities, and extremely wealthy individuals. For more information, visit https://www.icij.org/investigations/paradise-papers/.
24. For example, a panelist at the 2001 Stern Stewart Executive Roundtable remarked '… all things equal, the managers of most companies would rather not disclose things if they don't have to. They don't want you to see exactly what they're doing; to see the little bets they are taking' (Stern Stewart & Co., 2001, p. 37).
25. For instance, investors had not known the tax avoidance strategy of Apple Inc. from its annual report until an investigation by the U.S. Congress reported that almost all of Apple's foreign operations are run through a subsidiary in Ireland (an OFC but not a tax haven) with no employees (www.levin.senate.gov/download/exhibit1a_profitshiftingmemo_apple). With such a tax strategy, Apple pays only 2 percent or less in corporate income tax for all its foreign operations.

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24. Social reporting: Trends, determinants, and implications

Carol Tilt, Kathyayini Rao and Dinithi Dissanayake

24.1 INTRODUCTION

Corporate Social Reporting (CSR) has become a key strategic issue for companies globally, and one that occupies the minds of boards of directors and senior executives alike. Not limited to larger companies, most organisations now include CSR in their strategic decision making but larger, particularly listed, companies tend to report more and are more likely to use established guidelines.

CSR is a broad concept, and defined in different ways, but is generally considered to encompass the 'economic, legal, ethical and discretionary expectations that society has of organizations…' (Carroll, 1979, p. 500). More specifically from a corporate perspective, the concept covers how 'companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis' (European Commission, 2001, p. 366). Reporting on CSR policies and activities provides the accountability to those stakeholders.

The extant research has investigated CSR reporting practices in both developed and developing nations, with investigations of emerging economies increasing (Bhatia & Makkar, 2020). While generally reporting is more advanced in the West, it is growing in most regions of the world. Understanding the particular context of those regions is key to gaining insight into what may be needed to improve CSR and CSR reporting in the future (Tilt, 2016, 2018).

With the growing interest in understanding the social and environmental impacts of business, there was also a rise in the use of the term 'sustainability reporting' or 'ESG (environment, social and governance) reporting' rather than CSR reporting. Sustainability covers both environmental and social aspects as can be seen in the 17 sustainable development goals (SDGs) but, notwithstanding this, research on the environmental aspect of sustainability reporting has proliferated over the last 10–15 years. Only more recently, particularly after the introduction of SDGs in 2016, has there been a return to more consideration of social issues, such as human rights, equity and diversity, health and safety, and local community concerns. There is also increasing interest in the governance aspect of CSR, and the role that boards of directors play in determining the strategic direction of firms' CSR activities, and subsequent reporting. Most of the evidence suggests that diverse boards are key to effective CSR, but that the country and institutional context cannot be ignored.

This chapter will focus on the 'social' aspect of the broader CSR/ESG/sustainability reporting (and will henceforth use the term CSR or social reporting), noting that the concepts are interrelated and cannot always be clearly delineated. The following sections review the recent trends in social reporting, identifying the frameworks used, and then discuss major determinants and differences identified between developed and developing countries, with particular attention to governance mechanisms. The chapter concludes with some implications of the identified trends for different regions and suggests some areas that are in need of further research.

24.2 SOCIAL REPORTING TRENDS

In order to consider trends in social reporting, it is first apposite to briefly review the guidelines and frameworks that organisations may choose to use to frame their reporting and consider if, and how, they influence reporting activity.

24.2.1 Frameworks for Social Responsibility and Reporting

Not surprisingly, as CSR is firmly on the agenda for companies globally, a number of guides, compacts, agreements and frameworks have been developed to help companies be more responsible. Leipziger (2017, p. 16) notes a choice between numerous codes and standards in order to develop the latest version of the Corporate Responsibility Code Book, which outlines '34 key tools'. Available frameworks include overarching guidance from organisations such as the OECD, the UN Global Compact and the World Business Council for Sustainable Development (WBCSD); topic-specific guides such as the GHG Protocol, the Universal Declaration of Human Rights or the International Labour Organization standards; as well as sector-specific guides such as the Textile Exchange and the Extractive Industries Transparency Initiative (EITI).

Moreover, many frameworks provide specific guidance on reporting and disclosure, and among the most widely used are the Task Force on Climate-Related Financial Disclosures (TCFD), the International Organization for Standardization (ISO), the Institute of Social and Ethical AccountAbility (AA), the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC) and the Global Reporting Initiative (GRI). These are predominantly voluntary reporting standards.

The TCFD relates specifically to climate change and financial disclosure, whereas ISO, AA, SASB, IIRC and GRI include a broader range of specifications, indicators and/or measures, which we broadly classify as 'social reporting' standards. The ISO standard for social responsibility reporting, ISO 26000, 'provides guidance rather than requirements' to help business with how they can incorporate social responsibility into their operations and practices (Chiarini, 2017, p. 844). However, the broad nature of ISO standards has resulted in criticism for using a 'one size fits all' approach and lack of specific guidance (Schwartz & Tilling, 2009; Sorooshian et al., 2018).

The AA standards emphasise the four principles of: inclusivity, materiality, responsiveness and impact, and Farooq et al. (2021) note that a significant response to stakeholders' concerns is through corporate governance activities such as dedicated committees, management responsibility and codes of conduct. The SASB framework guides 'the disclosure of financially material sustainability information by companies to their investors' (SASB, 2022), providing 77 industry standards aimed at financial reporting on environmental, social and governance issues for 11 specific industry sectors. It exclusively relates to companies trading on the financial markets (Willis et al., 2015) and the focus is on environment, social capital, human capital, business model and innovation, leadership, and governance. The use of SASB standards is growing, with 1,311 companies using them in 2021 and a further 1,401 referencing the standards for metrics or other purposes. In 2021 SASB and the IIRC merged to become the Value Reporting Foundation, which focusses on ‘enterprise value creation’ and signalled their aim of moving towards simplification (SASB, 2022).

The IIRC defines an integrated report as a ‘concise communication on how the organization’s strategy, governance, performance and prospects lead, given its ecosystem, to creating value in the short, medium and long term’ (IIRC, 2013, p. 9). The publication of integrated reports is growing, particularly in some countries, but is still less widespread than other forms of sustainability reporting, such as a separate sustainability, CSR or ESG report. Minutiello and Tettamanzi (2021) note that despite an increased uptake of IR, disclosure quality still needs improvement.

One of the most widely adopted frameworks, and which includes a comprehensive set of indicators for ‘social’ reporting is the GRI (Farooq et al., 2021; Mariappanadar et al., 2022; Secco et al., 2020). Marimon et al. (2012 p. 134) state that GRI’s objective is to: ‘…provide information guidelines to present a clearer vision of the human and ecological impacts of an enterprise’. GRI has three different types of standards: universal standards that detail how to prepare reports and identify material topics which are applicable to all reporting organisations; sector standards that provide advice on material topics and reporting instructions relevant to particular sectors; and topic standards that instruct organisations on reporting on a variety of important social and environmental topics. GRI standards are mapped against the SDGs.

Boiral et al. (2019) note that although GRI appears to have resulted in increased information quality, reports still lack reliability and transparency; there is potential managerial capture of the process and there is a lack of genuine stakeholder engagement. There is also evidence that despite following GRI, some organisations are still reluctant to report any negative information, and often cite a lack of clarity on how to report (Diouf & Boiral, 2017). Further, Olanipekun et al. (2021) point to views that GRI does little to empower civil society; has insufficiently standardised indicators and guidelines; lacks external verification; and is too complicated and demanding for small organisations.

24.2.2 Reporting Trends and Quality

As of 2020, 89 percent of the world’s largest organisations use GRI (Farooq et al., 2021). Integrated reporting is growing, but is more common in particular countries such as South Africa, Japan and Sri Lanka (KPMG IMPACT, 2020).

Variations in the quality and content of social reporting are noted across different countries and regions. Boiral (2013), examining 23 A and A+ GRI rated reports, found that 90 percent of significant negative events were either discussed in a very incomplete manner, or not at all. Similarly, Saber and Weber (2019) found German food retailers were reluctant to report on negative issues. Examining compliance with GRI occupational health and safety standards, Bowers (2021) discovered that a handful of companies incorrectly reported ‘zero fatalities’, even though other sources indicated there were work-related fatalities at their sites. Similarly, investigations of IR have shown relatively poor reporting quality (Nguyen et al., 2022; Stent & Dowler, 2015), and limited research on SASB notes high percentages of low compliance even though of high relevance to investors (Busco et al., 2020).

KPMG reports that of the 3,983 companies in their 2020 survey on sustainability, 69 percent connect their business activity with SDGs. Key social issues addressed include climate action, responsible consumption and production, clean energy, health and gender equality.

However, corporate SDG reporting tends to be unbalanced, disconnected from business goals, and lacking transparency regarding negative impacts (KPMG IMPACT, 2020). Of the 2,745 companies that did link to SDGs, only 14 percent reported both positive and negative impacts. Similarly, Silva (2021) examined FTSE 100 companies reporting on SDGs and found that although 67 percent reference SDGs, only 13 percent report on at least one of the targets, and even then, usually only a single target is addressed. Silva (2021) suggests this reporting constitutes symbolic, rather than substantive, disclosure. Poor levels and quality of disclosure have also been reported for most African (Erin & Bamigboye, 2021) and Spanish companies (Diaz-Sarachaga, 2021).

A notable trend in the KPMG survey is that higher priority is given to ‘economic and environmental’ SDGs (climate change, energy, consumption, growth) and significantly fewer firms report on the ‘social’ aspects (health, equality, education) and even fewer on initiatives related to poverty, peace and hunger (KPMG IMPACT, 2020).

Generally, reporting is greater, and of higher quality, in developed countries, but a recent surge in examination of emerging and developing economies has shown both a willingness and motivation to report more. This, along with potential determinants for differences in reporting across different countries, is discussed next.

24.3 SOCIAL REPORTING DETERMINANTS

Three key strands of literature on CSR are described by Basu and Palazzo (2008) as stakeholder-, performance- and motivation-driven. Notwithstanding that this classification is over a decade old, it still describes a significant amount of research being undertaken. In particular, the motivation-driven studies include a plethora of studies considering the role of the external (institutional) context and internal (organisational) factors.

24.3.1 Developed Countries

Corporations operating in developed countries face varying institutional pressures and country settings. Unlike developing economies, which generally focus on satisfying basic stakeholder needs, corporate behaviour is often scrutinised by several powerful external stakeholders such as government, media, NGOs and civil society (Ali et al., 2017; Campbell, 2007). Financial markets and market dynamics are more mature, shareholders are more risk-averse and often reward socially responsible firms (Jizi, 2017). The institutional environment and infrastructure for CSR is generally stronger and focuses on higher-level issues of CSR and sustainability (El-Bassiouny & El-Bassiouny, 2018).

In 2015, the European Union (EU) approved Directive 2014/95/EU (EU Directive), which regulates non-financial and diversity disclosure across Europe (European Union, 2014). The EU Directive requires large companies to include in their management report or a separate non-financial report, information as a minimum about environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters (European Union, 2014). Further, although legal regulations provide guidelines for corporations, it seems that self-regulatory systems play a major role in driving corporations to engage in CSR issues in developed nations. Compared with developing countries, the adoption of effective corporate governance codes, and implementation of guidelines such as GRI to prepare sustainability reports (Tamimi & Sebastianelli, 2017) are well recognised. Evidence also indicates that although CSR reporting is voluntary, many companies in developed countries tend to issue separate annual stand-alone sustainability reports to inform their stakeholders as well as to mitigate social risks (Tamimi & Sebastianelli, 2017).

The majority of academic studies from developed countries use GRI guidelines as an indicator of a firm's commitment towards CSR (Al Farooque & Ahulu, 2017; Cabeza-García et al., 2018; Fuente et al., 2017; García-Meca et al., 2018), reflecting its dominance as a CSR reporting framework. A few studies have developed an index using the unweighted sum of various environmental and social indicators (Rao & Tilt, 2016a). Further, several databases/scoring systems are used including Thomson Reuters weighted average ESG scores (Pucheta-Martínez et al., 2019; Qureshi et al., 2020), Bloomberg's weighted CSR/ESG score (Jizi, 2017; Tamimi & Sebastianelli, 2017), Carbon Disclosure Project (CDP) scores (Al-Qahtani & Elgharbawy, 2020). Specifically, when examining reporting on gender issues, García-Sánchez et al. (2020) followed UN Women and the UN Global Compact guide and standards for disclosing business information based on the Women's Empowerment Principles and assessed the alignment of these principles with the GRI guidelines. Pizzi et al. (2021) developed the SDG reporting score following SDG Compass guidelines to assess firm orientation toward SDG reporting, and Flynn (2019) assessed the content of modern slavery statements against seven areas of the Modern Slavery Act.

Differences in national culture, political and legal systems can result in variations in CSR practices in general, and CSR disclosure in particular. These include, specific stakeholders (Ali et al., 2017), institutional ownership, geographical diversification and third-party assurance (Al Farooque et al., 2017), country culture (García-Meca et al., 2018), stakeholder orientation (García-Sánchez et al., 2020), business networks (Flynn, 2019) and the extent of media exposure (Flynn, 2019; Nikolaeva & Bicho, 2011).

These institutional and country settings and their effect on CSR disclosure is well recognised. For example, El-Bassiouny and El-Bassiouny (2018) found that the disclosure levels of sample Egyptian companies are the lowest, reflecting the weak economic and institutional conditions in Egypt, compared with Germany and the USA. Further, in terms of self-regulatory processes, Gamerschlag et al. (2011) noted that corporate recognition of international guidelines and norms such as the OECD and Global Compact guidelines play a critical role in encouraging the implementation of CSR in German companies.

Along with external factors and firm characteristics, internal factors are also considered to be major determinants of CSR activities and disclosure (García-Meca et al., 2018; Rao & Tilt, 2016b). Within this category, examining boards of directors' role in CSR disclosure has acquired special prominence, since they are not only one of the main corporate governance mechanisms in the supervision of managerial actions (Fama & Jensen, 1983) but are also responsible to ensure that the company works in the interests of both the shareholders and stakeholders, including risk management and reporting (Amorelli & García-Sánchez, 2021; Rao & Tilt, 2016b). The role of the board in CSR decision making is stipulated in good corporate governance codes, most notably in developed countries. For example, the Spanish Conthe Code (Unified Code of Corporate Governance) provides specific recommendations concerning CSR, and extends the board of directors' responsibility to broader stakeholders (Pucheta-Martínez et al., 2019). Similarly, the Davies Report and the UK Corporate Governance Code 2014 encourage board diversity to promote 'effective engagement with key stakeholders' (Jizi, 2017).

Thus, CSR disclosure studies in developed countries have investigated the effect of various board characteristics, including: board independence (Al Farooque et al., 2017; Fuente et al., 2017; García-Meca et al., 2018; Jizi, 2017), the presence of female directors (Cabeza-García et al., 2018; Jizi, 2017; Nadeem et al., 2017; Qureshi et al., 2020), CSR committees (Eberhardt-Toth, 2017; Fuente et al., 2017); meetings and frequency of meetings (Al-Qahtani & Elgharbawy, 2020; Dienes & Velte, 2016; Fuente et al., 2017; Wang et al., 2022); board nationality/region (Branco et al., 2022; Toumi et al., 2021), skills and expertise (Al-Qahtani & Elgharbawy, 2020; Dienes & Velte, 2016), board size (Tamimi & Sebastianelli, 2017), board tenure (Al-Qahtani & Elgharbawy, 2020; Rao & Tilt, 2016b; Reguera-Alvarado & Bravo-Urquiza, 2022), multiple directorships (Beji et al., 2021; Ong & Djajadikerta, 2018; Rao & Tilt, 2016b), and CEO duality (Tamimi & Sebastianelli, 2017; Wang et al., 2022) and executive compensation (Hong et al., 2016; Tamimi & Sebastianelli, 2017). See Table 24.1 for a summary.

These abundant studies show that strong governance is considered an important element of good CSR disclosure and diverse boards are seen as a key element of good CSR reporting in developed countries. For example, in the Australian context, Rao and Tilt (2016b) revealed that three of the board diversity attributes (gender, tenure and multiple directorships) and the overall diversity measure have the potential to influence CSR reporting and Ong and Djajadikerta (2018) found a similar result. Studies from the UK, USA, Italy and Spain also link diversity to CSR disclosure (Fuente et al., 2017; Jizi, 2017; Pizzi et al., 2021; Tamimi & Sebastianelli, 2017).

In addition to examining the effect of governance on general CSR and sustainability disclosure, several studies have focused on the effect of board composition specifically on specific dimensions of CSR including social disclosure (Al Farooque et al., 2017; Jizi, 2017), environmental disclosure (Giannarakis et al., 2020); reporting on gender issues (García-Sánchez et al., 2020), biodiversity disclosures (Haque & Jones, 2020), modern slavery disclosure (Flynn, 2019), governance disclosure (Tamimi & Sebastianelli, 2017), SDG reporting (Pizzi et al., 2021), Greenhouse Gas (GHG) disclosure (Al-Qahtani & Elgharbawy, 2020) and human rights disclosure (Branco et al., 2022; Kaspereit et al., 2016). See Table 24.1.

Table 24.1 *Internal determinants of CSR reporting: Recent studies from developed countries*

Author/year	Year	Country/region	CSR/CSR dimension	Determinants/findings
Adel et al. (2019)	2019	Europe	CSR reporting quality	Director ownership (+ve) CSR committee/sustainability committee (+ve)
Adnan et al. (2018)	2018	China, Malaysia, India, UK	CSR disclosure – quantity and quality	Culture (sig) Board committees (+ve) Government ownership (+ve)

Author/year	Year	Country/region	CSR/CSR dimension	Determinants/findings
Al Farooque et al. (2017)	2017	Australia, UK	Social and economic reporting	**External factors:** Institutional ownership (not sig) Geographical diversification (not sig) Assurance (not sig) **Internal factors:** Managerial shareholdings (not sig) Board independence (not sig) Employee performance (not sig)
Ali et al. (2017)	2017	Developed vs developing countries	CSR disclosure (review paper)	Regulators Shareholders Creditors Environmentalists Media
Al-Qahtani & Elgharbawy (2020)	2020	UK	Greenhouse Gas (GHG) disclosure	Women directors (+ve) Board skills (-ve) Board tenure (not sig)
Branco et al. (2022)	2021	Western Europe	Human rights reporting	Female director (not sig) Age (not sig) Nationality (+ve)
Bravo & Reguera-Alvarado (2019)	2019	Spain	ESG reporting quality	Gender diversity in audit committees (+ve)
Cabeza-García et al. (2018)	2018	Spain	CSR reporting	Gender (+ve) Outside/ Independent director (+ve)
El-Bassiouny & El-Bassiouny (2018)	2018	Egypt, Germany, USA (developed & developing countries)	CSR reporting	**For Egypt:** Foreign BOD (+ve) Board independence (+ve) Institutional ownership (+ve) **For USA and Germany:** No relationship
Flynn (2019)	2019	UK	Modern slavery reporting	Network involvement (+ve) Headquarter base (UK versus non-UK) (+ve) Media exposure (not sig) Shareholder concentration (not sig)
Fuente et al. (2017)	2017	Spain	CSR disclosure	Board Independence (+ve) Gender (+ve) CSR committees (+ve) Board meetings (not sig) Board size (not sig)
García-Meca et al. (2018)	2018	Canada, France, Germany, Italy, Netherlands, Spain, Sweden, UK, USA	CSR reporting	Gender (+ve) Independent director (+ve) Country culture as a moderating factor (sig)
García-Sánchez et al. (2020)	2020	International	Gender issues reporting	Female directors (+ve) (with moderating factor of Country's Stakeholder orientation)

Author/year	Year	Country/region	CSR/CSR dimension	Determinants/findings
Haque & Jones (2020)	2020	Europe	Biodiversity disclosures	Female directors (+ve)
Jizi (2017)	2017	UK	Social and environmental disclosure	Board independence (+ve) Female director (+ve)
Lassoued & Khanchel (2022)	2022	USA	CSR disclosure	CEO narcissism (+ve) CEO power as moderating factor (+ve/-ve)
Lepore et al. (2022)	2022	Italy	CSR disclosure	Independent directors through pressure from social media (+ve)
Ong & Djajadikerta (2018)		Australia	Sustainability disclosure	Independent directors (+ve) Multiple directorships (+ve) Female directors (+ve)
Pizzi et al. (2021)	2021	Italy	SDG reporting	Independent directors (+ve) Expertise with non-financial reporting (+ve) Industry sector (+ve)
Pucheta-Martínez et al. (2019)	2019	Spain	CSR disclosure	Female institutional directors (+ve) Pressure-resistant women institutional directors (+ve) Pressure-sensitive women institutional directors (not sig)
Qureshi et al. (2020)	2020	Europe	ESG disclosure	Female director (+ve)
Ramon-Llorens et al. (2020)	2020	Spain	CSR disclosure	Female industry experts (+ve) Female advisors (+ve) Female community leaders (-ve) Female power as moderator (+ve/-ve)
Rao & Tilt (2016b)	2016	Australia	CSR reporting	Female directors (+ve) Tenure (+ve) Multiple directorships (+ve)
Reguera-Alvarado & Bravo-Urquiza (2022)	2021	Spain	CSR reporting	Board social capital – multiple directorship (+ve)
Tamimi & Sebastianelli (2017)	2017	USA	ESG disclosure	B size (+ve) Gender (+ve) CEO duality (+ve) Executive compensation (+ve)
Toumi et al. (2021)	2021	France	ESG disclosure	Presence of Anglo-Americans (+ve/-ve) French nationality (+ve) EU nationality (-ve)

Recently, modern slavery and labour practices/human rights disclosures are gaining significant attention. As such, the research focusing on the governance determinants of corporate compliance with modern slavery reporting and human rights disclosure are emerging, most often in developed countries. Flynn (2019) focused on two constituent groups: non-executive board directors and concentrated shareholders. Their results indicate a negative relationship for board independence and an insignificant relationship for shareholder concentration and modern slavery compliance. Branco et al. (2022), based on a sample of large Western European companies, also found no association between three demographic diversity indicators of boards of directors (age, gender and nationality/ethnicity) and human rights reporting. Requiring transparency from companies about modern slavery in business operations in supply chains is a growing tool in the armoury of regulators particularly in developed countries (Rao et al., 2022), but despite this effort, there are low levels of compliance with disclosure requirements (Christ et al., 2019; Craig, 2017), or low quality disclosures (Birkey et al., 2018). Given that internal and external constituents can pressure firms to take a proactive stance against modern slavery, scholars have called for further research examining the extent and determinants of modern slavery practices in the business context (Crane, 2013; Flynn, 2019; Rao et al., 2022).

As can be seen from the preceding review, although research into CSR and board composition has been given reasonable attention in developed countries, the empirical evidence remains inconclusive. To address this issue, researchers have started exploring board-CSR relationships in more depth and considering the multidimensional nature of CSR. Al Farooque et al. (2017) investigated three external (institutional ownership, geographical diversification and third-party assurance report) and three internal (managerial ownership, board independence and employee performance) characteristics and their impact on social and economic disclosures in Australia, the UK and South African multinationals. Although evidence suggested that assurance, board independence and employee performance have a positive significant impact on economic disclosure, no significant association was found with any of the social indices (Al Farooque et al., 2017). Similarly, Adel et al. (2019) reveal that directors' ownership, the presence of a CSR committee and firm size positively affect the quality of CSR reporting in Europe, but when testing the independent variables on each CSR sub-category (community involvement, employees, environment, social product and service quality, supply chain sustainability and business ethics), the presence of a sustainability committee inside the company is the only factor that shows a strong positive effect. More recently, Toumi et al. (2021) examined the effect of board nationality/regions on various dimensions of CSR disclosure by French companies. The study provided the evidence that home region diversity and the presence of Anglo-Americans on a board are positively and significantly associated with environmental disclosure, but negatively associated with social and governance disclosure. Another recent study confirmed that highly narcissistic CEOs place greater emphasis on social disclosure than on corporate governance disclosure because it enhances their public image and generates admiration (Lassoued & Khanchel, 2022).

The mixed findings have motivated researchers to study the moderating factors that may affect the relationship between the board characteristics and CSR disclosure. For example, Lepore et al. (2022) highlight that the relationship between independent directors and CSR disclosure in Italy is strengthened by stakeholder 'e-engagement' created by social media (on Facebook, LinkedIn, and Twitter) which adds institutional pressure on independent directors. Reguera-Alvarado and Bravo-Urquiza (2022), found that the association between multiple directorships and the level of CSR reporting is positively moderated by both board size and gender diversity. Thus, these findings suggest that the context in which directors make decisions needs attention in board-CSR research. As noted earlier, board independence and gender diversity favour higher levels of CSR disclosure, however, this is moderated by the cultural context, where the link has been found only in companies that operate in strong cultural systems (García-Meca et al., 2018).

Finally, to address the mixed findings and provide new insights into the board-CSR relationship, studies have also taken the approach of examining the specific skills, expertise, and connections of board members. This has been specifically applied in research on gender diversity. For example, Ramon-Llorens et al. (2020) found a positive relationship between the effect of female industry experts, advisors and community leaders on CSR disclosure in Spain. Another Spanish study, Cabeza-García et al. (2018), highlighted the importance of considering the number, type and the role of women in relation to CSR.

Since women are disproportionately under-represented in senior executive and board-level positions globally (Rao & Tilt, 2016a), both researchers and regulators worldwide have been paying greater attention to female representation in senior leadership positions and their influence on performance. This underrepresentation is even more noticeable in developing countries.

24.3.2 Developing Countries

While variations in developed countries' institutional settings are noted, this is greater for developing countries which have different cultural, political and business constructs. Further, countries that are less economically developed tend to concentrate on providing basic amenities and securing livelihoods of the population.

Social reporting in developing countries is mainly voluntary, as there are few specific regulations that govern social or CSR reporting, although there are some around CSR spending in some countries, such as India (Mangalagiri & Bhasa, 2022). Still, there is a wide variety of laws, regulations and policies that in one way or another emphasise the requirements for corporate social/CSR initiatives and practices, including reporting of such initiatives. Yet, there is often a lack of coordination among the lead government agencies and professional bodies that are in charge of enforcing these regulations and policies (Akbar & Ahsan, 2019). Therefore, global frameworks such as GRI are viewed as providing the best guidance when reporting on social and environmental issues (Issa et al., 2021).

Interestingly, compared with the literature on developed countries, there is much more prominence placed on social reporting and specifically on issues such as welfare for the poor and access to vital needs like health and education in developing countries (Bhatia & Makkar, 2020; Dissanayake et al., 2021). This may be because citizens in these countries are among those with the lowest income, life expectancy, access to education and standard of life (World Bank, 2022). However, some of the fast-growing emerging countries are increasingly playing an important role in the world economy and this means they are beginning to pay more attention to CSR issues.

There is consensus that improving the welfare of the poor is significantly dependent on good governance (Leonard, 2010). Also, good governance mechanisms are likely to ensure transparency and reduce information asymmetry. Some developing countries have notably weak governance, and also have to deal with issues of corruption and incompetence, and therefore have difficulty delivering services to their citizens (Kaufmann et al., 2004; Kaufmann et al., 1999). In terms of organisational governance, these issues also come to the fore. When there is a lack of diversity and oversight of boards from regulators, there is less emphasis on socially responsible strategies for the businesses. Due to poverty, illiteracy and non-state actors in the civil sphere being less powerful, these countries are falling behind in addressing CSR/sustainability issues compared with developed countries (Ferdous, 2018). In some countries, such as Bangladesh, the dominance of family-dominated firms raises issues of nepotism within the board and that they are likely to influence the information communicated to stakeholders as they may put the interests of the families above other shareholders (Uddin & Choudhury, 2008).

The trends in specific issues that are reported by firms in developing countries have historically focused on the general nature of social issues, but more recent literature shows increasing interest in particular issues such as human rights, anti-corruption and anti-bribery disclosures, which have been receiving global interest (Bananuka et al., 2022; Uddin et al., 2018). Due to the very different contexts of the countries, the aspects they focus on in terms of CSR reporting are likely to be quite different between regions. For instance, in Sub-Saharan Africa, companies tend to focus strongly on philanthropic engagement in the local community, whereas environmental and broader social issues are less often disclosed (Tilt et al., 2020). In the South Asian and South East Asian region, there is extensive focus on fulfilling social obligations such as contributing to community, improving employee welfare, responding to national disasters and poverty alleviation, all issues strongly aligned with the SDGs.

As the literature on reporting continues to become widespread in developing countries in terms of the content reported, motivations, barriers and general company characteristics; less is known about the influence of governance characteristics such as board structure or composition, board commitment and governance procedures (Mudiyanselage, 2018). However, several studies suggest that some of these internal governance characteristics drive companies' social reporting practices as they are seen as complementary (Issa et al., 2021; Naseem et al., 2017; Qa'dan & Suwaidan, 2018). Al-Mamun and Seamer (2021) examined board of director attributes and CSR engagement in six emerging economies and found that directors' political influence, international experience, business expertise, independence from management and interlocking directorships influence CSR engagement and reporting. Similar views were expressed by Ahmad et al. (2017), Khan et al. (2019) and Rashid and Hossain (2021) from the contexts of Malaysia, Pakistan and Bangladesh, also finding, board size, independence and gender diversity are influential. Hoang et al. (2018) and Wasiuzzaman and Wan Mohammad (2020) note that while females are able to create fundamental changes in boardroom dynamics, representation of women on corporate boards at times may be limited in these emerging economies. However, even from emerging countries the positive influence of female directors within boards was noted (Al Fadli et al., 2019; Ali et al., 2021; Cicchiello et al., 2021), including in Gulf Cooperation Council countries (Arayssi et al., 2020).

Garas and ElMassah (2018) and Garanina and Aray (2021) suggest, non-executive and foreign board directors are likely to encourage management to engage in more social activities as well as reporting. By disclosing extensive CSR information in annual reports companies are able to reduce the level of asymmetric information, reduce agency costs and enhance or maintain the company's reputation. Hence, this establishes the necessity to create bigger and more diverse boards for effective CSR reporting. There are studies (Amran et al., 2014) that have not found board size to be a significant factor, and this is especially prominent if there is CEO duality where there is an increased level of power that may negatively influence the decisions made by management and the subsequent projects undertaken. This may be mediated by the educational attainment of the board chairperson (Prabowo et al., 2017). See Table 24.2.

Notwithstanding the work on internal governance characteristics and CSR, it seems that in developing countries, the practice of CSR reporting is largely driven by external factors. Foreign buyers, professional associations, standards setting organisations, avoiding reputational harms and various award schemes play a pivotal role in the emergence and development of this kind of reporting (Muttakin & Khan, 2014). As suggested by Qian et al. (2020), one of the key determinants identified from countries such as Bangladesh, Sri Lanka, Indonesia, Vietnam and The Philippines was concern over reputational risks which affect stakeholders'

Table 24.2 Internal determinants of CSR reporting: Recent studies from developing countries

Author/year	Year	Country/region	CSR/CSR dimension	Determinants/findings
Ahmad et al. (2017)	2017	Malaysia	CSR disclosure	Board independence (+ve)
Al Fadli et al. (2019)	2019	Jordon	CSR reporting	Gender diversity (+ve)
Ali et al. (2021)	2021	Pakistan	CSR disclosure	Board size (+ve) Foreign directors (+ve) Female directors (+ve)
Al-Mamun & Seamer (2021)	2021	Six emerging economies	CSR engagement and disclosure	Political influence (+ve) International experience (+ve) Business expertise (+ve) Independence from management (+ve) interlocking directorships (+ve)
Arayssi et al. (2020)	2019	Gulf Cooperation Council countries	ESG disclosure	Independent director (+ve) Female director (+ve)
Cicchiello et al. (2021)	2021	Asia and Africa	SDG reporting	Gender diversity (+ve)
Garanina & Aray (2021)	2021	Russia	CSR reporting	Foreign board members (+ve)
Garas & EIMassah (2018)	2018	Gulf Cooperation Council countries	CSR disclosure	Non-executive directors (+ve) CEO duality (+ve) Independent audit committee (+ve)
Hoang et al. (2018)	2018	Vietnam	Corporate social disclosure	CEO duality, Board ownership (not sig) Independent directors, Female directors, Director age, education (+ve)
Issa et al. (2021)	2021	Arabian Gulf Counties	CSR disclosure	Education level (+ve) Female director (-ve) Nationality (+ve) Royal family members on board(+ve)
Khan et al. (2019)	2019	Pakistan	CSR disclosure	Gender diversity (+ve) National diversity (+ve) Educational background (not sig) Ethnicity (not sig) Tenure (not sig)
Mudiyanselage (2018)	2018	Sri Lanka	Sustainability reporting	Independent directors (+ve) Female directors (+ve) Board size (+ve) CEO duality (not sig) Ethnicity (not sig) Board ownership (not sig)
Naseem et al. (2017)	2017	Pakistan	CSR disclosure	Board size (+ve) Number of meetings (+ve) Board independence (+ve)
Prabowo et al. (2017)	2017	Indonesia	CSR disclosure	Educational attainment of the board chairperson (+ve)

Author/year	Year	Country/region	CSR/CSR dimension	Determinants/findings
Qa'dan & Suwaidan (2018)	2018	Jordon	CSR disclosure	Board size (+ve) Non-executive directors (-ve) CEO/chairman duality (-ve) Age (-ve) Female director (-ve) Board ownership (-ve)
Rashid & Hossain (2021)	2021	Bangladesh	CSR disclosure	Board Independence (+ve) Politicians on the board (-ve)
Wasiuzzaman & Wan (2020)	2020	Malaysia	ESG disclosure	Female director (+ve)

views about the business. Therefore, sustainability reporting is regarded as an influential outlet to communicate with, and gain trust and legitimacy from, stakeholders. As these disclosures convey the companies' long-term direction and strategies to the stakeholders, they have the potential to create value to society. Hence, CSR reporting reduces information asymmetry and helps gain competitive advantage and reputational benefits that lead to value maximisation in emerging economies (Thoradeniya et al., 2022). There is also evidence that media coverage shapes the attitudes of directors and managers toward social reporting. So, when subject to media scrutiny, firms become incentivised to pursue social reporting to gain prestige and reputation, which would be beneficial for the businesses' survival in the long run and this is becoming more common in developing economies as well as in the West (Zaman et al., 2022).

Interestingly, Adnan et al. (2018) found that national culture is related to resistance to reporting on CSR. This is especially important as there are many calls for uniform CSR standards to be applied at a global level. However, there is also support for claims that for developing countries CSR reporting practices are highly driven by global influences, with the majority of the reporting companies explicitly embracing global standards such as the GRI framework (Abeydeera et al., 2016). Moreover, companies situated in these countries are also influenced by various award schemes that encourage the use of known global frameworks (Bananuka et al., 2022; Khan et al., 2021).

24.4 SUMMARY AND IMPLICATIONS

The amount of social and environmental information disclosed by companies globally is increasing. The main influences on this trend include the political interest in sustainable development, recognised by the SDGs and regulations; and the development of reporting frameworks to guide company disclosure. Thus, the institutional environment is a key factor that needs to be conducive to reporting. Notwithstanding this, the research investigating CSR disclosure in depth, indicates ongoing concerns about the quality and completeness of the reporting.

The influence of external, institutional factors is observed across both developed and developing countries, but there are also clear differences. One clear difference is that 'social' reporting is a key focus for developing nations, whereas companies in developed countries generally ignore broad social issues such as poverty and human rights. This reflects the social conditions of these nations and their most pressing needs, but also has a socio-cultural aspect in that there is often an obligation felt in more collectivist societies, to assist government and help local communities. Thus, social reporting continues to play an important role in developing countries due to significant economic and social inequalities and this may have widened due to the Covid-19 global pandemic.

New and emerging CSR related topics such as modern slavery and human rights are gaining significant attention from both scholars and regulators, but interestingly this has mostly been in developed countries. Studies have shown companies attribute little importance to the reporting of information pertaining to these issues. Moreover, a negative or insignificant relationship between governance and modern slavery and human rights disclosure has been observed in some studies (Branco et al., 2022; Flynn, 2019).

The findings of this review have several implications for company governance and boards. First, board composition is a crucial aspect in making strategic decisions such as CSR reporting. Several board variables, specifically the presence of independent directors, women directors, multiple directorships and board size, have clear relationships with CSR, reinforcing the importance of considering these board attributes in firms' board selection processes and the need to take into account moderating factors such as political, social, organisational, institutional and cultural context or practices in their disclosure decisions (Fernandez & Thams, 2019; García-Meca et al., 2018) when setting terms of reference for board appointments. This also has implications for governance policy more broadly. Second, many studies suggest that boards of directors may not have the appropriate skills and expertise to deal with complex emerging issues such as modern slavery, suggesting the need for better training and development on CSR issues.

24.4.1 Future Research

This review identifies several gaps in the literature. First, the majority of studies still focus on two common board attributes: gender diversity and independence. However, attributes such as age, tenure, nationality, board member's background/skills, education, the existence of CSR committees, and executive compensation are still under researched and need more emphasis.

Second, a few studies have suggested that the mere presence of female directors or independent directors may not have a significant influence on CSR reporting. Similarly, in developing countries in particular, the number of females on boards is very low, so future studies could examine the role of appropriate skills, abilities, knowledge, sensitivity towards CSR and professional traits of directors. Consideration of moderating factors and their influence on the board-CSR disclosure link is also recommended. Third, future studies could focus on examining the impact that board members have on specific dimensions of CSR disclosure, rather than aggregate disclosure (Amorelli & García-Sánchez, 2021), as this relates more appropriately to the socio-political context of the companies being investigated, so can bring more relevant insights to the board-CSR disclosure link.

Finally, the majority of the studies are based on cross-sectional data, but longitudinal studies would provide more insight into how changes in governance and board structures may influence the development of CSR reporting over time. Future studies should also consider in-depth case studies and interviews with board members and executives, to examine their views on CSR disclosure and focus on actual board behaviour, gathering primary data rather than relying on secondary data sets. While the majority of studies focus on the quantity of reporting, there is a need for comprehensive studies, which also examine the quality of CSR disclosure.

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PART IV

LOOKING INTO THE FUTURE OF CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

25. Diversity at the top: Evidence on board composition and representation

Alessandro Ghio, Juliette Senn, Sophie Giordano-Spring and Charles H. Cho

25.1 INTRODUCTION

Boards of directors play a key role in the governance of organizations (Baysinger & Butler, 2019; Cormier, Ledoux, Magnan, & Aerts, 2010). Specifically, they shape the governance of the organization by setting the strategic plan, monitoring managerial decisions to reduce agency costs, hiring and evaluating the Chief Executive Officer (CEO) and designing the compensation of senior managers. However, their influence extends beyond these formal roles (Pesqueux, 2005). Board members influence organizational culture and are seen as a point of reference within their organizations. As such, the composition of the board of directors and the content of their communication are likely to have important consequences within the organization and also beyond, given the important role that corporations play in today's society (Gendron, 2018).

For a long time, boards of directors in Western countries were fairly homogeneous and dominated by white, heterosexual, older men (Bernardi, Bean, & Weippert, 2005). The focus of their decisions and communications was mostly on maximizing shareholder profit, with little or no attention to social and environmental issues (Cho, Laine, Roberts, & Rodrigue, 2015). However, we are witnessing numerous social, cultural, and even legal changes affecting today's society that are pushing companies to be more socially responsible (otherwise known as corporate social responsibility or CSR).

Most discussions have focused on the environmental consequences of firms' decisions, with an increasing number of firms reporting their CO_2 emissions, waste disposal, among others (Christensen, Hail, & Leuz, 2021). Unfortunately, these actions have mostly been a façade, as companies have not taken substantial actions to change their environmental impact (Cho et al., 2015; Cho, Guidry, Hageman, & Patten, 2012; Cho, Michelon, & Patten, 2012). These behaviors appear to be further incentivized by regulators and standard setters, who tend to privilege an approach to environmental issues that is linked to investor risk. Indeed, the mandate to disclose actions that may harm the environment is often linked to the potential harm this may cause to investors.

More recently, attention has also shifted to social issues (Neilan, Reilly, & Fitzpatrick, 2020). This puts pressure on companies to demonstrate their respect for human rights, customer care, cybersecurity, and diversity, among other things. Diversity in particular has become an imperative for many companies, especially following the protests of the #MeToo movement and the murder of George Floyd. Indeed, we are seeing a growing number of companies celebrating Black History Month or sponsoring 2SLGBTQI+[1] Pride marches or organizing International Women's Day breakfasts. However, given the well-documented critiques of corporate actions and environmental issues, we must ask whether companies are walking the talk when it comes to social issues and particularly diversity.

Our focus is on actions related to corporate governance as it relates to diversity. In line with prior research on diversity and governance, we focus on the idea of diversity as a range of human qualities and characteristics within individuals or groups (Ghio, Occhipinti, & Verona, 2023). In this context, we first examine diversity in board composition. This analysis helps us understand whether companies are making real changes in terms of diversity, since each individual who sits on a company's board is carefully selected and wields considerable power over the company's activities. We then focus on CEOs' attention to diversity in their annual letters. Their support (or lack thereof) for diversity sets the tone within their organization regarding the importance of diversity in the firm's strategic vision. Based on the above discussion, we put forward the following two research questions:

- *RQ1*. How has diversity in board composition evolved over the past decade?
- *RQ2*. How do CEOs talk about diversity in their annual report letters?

Promoting diversity in organizations is often presented as a business imperative (e.g., Daily & Dalton, 2003; Fan, Jiang, Zhang, & Zhou, 2019). The most well-known case for diversity in the business environment is made in a McKinsey report,[2] which argues that organizational diversity is associated with improved organizational performance, particularly in terms of profitability. In fact, numerous studies show that companies with more gender diversity on their boards have higher profits, higher financial reporting quality, and higher stock returns (e.g., Green & Homroy, 2018; Lückerath-Rovers, 2013; Mnif & Cherif, 2021). In this study, we rather motivate the need for diversity in corporate governance within the idea of equity and social justice. Our research on diversity in corporate governance is in line with the idea of dismantling the current patriarchal, heteronormative, neo-colonial approach to business and opening up to multiple voices.

We use a sample of French listed companies, and we analyze their board composition and CEO disclosure on diversity. France has been at the forefront of numerous institutional changes to promote diversity in corporate governance. In particular, the 2011 law on the balanced representation of women and men on boards of directors and supervisory boards and on professional equality. This law requires quotas of women and men on the boards of directors and supervisory boards of public limited companies. On top of the CAC 40 index, a French stock market benchmark index that includes the 40 largest market capitalizations on Euronext Paris, France recently developed the CAC 40 ESG index, which identifies 40 companies within the CAC Large 60 index that demonstrate the best environmental, social and governance (ESG) practices.[3]

This chapter contributes to the corporate governance literature by showing that little, if any, progress has been made in terms of diversity. Our findings document that there is still little diversity among board members, particularly in terms of ethnicity and age. Importantly, we find no mention of sexual orientation and disability among board members. Moreover, CEOs assign little weight to diversity in their strategic direction. In fact, only a few CEOs mention diversity in their annual report letters, and they make no effort to portray diversity in the images that accompany their letters. This study also contributes to the current discussion on the role of accounting and corporate governance in achieving the United Nations Sustainable Development Goals (UN SDGs), in particular the UN SDG 5 – Gender Equality and UN SDG 10 Reduced Inequalities (Bebbington & Unerman, 2018, 2020). Specifically, we show that corporate contributions to these SDGs have been mostly rhetoric and little action in terms of corporate governance and diversity.

Our findings also have practical implications for policymakers and regulators. Indeed, companies seem to be making little progress in terms of diversity. Our findings therefore suggest the need to introduce diversity quotas as well as more detailed disclosure on multiple categories of diversity in corporate governance. These regulatory measures could bring companies in line with societal changes in terms of diversity and would promote social justice in terms of equal access to leadership positions in the business world.

The remainder of this chapter is organized as follows. Section 2 reviews the literature on corporate governance and diversity, board composition, and CEO letters in the annual report. Section 3 describes the data collection and analysis. Section 4 discusses the results. Section 5 presents the concluding discussion and suggests avenues for future research.

25.2 GOVERNANCE, CEO LETTERS AND DIVERSITY

25.2.1 Corporate Governance and Types of Diversity

The board's role in corporate governance typically refers to its formal monitoring attributes, but also includes disclosure of board activities (Cormier et al., 2010). There is a long tradition of focusing on economic variables related to the monitoring role of the board, such as the proportion of independent directors within the board. However, current research calls to open up the scope of aspects of the board that could influence the management of the firm (Ghio & McGuigan, 2020; Rao & Tilt, 2016). In turn, the growing concern for CSR is pressuring top managers to pay greater attention to the social dimensions of organizations to enhance sustainability. In this context, a key social dimension of any organizational structure is diversity.

According to Harrison and Klein (2007), a large part of prior literature on corporate governance diversity refers to demographic variables such as gender, race and ethnicity, tenure, education, functional background, and marital status. A few studies have examined non-demographic variables such as values, attitudes, conscientiousness, affect, dress, network ties, individual performance, and compensation. In a bibliometric study based on 579 studies on board diversity in the period 1999–2019, Baker, Pandey, Kumar, and Haldar (2020) find that previous research has focused on gender diversity, with relatively less attention paid to other dimensions such as age, nationality, ethnicity, professional background, and cognition. In the absence of specific regulation, the proportion of women on boards remains low and increases slowly (St-Onge & Magnan, 2013). At the same time, there has been a proliferation of legislation or governance code-based regulation in several countries around the world, which has led to the adoption of women's quotas, increased board gender diversity, and has been associated with improved CSR performance (Ding et al., 2022). Indeed, prior research documents that gender diversity in the board increases CSR practices of organizations, with the idea that women are more likely to engage in generosity and philanthropic activities and are more inclined towards social considerations (Alhosani & Nobanee, 2023).

Another type of diversity that has been examined in the context of corporate governance is the age of board members. For instance, Janahi, Millo, and Voulgaris (2022) find that age-diverse boards are associated with less earnings management, which is viewed as an outcome of the board's monitoring role. Drawing on information processing theory, the presence of different age groups appears to bring a diversity of experience and knowledge, enhancing the ability to solve complex business problems (Harrison & Klein, 2007; Janahi et al., 2022). Ferrero-Ferrero, Fernández-Izquierdo, and Muñoz-Torres (2015) also examine generational diversity in board composition and its association with CSR management and performance. They find that generational diversity encourages companies to adopt a sustainable approach to business.

Finally, there are emerging calls for corporate governance to consider the integration of broader pluralism and integrated thinking by broadening the types of capital to be managed (Ghio & McGuigan, 2020). Intensive regulation in the areas of sustainable finance and accounting may play a key role in a context that promotes sustainability related issues. However, environmental aspects seem to be more prominent than other dimensions of CSR (Albertini et al., 2021; Arvidsson, 2023). This discussion of the current limited focus on social issues in organizations highlights the need to improve the understanding of diversity in corporate governance.

25.2.2 CEO Letters and Disclosure about Diversity

In recent years, there have been attempts to move beyond a narrow view of the role of companies as mirrors of shareholder perspectives and interests. Indeed, a group of CEOs has argued that the purpose of their companies must be redefined to include not only shareholders, but also customers, employees, suppliers, and communities (Business Roundtable, 2019). In this context, it is important to understand the positions of CEOs, as they are the most visible and central actor in a company's governance and embody the leadership strategy of their organization.

CEOs letters contained in the annual report are the most notable case of CEO discourses available to the public. From a broader perspective, narratives in annual reports and CEO letters are designed to influence public opinion and potential investors (Amernic & Craig, 2006; Conaway & Wardrope, 2010; Craig & Amernic, 2020). The CEO letter is interesting from a corporate governance perspective because it contains elements that help to portray the kind of personal influence CEOs want to make visible to external users of annual reports. Amernic, Craig, and Tourish (2010) argue that the CEO letter is a medium used by corporate leaders to communicate their attitudes and values and provides insight into the 'tone of the top' large corporations. These letters communicate the attitudes, values, and behaviors in the leadership role of the CEO. They also show how CEOs interpret external challenges and allow users of annual reports to gain insights into the top management's visions. However, CEOs' letters in the annual report are also representative of the corporate voice as they are likely to be filtered through several layers within the company (Arvidsson, 2023).

In most European code-law countries, the disclosure of CEO letters appears to be a recent phenomenon. Their presence is likely to be driven by various institutional factors such as Big Four auditors, higher profitability or a high number of foreign subsidiaries (Clatworthy & Jones, 2006). Numerous studies conduct content analysis of the CEO letters to identify CEO personality traits, such as hubris (Brennan & Conroy, 2013). Others examine the relationship between the rhetorical tone of CEO letters and firm performance (Clatworthy & Jones, 2006; Patelli & Pedrini, 2014).

CEO letters have also become an important communication tool for sustainability issues (Arvidsson, 2023). In this context, while CEO letters are mostly narrative in nature, they often include a picture of the CEO themselves or an organizational representation of the firm. However, visual patterns in voluntary disclosure are likely to have a substantial impact on readers, thus conveying implicit messages, sometimes as a means to manipulate impressions (Cho, Michelon et al., 2012). For instance, Arena, Michelon, and Trojanowski (2018) show that the psychological attributes of CEOs influence strategies for developing environmental innovations, such as new products or processes with low environmental impact. One of these psychological attributes can be captured through a CEO's photo, which could accompany the letter in the annual report.

In summary, prior literature shows the existence of a traditional environment when it comes to the composition and activities of boards of directors and CEOs. Given the current social, cultural and legal changes, it is therefore an empirical question to see whether the diversity of board composition has increased over time. Moreover, it is time for a more granular analysis of board diversity that goes beyond a focus on gender and age. We need to turn our attention also to other categories of diversity, for instance ethnicity, sexual orientation, and disability. Finally, prior research also highlights the importance of top management in shaping corporate culture through its narrative. In this light, analyzing the mention of diversity in CEOs' annual report letters can help to better understand whether CEOs consider diversity to be key to their companies' strategic visions.

25.3 RESEARCH METHODOLOGY

25.3.1 Sample Selection

Our dataset covers companies included in the French CAC 40 index for which the annual reports were available in 2012 and in 2021.[4] We extended our sample to the CAC 40 ESG index to analyze more closely firms that are highly engaged in social issues. This index was launched in 2021 and is based on companies selected according to ESG criteria among the 60 companies present in the CAC 40 and CAC Next 20 French indexes. The choice of our time period is important to test for any significant changes that may be observed. Our final sample consists of 98 annual reports (firm-year observations) published by a total of 49 companies (40 CAC 40 companies and 9 CAC ESG companies[5]). Table 25.1 summarizes the distribution of the sample companies by sector.

For this set of companies, we hand-collected the composition of the board of directors from their annual reports and websites. We then manually collected the CEO letters included in the company's annual report.

Table 25.1 Sample companies by sector

Sector	Number of companies	%
Industrials	9	19
Financials	7	14
Utilities	4	8
Consumer goods	14	29
Basic materials	3	6
Technology	4	8
Consumer services	4	8

Sector	Number of companies	%
Telecommunications	1	2
Health	2	4
Oil and gas	1	2
Total	49	100

25.3.2 Data Analysis

The first step was to analyze changes in board composition in 2012 and in 2021 (research question 1). We analyzed annual reports to determine whether they included the following information about board members: age, gender, sexual orientation, ethnicity, and disability. If missing, we attempted to retrieve the information on the company's website and on the personal websites of the directors.

The second set of analyses involved identifying the annual reports that contained a CEO letter (research question 2). Each letter was individually coded by the research team. We coded both the text and the visuals contained in the letter in order to consider the overall message conveyed (Davison, 2014; Preston, Wright, & Young, 1996). This step thus involved understanding how diversity was covered in each letter and how this representation evolved over time.

25.4 RESULTS

25.4.1 Composition of the Board of Directors

Information on board composition presented in the annual report is generally limited and provides limited details on social aspects. The results of our content analysis (Table 25.2) reveal that the average age of board members is 60.22 in 2012 and 58.95 in 2021. The percentage of women in board of directors increased substantially, reaching 45.81 percent in 2021. In terms of ethnicity, 3.74 percent of board members are non-White in 2012, rising to 8.41 percent in 2021.

It emerges that the average age and the dominant ethnicity of board members did not change significantly between the two periods. Current board composition tends to perpetuate a senior white male dominance. This reinforces the business world dominant characteristics which are institutionalized by patriarchal notions and gendered hierarchies (Kyriacou, 2016). White, mature men in positions of authority have the potential to send certain messages to society, such as that these positions are reserved for a subgroup of our society. These results reinforce the discourse as 'men are powerful and control the boardroom where decision making takes place' (Kyriacou, 2016, p. 50).

The annual reports are then silent on other social categories (i.e., sexual orientation and disabilities). Similarly, we could not find any information on board members regarding their sexual orientation and the presence of disabilities, neither on the company's websites nor on their personal websites or social media pages.

Table 25.2 Composition of the board of directors

Board of directors	2012	2021
Average age	60.22	58.95
Gender (% of women)	23.00	45.81
Companies with less than 30% women board members (%)	75.51	4.08
Ethnicity (% of non-White)	3.74	8.41
Companies with 0% non-White board members (%)	59.18	46.94

25.4.2 Diversity in CEO Letter

The analysis of the CEO letters focuses on references to multiple forms of diversity both in the text and in the visuals. As Table 25.3 shows, 30 of these 49 companies include a CEO letter in 2021. Only half of them mention diversity (26.32 percent in 2012).

Table 25.3 Description of the CEO letters

	2012	2021
Companies including a CEO letter	19	30
Mention diversity (%)	26.32	50.00
Photo of CEO alone (%)	94.74	76.67

Content analysis of the wording about diversity identifies three themes that are different but commonly used by our sample firms: (1) diversity discussed in a broader perspective, (2) cultural diversity, and (3) representations of gender.

In the first theme, firms broadly talk about 'diversity', and they avoid any reference to a particular type of diversity. L'Oréal, for instance, declares that the group 'continued to progress in all fields of social responsibility in which it is our duty – as a leading company – to excel in: social and ethical matters, diversity and environmental issues' (2012, CEO letter). Similarly, Dassault Systèmes highlights 'its growth from an inclusive, long-term perspective' (2021, CEO letter). The same narrative is given by other firms in the sectors of industrials (Legrand, Schneider Electrics), consumer goods (Vivendi, Pernod-Ricard, Michelin), luxury goods (Kering) and basic materials (Solvay).

The second and third diversity related themes relate to culture and representations of gender, usually mentioned together. Several companies highlight cultural diversity to work towards a more inclusive world. Accor, for example, highlights the dedication of its employees by saying that 'more and more […] are submitting their community outreach ideas to our corporate Foundation, which for the past four years has been forging ties between cultures while supporting the development of individuals and their integration into the community' (2012, CEO letter). In a slightly different fashion, Engie reports 'We need to give women their full place in management and increase diversity—in terms of gender, nationality and career path—at all levels across the Company' (2021, CEO letter). Representations of gender is also used by other companies in the sample by referring to key indicators. Publicis Groupe, for instance, reports 'Take, for example, our commitment to diversity and inclusion among employees, by progressing the Groupe's leadership to 41% of women in key management positions in 2021' (2021, CEO letter).

Lastly, Table 25.3 shows that 76.67 percent of the annual report CEO letters include visuals depicting CEOs *alone* (94.74 percent in 2012). We examined those visuals to search for signs of diversity and clearly found that a very large proportion of the CEO letters studied are of men—only one visual depicts a woman. Table 25.4 illustrates the descriptions of the visuals in more detail.

Table 25.4 Description of the pictures contained within the CEO letters in 2021

CEO letter	Gender	Description of the pictures
1	Male	White mature man, a grey suit, holding glasses
2	Male	White mature man seated
3	Male	White mature man face
4	Male	White mature, half body, with glasses and dark suit
5	Male	White mature man face
6	Male	White mature man face, wearing glasses
7	Male	White mature man face, smiling, blue suit
8	Male	White mature man face
9	Male	White mature man face
10	Male	White mature man, in black and white
11	Male	White mature man, half body joining hands
12	Male	White mature man in black and white, standing, hands in pockets
13	Male	White mature man, half body, wearing glasses
14	Male	White mature man, half body, smiling, blue suit
15	Male	White mature man in black and white, half body
16	Male	White mature man, seated, smiling, black suit black tie
17	Male	White mature man, half body, smiling, blue suit blue tie, crossed arms
18	Male	White mature man
19	Female	Woman, half body, interim CEO
20	Male	While mature man, top only
21	Male	White mature man, top only
22	Male	White mature man, half body, wearing glasses
23	Male	White mature man with a grey suit, holding glasses

Men in the visuals not only dominate the CEO letters but are also often shown in formal attire (a dark suit and tie seem to be de rigueur). They are also shown in more active roles, such as speaking at a podium or in an active stance engaging with the audience, reinforcing the idea of men as effective and trustworthy leaders (e.g., Picard, Durocher, & Gendron, 2014).

25.5 CONCLUDING DISCUSSION

The objective of this chapter was to shed some light on the presence of diversity in corporate governance. Our results show that the composition of the boards of directors of large French listed companies still conforms to the traditional white, mature male model. We observe that firms have an increasing number of women on their boards, and we can largely attribute this change to the mandatory quota for gender diversity on boards as of 2011. Despite this regulatory change, we observe that companies are still far from diversity in their boards and that changes did not spillover across other diversity categories. Indeed, we still see a strong dominance by White people in boards. Moreover, the average age of board members is still relatively high, suggesting that younger voices are excluded from organizational decisions. In a few jurisdictions, the regulator has intervened to open boards to young people. In Quebec, for example, State-owned enterprises are required to include one person under the age of 35 on their boards (Law 693/2016).

Moreover, the complete absence of information on the sexual orientation and disabilities of board members raises further questions about the effective changes in terms of diversity in corporate governance. It seems that the few changes are the result of institutional pressure that has led companies to increase their quota of visible minorities. In fact, invisible minorities seem to carry little weight in corporate diversity rhetoric because they are not visible in corporate images or immediately recognizable to external stakeholders. In addition, the lack of information about the sexual orientation and disabilities of board members may indicate the stigma still associated with identifying as 2SLGBTQI+ and having a disability and the reluctance to disclose that status.

The limited progress in terms of corporate governance and diversity also concerns aspects other than board composition. We observe that the tone at the top, both in terms of language and visual representation, still portrays a traditional male heteronormative dominance. The images associated with the CEO letter are increasingly of senior white men in dark suits. The undertone is to build confidence among investors that the person running the company has traditional values and can make decisions in line with mainstream capitalism. This is consistent with the concept of the 'ideal worker' (Acker, 1990). Indeed, the visual representations perpetuate the idea that people who do not conform to existing norms would represent a deviation from professionalism. Ghio, McGuigan, and Powell (2023) question whether a CEO or CFO dressing in drag would be considered professional and they open the discussion for further reflection on the real acceptance of diversity in corporate governance and more broadly in corporate environments today.

Interestingly, CEOs are slowly increasingly mentioning diversity in their annual report letters. However, while diversity has become a major social imperative and is on the front page of all major newspapers every day, two out of three CEOs do not mention diversity when presenting their strategic vision to stakeholders in their annual report letters.

These findings raise important red flags for policymakers. Indeed, this lack of attention to diversity from companies adds to the current lack of corporate action on other social issues such as modern slavery (Christ, Burritt, & Schaltegger, 2020; Christ, Rao, & Burritt, 2019), and on tackling the current environmental crisis (e.g., Cho et al., 2015; Tregidga & Laine, 2022). Despite this, corporations appear to remain focused on maximizing shareholder value, reporting record profits. Based on this stream of research analyzing corporate behavior on social and environmental issues, policymakers and regulators could consider taking action to protect the public interest. Expecting investors to pressure companies and their top management to address social and environmental issues seems to make little progress. As this study shows, the people who hold power in companies tend to perpetuate corporate governance models that reflect outdated models and assign little weight to contemporary social issues such as diversity.

This study has several limitations. We collected data from French companies and relied on their disclosure. While our findings are transferable to other countries with similar institutional contexts, we encourage future research to explore non-Western contexts (e.g., Alawattage et al., 2021; Gómez-Villegas & Larrinaga, 2022; Hopper, Lassou, & Soobaroyen, 2017). Indeed, corporate governance research tends to be dominated by Western contexts, and it would be relevant to understand potential changes in board composition and CEOs disclosure about diversity in settings with different social, cultural, and legal norms. Furthermore, our research focuses on the traditional categories of diversity. However, other types of diversity are likely to play a key role in corporate governance. Indeed, because of its invisibility, diversity of thought is often overlooked in boards and corporate governance. Future studies could empirically examine the dynamics of such diversity in terms of two types of 'thoughts': (1) 'thoughts' as a result or consequence of board members' professional backgrounds, possibly via network analysis and 'epic community'; and (2) 'thoughts' as the public voices of those board members that can be found on social media or other communication platforms.

NOTES

1. The term 2SLGBTQI+ refers to Two-Spirit, Lesbian, Gay, Bisexual, Transgender, Queer/Questioning, Intersex, Plus Peoples. + is inclusive of people who identify as part of sexual and gender diverse communities, who use additional terminologies.
2. For further information on the report, please see https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters.
3. For further information, please see https://www.euronext.com/en/about/media/euronext-press-releases/euronext-launches-new-cac-40-esgr-index-meet-financial.
4. The annual reports were collected from the listed groups' websites.
5. See Appendix 25.1 for the list of companies. The nine companies included in the CAC 40 ESG index but not on the CAC 40 index are Accor, Arkema, EDF, Gecina, Klépierre, Sodexo, Solvay, Suez, Valeo.

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APPENDIX 25.1

Table A25.1 List of companies

Companies	Sector
ACCOR	Consumer goods
AIR LIQUIDE	Basic materials
AIRBUS	Consumer goods
ALSTOM	Consumer goods
ARCELORMITTAL	Industrials
ARKEMA	Basic materials
ATOS	Technology
AXA	Financials
BNP PARIBAS	Financials
BOUYGUES	Industrials
CAPGEMINI	Technology
CARREFOUR	Consumer goods
CREDIT AGRICOLE	Financials
DANONE	Consumer goods
DASSAULT SYSTEMES	Technology
EDF	Utilities
ENGIE	Utilities
ESSILORLUXOTTICA	Health
GECINA	Financials
HERMES INTL.	Consumer goods
KERING	Consumer services
KLEPIERRE	Financials
LEGRAND	Industrials
L'OREAL	Consumer goods
LVMH	Consumer goods
MICHELIN	Consumer goods
ORANGE	Telecommunications
PERNOD-RICARD	Consumer goods
PUBLICIS GROUPE	Consumer services
RENAULT	Consumer goods
SAFRAN	Industrials
SAINT GOBAIN	Industrials
SANOFI	Health
SCHNEIDER ELECTRIC	Industrials
SOCIETE GENERALE	Financials
SODEXO	Consumer services
SOLVAY	Basic materials
STELLANTIS	Consumer goods
STMICROELECTRONICS	Technology
SUEZ	Utilities
TELEPERFORMANCE	Industrials
THALES	Industrials
TOTAL	Oil and gas
UNIBAIL RODAMCO WESTFIELD	Financials
VALEO	Consumer goods
VEOLIA ENVIRON	Utilities

Companies	Sector
VINCI	Industrials
VIVENDI	Consumer goods
WORLDLINE	Consumer services

26. A socio-ecological approach to corporate governance

Jan Bebbington, Carlos Larrinaga and Giovanna Michelon

26.1 FRAMING THE CORPORATE GOVERNANCE LANDSCAPE

Corporate governance traditionally focuses on the requirements that shape the relationship between company shareholders and boards of directors (Parkinson, 1994; Shleifer & Vishny, 1997). Boards are responsible for governing corporations as well as for providing information about their activities that discharges accountability to owners. The relationship between owners and boards is most usually framed within the context of moral hazard and information asymmetries which require owners to ensure that directors are operating according to a maximising of profits purpose in a way that accords with the legal standards that are expected of them. This description begs the question of how the requirements at the heart of the corporate governance relationship change over time and in response to evolving external pressures. Indeed, this chapter focuses on how socio-ecological matters alter how we understand the function of corporate governance. By socio-ecological matters this chapter means matters of concern within the biophysical system (e.g., climate, terrestrial biodiversity, or healthy oceans), but always bearing in mind that biophysical systems are intertwined with social systems (e.g., actors, institutions such as corporations, regulation or culture), in such a way that any consideration of sustainability needs to pay attention to the dynamic interactions between both sets of systems. In this respect, we move beyond the agency theory framing of corporate governance in neo-classical economics to one that incorporates social, environmental and sustainability factors. Moreover, the agency relationship at the heart of broader conceptions of corporate governance include extending managers' responsibility beyond duties to owners (shareholders) to those owed to other stakeholder groups and society at large. Social and environmental accounting scholars have considered this broader landscape for several decades. Yet, we will also move beyond the realms of stakeholder theory or enlightened corporate governance (Jensen, 2001) in that we attempt to develop a conceptualisation of corporate governance that is not constrained within a framing of the fiduciary duties towards shareholders or the company itself. In short, we will argue that there are new forms of moral hazard emerging (such as failing to address corporate impacts on earth systems functioning) as well as new information asymmetries to be overcome.

Since the 1970s, concerns have crystallised that corporate activities create negative social and environmental impacts because of companies' pursuit of profit (for a historical overview, see Agudelo et al. (2019) and for an accounting-focused review Bebbington (2021)). The types of impacts include damaging workers health, lack of equality in employment, loss of community wellbeing (from operations and in the face of plant closures), the effects of local and global pollution and failures to protect consumers from damaging products. These concerns have been addressed substantively: that is, remedying perceived negative effects through corporate design (such as workers' representation and union recognition) as well as legally mandated requirements to take account of these externalities (Unerman et al., 2018). At the same time, numerous governance requirements have emerged that require the provision of information about social and environmental effects, both from 'voluntary' initiatives (such as the Global Reporting Initiative) and through mandated disclosures (such as the European Union's Non-Financial Reporting Directive). However, the extension of perceived or implied corporate responsibility for social and environmental effects has not affected the heart of corporate governance: the relationship between owners and managers. Yet, the context in which the owners-managers relationship exists has evolved to include broader responsibilities.

At the same time, there are some signs that the owner-manager relationship may be evolving. For example, the innovations in corporate forms engendered by the Benefit Corporation create a corporate governance relationship that is beyond a profit maximisation approach. In this respect, the Benefit Corporation form is a model for a 'for-profit, socially obligated, corporate form of business, with all of the transnational corporate characteristics but with required societal responsibilities' (Hiller, 2013). Another example is the rise of 'responsible investors' of various forms (see Rodrigue & Michelon (2021), for a review of shareholder activism and von Wallis & Klein (2015), for a systematic review on socially responsible investment field) who require corporations to be more 'responsible' through their role as investors. Yet, as highlighted in Chapter 1, despite the increased prevalence of responsible investors and a mainstreaming of ESG considerations into investment decisions, it is not clear that this has translated into changed corporate governance relationships.

While noting the above trends, namely: that expectations of corporate behaviour arising from society have broadened to include more social and environmental matters; and that there is some evolution in the owner-managers relationship, the focus of this chapter is on slightly different ground. Specifically, we propose that the nature of the global socio-ecological system in which corporate actions take place has moved substantially and that this requires a novel consideration of corporate governance. We use the Anthropocene framing to characterize the socio-ecological system (that is, the inter-dependent relationship between the social and the ecological system) and consider how this might radically reform the owner-manager interface as well as how this would extend to how a company interacts with a wider stakeholder community.

The Anthropocene is a way of characterising the changing nature of social and ecological problems (see Malhi (2017) for an introduction and Bebbington et al. (2020)) as well as describing the functionality of the earth system itself. Before the twenty-first century, environmental problems were most often characterised as arising from human populations pursuing their social and economic needs (with corporations often serving the delivery of those needs). If this was the nature of the problem, then modifying regulatory systems to address negative 'side-effects' were thought to be a sufficient remedy: the underlying economic system was not central to debates. In addition, there was a sense that the earth system itself was relatively stable and that despite specific pressures it would continue to function to support human flourishing. This is a Holocene understanding of planetary functions and not present in the Anthropocene.

More recently, scientific understandings have evolved considerably and the systemic nature of environmental change, involving not only biophysical but also the socioeconomic systems, is now more fully appreciated (Folke et al., 2021; Nyström et al., 2019). This has led to a consensus that we are living in the Anthropocene: a time where human activity drives global environmental change. This includes, now scientifically mainstream, concerns that global climate change will create a tipping point in earth system functioning that will severely disrupt (for example) growing patterns and create disruption in the form of droughts, storms, floods and wildfires. Likewise, it is accepted that we are living through a global ‘mass extinction’ event that undermines global food production and broader ecosystem functions. These concerns have also been captured in the notion of breaching ‘planetary boundaries’ (see Rockström et al., 2009) which has proven influential in corporate social responsibility work (Whiteman et al., 2013). This characterisation of the problem facing humanity strikes at the heart of how we conceive of the function and contribution of corporations (that is: the wider responsibility of organisations to stakeholders) as well as the relationship between owners and managers (a narrower corporate governance focus). Indeed, two questions arise for corporate governance in the Anthropocene. First, what kind of institutions will support corporations (in partnership with their owners) to address the broader negative consequences of their actions. Second, what scientific and ethical capabilities are required for corporations to be well governed in the Anthropocene. Answering these questions requires some further elaboration of Anthropocene-related dynamics. The next section will draw on this material to return to the task of imagining what a socio-ecological approach to corporate governance would entail.

26.2 A SOCIO-ECOLOGICAL APPROACH TO CORPORATE GOVERNANCE

The material in this section is premised on the need for extensive capacity building among corporate managers, owners, and wider stakeholders to understand the demands of the Anthropocene. To navigate this new environment, we suggest that there are at least three elements that need to come together to underpin a socio-ecological form of corporate governance. First, if corporations are to have a meaningful role to play in biosphere stewardship (see below), purposeful business strategies that are ecologically based are necessary. Second, adaptive and transformative governance routines will have to be developed: we outline the design principles for these forms of governance. Third, we highlight some governing devices that can translate global/regional imperatives to corporate scale levels and argue that there are some extant (and rapidly emerging) institutions that seek to do exactly this, and it may be that from this basis that a socio-ecological informed approach will emerge.

26.2.1 Corporate Biosphere Stewardship

The idea of corporate biosphere stewardship is premised on three interlocking and reflexive capabilities. First, there is a need for a conscious reconnection of corporate activities to the biosphere. This has two elements, namely: a conceptual acceptance that corporations are embedded in and not separate from the biosphere, and the development of traceability systems so that corporations have data that make clear where their activities create biosphere interactions. Second, there is a need for a new values-based orientation for corporate managers (in partnership with owners) to be biosphere stewards. This is grounded on an understanding of how corporations are enmeshed in the biosphere as well as a normative orientation to extend notions of responsibilities corporations owe with respect to the biosphere. The notion of biosphere stewardship propounds that corporations have the capability to exercise their agency and leverage their power toward minimising and harmonising their interactions with the biosphere. The third element relates to the reformation of various 'markets for responsibility' that impact upon corporations' abilities to become stewards. Critically this involves capital markets that are needed to shift their trajectory towards becoming biosphere stewards through their investing and financing activities.

The seminal paper by Folke et al. (2019) identified several elements through which corporate biosphere stewardship might come together:

- Alignment of the vision of corporations and society towards a common goal (such as stewardship);
- Frameworks that support corporations in their pursuit of sustainability (such as the Sustainable Development Goals (SDGs), see also Bebbington & Rubin, 2022);
- A transformation in the terms of a 'licence to operate' through changes in regulatory frameworks as well as consumer preferences (to the extent that these change markets);
- The support of the finance sector to fund transformation (such as the Equator Principles and the Principles of Responsible Investment as well as, inter-governmental programmes such as the EU Action Plan on Sustainable Finance);
- Radical transparency, that includes data on what is happening where in the world as well as corporate data provision such as that pre-figured in the CDP and, more generally, via the Global Reporting Initiative and the International Sustainability Standards Board, (although we would argue that these are not as radical as it would be required by the notion of corporate biosphere stewardship); and
- Evidence-based knowledge for action (such as the science-business collaboration, Seafood Business for Ocean Stewardship).

Some of these elements that might shape corporate biosphere stewardship exist already, even if the extent and reach of those fall short of what may be required and would, in any event, require significant broader public policy interventions as well.

In addition, knowledge of which corporations might become biosphere stewards is also emerging, often linked to the notion of 'keystone actors' that was introduced to the literature by Österblom et al. (2015). This framing has resulted in the Seafood Business for Ocean Stewardship practice-based work (Österblom et al., 2022) as well as the identification of 100 transnational corporations that will shape the future of the ocean (Virdin et al., 2021). In addition, Folke et al. (2019) outline 189 companies across agriculture and forestry; seafood; aquaculture; animal pharmaceuticals; fossil fuels; and the mining sector that dominate their respective sectors (as measured by levels of concentration in each industry). Concentration was variously approximated by a proportion of profits/sales, market share, exports, production, trade volumes or access to resource reserves: that is, they used a materials flow basis for their calculations. Finally, Hileman et al. (2020) examine the dynamics of how keystone actors interact in the global clothing industry. What these kinds of papers highlight is that some corporations 'matter' more than others and offer greater possibilities for biosphere stewardship.

Corporate biosphere stewardship encompasses distinct types of stewardship responsibilities that arise from how corporate actors affect the biosphere and which might also imply different ways in which stewardship could be played out. Central to this idea is that different biosphere effects give rise to different ways of articulating responsible actors. Relatedly how one might act as a steward would also differ depending on how responsibility is articulated. For example, where the biosphere effect creates global level impacts, responsibility for impacts might be assigned to those organisations/industries that create the largest effect. An example of this type of impact would be global climate change where greenhouse gas (GHG) emissions *in total* create the biosphere effect. Hence, responsible actions need to reduce emissions across all activities. Exactly where emissions are reduced is not as important as the fact that they reduce overall. Acting as a steward might involve seeking alignment of regulatory arrangements across the globe by supporting international agreements that drive emissions reductions, while also considering issues of climate justice. In addition, acting in a proactive manner to reduce your own emissions regardless of the presence of regulatory processes would constitute a stewardship action. Corporate governance information in this context could be the extent to which emissions reductions are in line with scientific requirements (through, e.g., the Science-Based Targets initiative).

Where the cumulative actions of several corporations give rise to global and/or regional biosphere effects, responsibility might be assigned to all those organisations who have an impact upon any specific biosphere effect. A clear example of this approach is the Seafood Business for Ocean Stewardship initiative. In this initiative, the cumulative effects of seafood production create biosphere effects (loss of fish stocks/species diversity/resilience of ocean systems). While the definition of what would entail responsible actions might differ by fishery, adhering to sustainable harvesting techniques and yields would be a generic example of how to be a steward in this context (a national and regional regulatory response). At the level of a corporation, information intermediaries such as the Ocean Disclosure Project translate fish stock biological information into a form that suits a corporate based information provision and stakeholder evaluation of corporate performance.

A different form of biosphere stewardship might involve stewarding a particular eco-system. For example, biosphere stewards might be all the entities that impact a river system (either by extracting or discharging water from that system). In this context, the stewards would be a group of corporate and public organisations (depending on national institutional arrangements). Each actor in this setting might have different actions that would constitute stewardship (e.g., not extracting too much water or not discharging into a river). Likewise, a stewardship cohort is likely to include very different organisations that have the challenge of working together to meet common goals that they differentially benefit from and resolving problems that they contribute to in different ways.

Alongside this idea of a typology of effects that implies different stewardship actions and different ways of determining who is the responsible party, the discussion might be framed from the point of view of how a corporate entity provides an account of its biosphere effect. In general, it is recognised that there is often a mismatch between the nature of a corporate account of effects and the biosphere nature of these effects (this point is well developed in the literature – but not resolved; see Lamont et al., 2023 who illustrate this point). What should be apparent is that a ‘typical’ corporate account of impacts that does not include any sense of the biosphere context of impacts cannot really tell us much about stewardship behaviour. This implies that if we are to champion corporate biosphere stewardship the form of accounts of stewardship will have to evolve considerably. Critical to this process is how corporate governance approaches might mirror the idea of biosphere stewardship and attention now returns to this question.

26.2.2 Adaptive and Transformative Sustainability Governance

The scope of the changes that are taking place (and will take place) in the Anthropocene, together with a conceptualisation of how to deal with those changes from a socio-ecological perspective prompts us to explore the new directions that corporate governance might take to deal with the dynamics and complexity of sustainability. Enlightened or inclusive models of corporate governance are falling short of the degree of reform required to deal with the broader considerations of sustainability governance (Dahlmann, Stubbs, Griggs, & Morrell, 2019; Larrinaga, 2021), including the possibility of deliberate or inadvertent systemic transformations involving the potential unfeasibility of specific economic activities (Nelson, Adger, & Brown, 2007), as is likely to happen in carbon-intensive or nature-dependent industries, for example.

Alternative frameworks to that of corporate governance have been proposed in Larrinaga (2021), drawing on socio-ecological governance studies, which draw a distinction between adaptive and transformative governance. Although originally developed to characterize socio-ecological systems, these categories can provide insights for corporate governance that are discussed sequentially, starting with adaptive governance and following with transformative governance.

Adaptive governance concerns collective rules, norms and decision-making processes and systems seeking to regulate socio-ecological systems and manage their resilience. Resilient socio-ecological systems have the capacity to cope with future perturbations 'without undergoing significant changes in function, structural identity, or feedbacks of that system' (Nelson et al., 2007, p. 397). By managing and increasing resilience, adaptive governance seeks to build the capacity to live with change, unpredictability, and surprise, *within* the current trajectory, without degrading the system or reversing it into undesirable states (Cleaver & Whaley, 2018; Folke et al., 2005; Folke et al., 2010). The origin and inspiration for adaptive governance can be traced back to the self-organised institutions governing the commons and studied by Ostrom (1990), although it pragmatically does not exclude market and command-and-control forms of governance. Adaptive governance creates the conditions for collective action and coordination across multiple levels, seeking to sustain the capacity of socio-ecological systems to produce a broad range of ecosystem services (Cleaver & Whaley, 2018).

Adaptive governance provides different insights that are important to consider for the transition of corporate governance in the Anthropocene. First, adaptive governance is unfolding at multiple levels, including, among others, national command-and-control regulations, supranational agreements creating soft regulation regimes for companies (e.g., UN climate change conferences), voluntary multi-stakeholder international initiatives (e.g., Global Reporting Initiative), markets (e.g., carbon markets and offsetting mechanisms) and industrial initiatives (Österblom et al., 2017). In that regard, corporate governance's focus on the owner-manager agency relationship seems obsolete when facing the multiple levels of sustainability challenges, albeit corporate adherence to and participation in these initiatives supports adaptive capacity.

Second, and related to the previous aspect, the intensity of change and the level of uncertainty that the Anthropocene involves suggest that adaptability would require diverse and flexible institutions to cope with unforeseen changes and surprise (Folke et al., 2005). The existence of redundant systems enlarges the number of design archetypes that can be deployed to craft new institutions dealing with uncertainty and increases the capacity to deal with the unforeseeable (Folke et al., 2005). However, redundancy can be seen as inefficient and irrational in the short run, especially so in a corporate governance context focused on short-term value creation for investors (Lazonick & O'Sullivan, 2000).

Together with archetypal variability, ecological knowledge is central for adaptability. This is the third insight into adaptive governance addressed here. As expressed by Folke et al. (2005), it is better to allow 'the disturbance enter at smaller scales instead of accumulating to large scales, thereby precluding large-scale collapse' (p. 446). Given that change is a defining characteristic of socio-ecological systems, it has been suggested that systems can gain from co-existing with change, rather than insulating themselves from change and their environment through impermeable boundaries. A central tenet of adaptability is that as change will inevitably occur at some point in time, systems need to be designed and managed for flexibility, rather than for stability (Nelson et al., 2007). Organisational theory has suggested that by decoupling from their environments, in the short run organisations can maintain stability without responding to environmental changes; however, this dissociation from their environments precludes the flow of information and, in the long run, can lead to the collapse of the organisation for its lack of adaptability to the environment (Weick, 1976). Different corporate governance devices that seek to create this connectivity exist (see next section), although most of them focus on climate change, and other urgent sustainability issues (e.g., biodiversity) are still receiving insufficient attention.

The fourth insight arising from adaptive governance relates to the need for ecological knowledge. The socio-ecological approach is founded on a paradigm shift, noting the impossibility of conceiving social and ecological systems separately. Adaptive governance calls attention to the need to combine local knowledge with scientific input to nurture the understanding of socio-ecological systems (Folke et al., 2005). On the one hand, ecological knowledge requires post-normal and sustainability approaches to science (Bebbington & Larrinaga, 2014), including ancestral knowledge. On the other hand, business-science collaborations (Österblom et al., 2017) and initiatives around science-based targets (Walenta, 2020) provide examples of how scientific knowledge is being translated into business information systems. Following those ideas, corporate governance will need to create rules and decision-making systems that foster the connection between action with robust scientific structures and local knowledge (Folke et al., 2019).

In sum, corporate governance can mobilize those ideas to conceive how organisations and other socio-ecological arrangements can build the capacities to adapt to a changing environment by modifying conceptions of efficiency and by fostering ecological knowledge. However, the magnitude of environmental change might reduce the prospects of adaptability, requiring more substantial transformations (Chaffin et al., 2016; Nelson et al., 2007). The current trajectory of global environmental change – considering focal issues such as feeding humanity, land and ocean biodiversity, freshwater availability, climate change and the cities (Chan et al., 2020) – is likely to compromise the ability of humanity to preserve socio-ecological systems in a desirable state (Chaffin et al., 2016). Therefore, the question is not whether transformations will occur (or are occurring), but rather whether this transformation is inadvertent (e.g., ecosystems' collapses) or deliberate, to maintain a safe space for humanity. In fact, Nyström et al. (2019) conclude that the actual transformation of ecosystems into simplified and global production ecosystems might reduce their resilience, needing a deliberate transformation towards a sustainable trajectory.

While adaptation refers to the management of resilience *within* a socio-ecological system, transformation involves a system-wide reorganisation, including values and goals, if ecological, economic and social conditions make the current system untenable (Chan et al., 2020; Folke et al., 2005). Within this framework, it could be argued that adaptation is an optimistic and reformist endeavour that will not involve dramatic social changes. In this regard, transformations might not always be desirable and might involve radical and systemic shifts in values and the 'transformation of the institutions that shape our cultural, political, and economic transactions (…) [to] reconnect to the biosphere and respect interacting planetary boundaries' (Westley et al., 2011, p. 775). In any case, transformative governance requires norms, rules, and decision-making processes and systems that go beyond those required for adaptive governance (Chaffin et al., 2016).

Chan et al. (2020) provides a framework that supports conceptualisation of transformative governance. They distinguish between focal issues (i.e., pressing socio-ecological issues), leverage points (i.e., points of intervention to transform socio-ecological systems) and levers (i.e., governance approaches to affect the leverage points). Implicit in this approach is the centrality of social systems (indirect drivers in their terminology) 'which structure economic activities and propel direct drivers' (p. 695). Direct drivers, such as deforestation and fossil fuels 'resist intervention because they underpin our current economies and governance institutions' (p. 695). They identified eight leverage points, including decoupling consumption from notions of well-being, *mobilising latent values of responsibility*, and reducing inequalities, and five levers, including having the *right incentives or pre-emptive decision making*. For some of these levers (in italics above) are those that address the heart of corporate governance. At the same time, a key concern for corporate governance in periods of transformation will be how to deal with polarisation and conflicting interests stemming from transformations, as the nature of the shifts involved will have effects on the distribution of power in society, producing resistance and, potentially, the capture of the governance systems.

Summarising, both these imagined but necessary states have a common basis in terms of taking a socio-ecological framing and concentrating on the relations between society and the biosphere. Yet, they differ according to the degree of system change we need to face the ecological crisis, in that transformative governance requires tackling ecological change with radical, new models. If adaptive governance attempts to connect and mediate, transformative governance requires new visibilities and information and alternative accountabilities. Table 26.1 summarises the key features of the two sustainability governance systems.

Table 26.1 Key features of adaptive and transformative sustainability governance

Adaptive Sustainability Governance	Transformative Sustainability Governance
Mitigating and adapting to change	Regime shift to safe operating space for humanity
Collective action for enlightened self-interest	Focus on the common good
Integration of new information and fiduciary duties modified	Radical and systemic changes with social transformation

26.2.3 Evolving Governance Infrastructure

Corporate governance models and forms do not strictly encompass only internal mechanisms with which decision-making processes are undertaken within organisations, but more broadly they encompass a wider infrastructure that governs corporate behaviour (Gillan, 2006). For example, traditional corporate governance studies have focused on understanding how the legal and regulatory infrastructure, together with market-related mechanisms (such as the behaviour of agents in the debt and equity markets as well as information processing and distribution by infomediaries), influence the owner-manager relationship and the overall objective of achieving profit maximisation. When attempting to conceive of alternative forms of governance for a just and ecological transition, it is therefore important to consider how the wider infrastructure can provide governance levers (Chan et al., 2020) as this is what an ecologically informed global governance system may entail.

There are already several initiatives ('pockets of future in the present') that go in the direction of creating more systematic change, via the creation of global/regional institutions that will support corporations (in partnership with their owners and financial institutions) to address the just and safe transition. Such initiatives attempt to influence incentives (thereby reducing moral hazard) and enhance capacity building in terms of coordinating sectors and strengthening the regulatory environment (thereby addressing information asymmetries). For example, the Science Based Target initiative (SBTi) is a partnership between the Carbon Disclosure Project, the UN Global Compact, the World Resource Institute and the World Wild Fund, that supports companies and wider financial services to set targets within scientifically robust timeframes to reduce their GHG emissions in alignment with a 1.5°C scenario. Other initiatives attempt to link the financial structures of corporations to the achievement of specific sustainability-related objectives, although not without scepticism over whether such targets are ambitious enough; Enel, an Italian power utility company, issued a Sustainable-Development-Goal-linked bond in September 2019, targeting a 55 percent share of renewables in its capacity by the end of 2021, with a 25 basis point step-up in case of failure and with an explicit link to executive remuneration.

Similarly, several translational mechanisms making ecological factors financially evident and relevant are likely to increasingly push corporations and their owners to embed ecological transition into their business or investment-related decisions. An example of such a mechanism is the Taskforce for Climate-related Financial Disclosures. Created by the Financial Stability Board in 2015, the Taskforce developed a set of recommendations about which information companies should be disclosing to support capital providers (investors and lenders but also insurance underwriters) in assessing and pricing risks related to climate change. More recently, a similar effort has been created to develop a disclosure framework on nature-related risks. The ambition of disclosures under these projects is to support a shift in financial flows with the hope of shaping nature-positive, rather than nature-negative, outcomes. Although the emphasis of both taskforces is to develop disclosure frameworks for external reporting to investors, the shift in perspective can be realised via prompting companies to consider how the organisation manages external dependencies on functional ecosystems in terms of corporate governance, strategy, risk management systems and operations. Similar initiatives also exist within industries that are more exposed to nature-related dependencies, attempting to link corporations to biosphere functioning. The example noted previously, the Ocean Disclosure Project, was launched in 2015 by the Sustainable Fisheries Partnership to encourage seafood companies (including retailers such as Asda, Morrison, and Tesco) to enhance their transparency on wild-caught seafood sourcing.

The World Benchmarking Alliance represents a wider attempt, taking an ecological frame as the basis, and draws from the keystone actor framing introduced earlier in this section. Recognising that the private sector has a pivotal role in supporting SDGs, it identifies seven systems transformations which will be critical for the future (including: social, urban, digital, nature, food and agriculture, decarbonisation and energy, and financial system transformation). Within this framing, they identified 2,000 keystone companies – that is companies within the seven transformations domains as relevant industries that are likely to be influential in achieving the SDGs. They then benchmark the progress of companies across the seven transformations using public rankings and performance data.

Finally, and in relation to benchmarking, it is worth mentioning that the corporate social responsibility literature has conceptually identified shareholder activism as a driver of change for corporate practices (Reid & Toffel, 2009). However, there is still scepticism about the wider social implications of shareholder active engagement with investees. Although research has documented that investors' pressure over social and environmental concerns pushes firms to report more information, thereby providing a greater basis to assess corporate impacts, the extent to which such increased transparency leads to better management of corporate externalities is somewhat limited (Michelon et al., 2020). Yet, recent years have witnessed the formation of a globally coordinated, investor-led initiative that not only attempts to pressure companies for change, but that also supports change through the development of sectoral decarbonisation strategies. The Climate Action 100+ coalition has developed four Global Sector Strategies (electric utilities, steel, food and beverage, aviation) that identify priority actions for companies, industries and investors and track the company implementation progress through engagement. The coordination of a sector-wide engagement is led by regional investor networks, and cascades down specific industry-wide but regional actions to focus on companies operating in each region. More broadly, the initiative also attempts to push companies to implement corporate governance that articulates how the board of directors is accountable for overseeing climate change risks and opportunities and Paris-aligned remuneration packages, implementing plans and targets to reduce GHG emissions across the value chain and improved reporting practices. While these initiatives are adaptive more than transformative, and the extent of progress they can achieve is somewhat anecdotal, they are suggestive of how climate mitigation (for example) is becoming more embedded in the functioning of corporate governance.

26.3 CONCLUDING OBSERVATIONS

Since the 1970s, concerns have been expressed that corporate activities create negative social and environmental impacts because of companies' pursuit of profit. These concerns have been addressed substantively: that is, remedying perceived negative effects through corporate design as well as legally mandated performance requirements. Alongside this, numerous governance requirements have emerged that require the provision of information about social and environmental effects, framed around notions of corporate social responsibility.

This chapter has developed propositions about how corporate governance might evolve in this context. In the 1970s social and environmental problems were perceived as being side-effects of corporate activities, rather than global and systemic issues. Hence, the search for ways to remedy these externalities did not address the system itself. More recent scientific evidence has highlighted that the scale and nature of problems (such as biodiversity loss, global climate change and worker exploitation) are systemic effects of a particular economic approach and corporate design: in a colloquial sense, these adverse impacts are a feature of the system, not a 'bug' to be designed out through incremental changes. If this is the case, then corporate governance requires more systemic change that recognises that we now live in the Anthropocene and are up against systems limits. The type of governance that would be fit for purpose in this context therefore changes.

This chapter has attempted to lay out a socio-ecological approach to governance. In the first instance, capacity building is required for corporate managers and stakeholders to embrace this form of governance, namely: to radically increase ecological and social literacy alongside a system science understanding of how the risks facing corporations have emerged. The second shift is for a wider appreciation of the impact that purposeful business strategies have on governance routines: the age of a Friedman framing of corporate purpose is over (Bebbington & Rubin, 2022). Third, twenty-first century corporate governance in an Anthropocene biosphere must find ways to locate corporate actions and effects within planetary limits and simultaneously inform local actions. This requires governing devices as mediating instruments that can translate global/regional imperatives to corporate scale corporate governance activities.

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27. Accountability-based participatory corporate governance and corporate social responsibility

Jesse Dillard

The purpose here is to consider generally a corporation's responsibilities to society and how might we think about meaningful accountability regimes that evaluate and motivate the desired socially responsible behavior. Responsible corporate action requires serious consideration of its multifaceted effects on the sustainability of associated economic, social and natural systems. Managers and directors are most attentive to what they are held accountable for as (re)presented in the associated measures. Inclusive accountability systems are the linchpin in effective and responsible systems of corporate governance. Inclusive economically, socially and environmentally responsible[1] corporate governance requires an accountability system that recognizes the broad implications of a corporation's actions and accounting and information systems that adequately support such an accountability system. Participatory governance is proposed as a necessary condition for fulfilling the responsibilities of a socially responsible actor in a democratically governed society.

The following discussion is based on a research program initiated by Judy Brown (2009), her colleagues and others[2] that proposes to democratize accounting and accountability systems by "taking pluralism seriously". First, I provide a somewhat operational definition of accountability and briefly discuss various types of accountability. Second, I propose a rather pragmatic understanding of the fundamental responsibilities of a corporation, government and civil society in a democratically governed society. I refer to this as an ethic of accountability, which provides a basis for identifying evaluation criteria employed in constructing inclusive accountability systems within and/or external to an organization. Next, I consider how one might think about what type of accountability systems may be appropriate in facilitating corporate social responsibility within the context of an ethic of accountability and the associated accounting and information systems needed to support them.

27.1 ACCOUNTABILITY

Dillard and Vinnari (2019)[3] conceptualize and frame the operationalization of accountability by identifying its primary components as well as the locus of power by which the account provider (the corporation) is held accountable. The components provide skeletal concepts for considering the interface between the actions of the corporation and the extant evaluation criteria. The comparison of the representation of corporate actions (e.g., accountings) and the evaluation criteria (e.g., expected earnings growth) constitute the dynamic of an effective accountability system. The following definition of accountability can be considered both descriptive and normative. From a descriptive perspective, *A accounts to B for K acts, on the basis of X standards, through Y procedures, at time Z, subject to Q consequences* (Rached, 2016: 319). These provide a necessary condition for effective accountability. From a normative perspective, questions can be raised regarding why should the corporation (A) account to some account holder (B), based on what criteria (X), by what procedures (Y), at what time (Z), subject to what consequences (Q)? That is, why should the corporation be held accountable by those to whom it is deemed responsible using some given set of evaluation criteria, employing the alleged appropriate procedures, at a specified time, subject to what are deemed appropriate rewards and sanctions? Each of these characteristics is contestable and subject to the context within which the actors are situated. However, as suggested by the current voluntary corporate social reporting regime, without meaningful consequences, there is no legitimate accountability and without some normative context, accountability regimes and the associated accounting representations have the potential to be both constructive and malevolent (Dillard and Ruchala, 2005).

The current arrangements regarding corporate governance and accountability are only one of many possible alternatives, the selection of which is justified and legitimized by their conformity to the norms and values of the society and/or as the result of power struggles among the interested parties. In other words, the specification of each of the components of accountability is a subjective decision justified and legitimized by its conformity with the extant social norms and values and/or the influence (power) of various interested groups. As such the specification of the parameters is always, already a political decision. For example, upon what grounds is a corporation deemed the appropriate entity to be held accountable? To whom does the corporation owe an account? Why are the stockholders privileged over labor or the environment or the community? Who sets the standards and specifies the procedures by which the corporation is to be held accountable and by what criteria are the selections made? Should the process of holding to account be done formally or informally and should it favor the corporation or the account holder? Should the giving of an account be ex ante, immediate, and/or ex post, and at what point should the account holder determine the extent to which the standards have been met? What are the appropriate consequences and how should they be imposed?

Accountability relationships should be both reflective and discursive (Rached, 2016). They are reflective in that the corporation provides justifications for its actions. They are discursive in that the corporation must express these justifications to the account holders. As discussed more fully below, the accountability relationship can be seen as a pluralistic one in that the corporation may be accountable to a range of constituencies. The relationship is dynamic in that the relationships between the corporation and the interested constituencies may evolve and change over time in that the relationships are situated within the context of an ongoing community and learning takes place through engagement.

Accountability is a means to some higher-level objective. It is never an end in and of itself. The purpose of accountability is to attain some purpose or outcome such as participatory democratic governance that might include stewardship, trust, equality, pluralism, and so on. Thus, there is the need for democratic processes in developing and implementing accountability systems that facilitate effective participatory governance regimes as opposed to the more common arrangements where the accountability systems are imposed by the most powerful entity such as the corporation or financers. While one of the common functions associated with an accountability system is to prevent the abuse of power, it can also provide a process where the corporation can attain meaningful input from various constituencies and respond in a multitude of ways. In addition, by recognizing and listening to a multiplicity of voices, the corporation can enhance its ability to make informed decisions. An often-overlooked function of a meaningful, effective and transparent accountability system is that it can foster public trust in the corporation. These functions are not mutually exclusive and may reinforce or contradict one another, affecting the functionality of the accountability system. Achieving a balanced accountability system is an ongoing, iterative process dependent on local circumstances and environmental conditions. Not enough accountability can result in those with power using the system as a means for dictatorial control. Too much accountability can lead to stifled initiative and lack of creative problem solving and decision making. As circumstances change, the accountability system may need to be modified to achieve the desired balance.

While corporations represent some of the most powerful and influential societal institutions particularly regarding the allocation of economic resources and economic development, they are generally not subject to any form of democratic governance. In the absence of any type of democratic accountability, Grant and Keohane (2005) identify two models: participatory and delegation. Three groups are involved: the corporation (account provider/power holder); the financers (resource provider); and those affected by the corporation's actions. In the delegation model, the financers are the account holders and are empowered to hold the corporation accountable for the use of their resources. In the participatory model, those affected by the corporation's actions are empowered to hold the corporation accountable based on criteria those affected deem salient. For example, customers would hold the corporation accountable for product or service quality. Labor would hold the corporation accountable for maintaining a safe working environment. Society would hold the corporation accountable as a member of an ongoing community.

The two models are useful in considering a corporation's social and environmental responsibilities. Currently, corporate governance systems are dominated by the delegation model where the financers and their evaluation criteria drive the corporate accountability regime.

Corporate social responsibility that includes social and environmental dimensions tends to address these issues within the same framework as the accountability responsibilities to the financers are considered. In other words, the current financial based accounting and accountability systems provide the basis for specifying the criteria by which the corporation's social and environmental actions are evaluated. The term "stakeholder" is substituted for "stockholder" but there is little inclination to modify the financers' privileged position or the associated conceptualizations of corporate governance, property rights, human rights and ethics.

Grant and Keohane (2005) also identify seven types, or modes, of accountability that are related to means by which accountability is enforced. These types of accountability include: market, legal, supervisory, fiscal, hierarchical, peer, and public reputation. Market accountability refers to the corporation being held accountable by the market forces with which it is confronted. The rewards and sanctions are reflected in the market transactions between presumably informed willing buyers and willing sellers. Under the current socio-political view, this is the preferred (default) means of holding corporations accountable. When the market fails, then the other types of accountability may come into play. Legal accountability refers to some prespecified evaluation criteria such as the Securities Acts in the United States. These formal evaluation criteria are the result of political processes and can be enforced by some officially designated institution such as the courts. Supervisory accountability is associated with delegation whereby resource providers through various entities such as the US Securities and Exchange Commission and alleged independent boards of directors provide the evaluation criteria for holding corporate management accountable. For corporations, fiscal accountability is a case of supervisory accountability in that (potential) financers through the financing agreements can stipulate what type of financial performance is required and impose requirements to provide the necessary information for evaluating performance. Hierarchical accountability is associated with superior-subordinate relationships found, for example, within hierarchically structured organizations. The performance evaluation criteria are specified by the superior who has the organizational authority to hold the subordinate accountable for the use of the resources they have been provided. Peer accountability and public reputation accountability are more indirect forms of accountability and depend on accepted norms and values of peer groups (e.g., professional or trade organizations), interested constituencies, or society. Under the currently prevailing accountability systems, the evaluation criteria associated with public reputation mode tend to be less well specified, the account holder more nebulous and the rewards and sanctions less direct or certain.

As discussed below, meaningful corporate governance that embraces corporate social responsibility needs to recognize the political nature of accountability and the need for more participatory governance processes, especially as it relates to underrepresented groups. Through democratically imbued participatory processes, corporate governance and accountability can be broadened out and opened up to motivate the corporate leadership to address the critical economic, social and environmental issues facing society. This leads to the question of what is the appropriate set of evaluation criteria whereby corporate behavior should be accessed and who should specify them?

27.2 AN ETHIC OF ACCOUNTABILITY[4]

Accountability systems that facilitate corporate social responsibility should contain the evaluation criteria of not only financers and managers but also a wide and diverse group of interested constituencies. However, referring back to the definition of accountability, the question arises as to what a corporation should be held accountable for, by whom, when, where, how, and to what extent. More specifically, what are the evaluation criteria (standards) whereby a corporation is to be held accountable? If an accountability system is to facilitate socially responsible actions, it seems that we must first establish the purpose of corporations in society, and from that the needs of the various affected groups can be articulated and evaluated. An ethic of accountability provides one useful framework for formulating the responsibilities of a corporation operating within the context of a democratically governed society and potentially enhancing the public's trust in both the corporation and the governance regimes.

How can we justify granting legitimacy to corporations as powerful social institutions? What societal purpose or need do they address? One might argue that the primary function of any societal institution is to act in the public interest for the common good, not furthering the interests of some privileged few. So, how does a corporation act in a socially responsible way that contributes to the public interest for the common good? What is the purpose of a business organization? The most immediate response is to earn a profit, or stated a bit more comprehensively, maximize shareholder value. But is this an end in itself? Surely maximizing shareholder value (creating wealth?) must be a means to some more meaningful societal outcome. Most fundamentally, what does a corporation do? One way of looking at it is that a corporation's primary function is integration – bringing resources together to accomplish an objective. Maybe it has something to do with the utilization of society's economic resources (natural, technological, human, and financial), but again, to what end? What is the objective? Corporations are permitted to employ society's resources to provide goods and services, employment and investment opportunities to society's citizens in the most effective and efficient way. Again, is this the primary justification? One might argue that the primary function of a corporation, or any social institution, is to act so as to facilitate the long-term viability of a democratically governed society grounded in values such as justice, equity and trust, supported by sustainable economic, social and natural systems. How can an ethic of accountability facilitate corporations acting in the public interest, and thus, legitimate them as responsible social institutions?

Accountability of social institutions to society is a necessary condition for a proper functioning democratically governed society by providing a counter to the unwarranted accumulation and exercise of power and privilege. Accountability represents a critical interface between corporations and the citizens and institutions with whom the corporation engages, and accounting and accountability systems reside at this interface. An ethic of accountability implies certain rights and responsibilities for not only the corporation but also the state and members of society. Rights are privileges granted by society, and responsibilities represent obligations following from the exercise of the privileges or rights. Both rights and responsibilities provide legitimating criteria for evaluating the actions of those who grant them and those who accept them. An ethic of accountability as a basis for corporate social responsibility posits that rights and responsibilities accrue as part of an ongoing relationship between the corporation and the community. Socially responsible corporate governance recognizes this ongoing, pluralistic relationship and the need for accountability over time.

An ethic of accountability addresses the rights and responsibilities of the corporation, the state, and the citizens of a society. The state gains legitimacy by representing the sovereign will of the people. Corporations gain legitimacy by acting in a manner consistent with the norms and values of society. Change can be made by the citizens acting through democratic processes of governing. The state is granted the right to safeguard, steward, and supervise the distribution of society's resources through laws and regulations. In the current neoliberal, market-based context, the citizens, through the state, have granted corporations control over a significant portion of society's economic assets. The state has the responsibility to provide the societal infrastructure necessary for corporations to utilize these assets effectively and efficiently so as to provide the desired goods, services, and employment and investment opportunities. Thus, the state is expected to provide security, facilitating judicial and banking systems, logistical and educational infrastructure, and adequate communication systems. The state is also expected to provide a regulatory apparatus whereby corporations can be held accountable for their actions.

Through various means such as private property rights, the state grants corporations the right to use society's economic assets. In exercising that right, corporations accept a fiduciary responsibility for the use of society's resources. As part of their fiduciary obligation, corporations are held accountable for the use of these assets. As such, corporations have a responsibility to provide relevant, timely and accurate information so as to render their actions transparent and understandable. Traditionally, the primary evaluation criteria have been financial. As the conceptualization of corporate social responsibility becomes more inclusive, it presents a significant challenge to the corporation in identifying, measuring and communicating the short-term and long-term implications of its actions. What are the relevant criteria by which it needs to be evaluated and to measure and communicate in an understandable way?

The citizens have the right to hold corporations accountable for their use of society's assets. Alternatively, the citizens have a responsibility to specify and clearly communicate the evaluation criteria whereby the corporation is to be held accountable. Traditionally, financial information has been accepted, at least implicitly, as the appropriate evaluation criteria. The associated accounting information has been perceived as at least somewhat identifiable and objective. The limiting constraint being the ability to accurately measure the identified phenomenon. As the evaluation criteria for socially responsible corporate governance has expanded and the nebulous nature of financial measures more widely recognized, the political nature of the accountability process has been brought to the fore. Specifying the appropriate evaluation criteria is becoming recognized as a dynamic and political process. Within an ethic of accountability, the citizens of the society have a responsibility to take an active part in this political process, engaging in vigorous dialogue and debate concerning the purpose of corporations in society and ensuring that the decisions are made within the context of decidedly democratic processes. The state is responsible for providing the democratic infrastructure, just as it is responsible to business and society for providing a supportive context for economic activity. The state is also responsible for implementing the citizen-driven accountability mechanisms.

At this stage, it seems somewhat disingenuous to assign all the blame to corporations for not fulfilling their role as socially responsible actors. At least to some degree, they are responding to what is being called for by the extant regulatory and evaluation regimes. Financial measures are the evaluation criteria that are currently communicated through the dominant market-based accountability systems in place. A case can be made that one of the failings in specifying and implementing socially responsible corporate governance is the lack of involvement by the citizens in developing and engaging in the political processes of articulating evaluation criteria and ensuring that the state accepts its responsibility for the viability and vibrance of the necessary accountability regimes.

27.3 ACCOUNTABILITY-BASED CORPORATE GOVERNANCE AND CSR

In order to implement participatory mechanisms within corporate governance regimes, we need to move beyond the current accountability practices that are primarily predicated on traditional accounting and related reporting systems. The current systems are traditional accounting-based and are predicated on the needs of financers. Thus, the traditional accounting system is taken as given, and the privileged account holders are the financers. Generally, under the current state apparatus the financers, ostensibly reflecting the information demands of the capital markets, specify the criteria by which a corporation is to be held accountable. There is at least an implicit assumption that with this information the financial markets will incorporate all relevant considerations regarding a corporation's obligations to society. It appears that we may be beginning to recognize the limitations of such a focused perspective.

Attempts to expand the evaluation criteria for which a corporation is held accountable generally start with the current accounting and reporting systems. The question addressed is what can the current system provide that would be useful for evaluating social responsibility? The evaluation criteria are being, to a significant extent, dictated by the traditional financial accounting and reporting system. A situation that we might refer to as accounting-based accountability. I propose that in order to meaningfully address corporate social responsibility we need to shift to accountability-based accounting.[5] Referring to the discussion above, this means taking participatory governance seriously. The interested constituencies are identified and, as elaborated below, engaged as knowledgeable agents cognizant of their relationship with the corporation and able to articulate their interests in light of the corporation's actions. In other words, the constituencies are accepted as being fully able to specify a set of evaluation criteria whereby the corporation should be held accountable. The stated set of evaluation criteria would require representations of corporate behavior commensurate with the criteria set. This might require constructing accounting and information systems designed specifically to provide inputs to the accountability system. This represents a significant shift in how we conceptualize the accountability relationships and the processes by which accountability systems are constructed. Here, the accountability system requirements are specified by the affected parties' conceptualization of what the corporation should be held accountable for, based on their needs, interests and values. These evaluation criteria drive the design of the accounting and information systems and can be referred to as accountability-based accounting as opposed to the traditional accounting-based accountability.

Socially responsible and responsive corporate governance involves actively engaging the corporation and its interested constituencies and recognizing the power differentials and tensions that exist between them. The corporation needs to broaden the scope of constituencies to which it owes an account. This would require broadening the scope of the traditional practices of corporate governance. The corporation needs to appreciate how these parties may be viewing the corporation from differing perspectives and how they are affected differently by its actions. For example, customers might make different claims on the corporation than its employees. The local community might want to evaluate the organization's actions using a different set of criteria than the corporation's stockholders or creditors. While there may be common interests among the groups (e.g., the survival of the corporation), the criteria would probably represent a varied range of needs, expectations and values and call for including evaluation criteria not currently required or available from the traditional accounting information systems. Socially responsible and responsive corporations need to consider broadening out and opening up in this regard. It would require new and imaginative approaches to corporate governance, accountability and information systems. Doing so would probably require including more subjective and contestable evaluation criteria within an expanded accountability regime.

One of the matters to be addressed is the reductionist inclinations of the traditional corporate governance regimes. As noted above, financers have dominated the accountability regimes and, therefore, so have financial based rationality and representations that tend to focus on monetary, market-based evaluation criteria. Broader, more participatory governance would expand the participant set and supplement the largely financial evaluation criteria with nonmonetary, nonfinancial representations such as science-based sustainability targets, greenhouse gas emissions, local resource needs and how they are acquired, worker self-reports, human rights initiatives and violations, community evaluations, and third-party counter accounts.

To be clear, this is not to discard the traditional financial measures of performance, but to recognize the subjective and contestable nature of these representations as well as any of the representations included in the expanded evaluation set. For example, consider the representations associated with the equity accounting calculation of income and the associated distributional consequences. Does the privileging of equity holders represent the most effective means of "providing goods and services" so as to "facilitate the long-term viability of a democratically governed society based on such values as justice, equality and trust and supported by sustainable economic, social and natural systems"? Or does it reflect the results of asymmetrical power relationships that tend to serve the interests of some subset of society?

Recognizing the contestable nature of the status quo creates space for creative and innovative participatory corporate governance.

Following from an ethic of accountability, corporations have a responsibility to respond to the information needs of the various constituencies and present the information in a relevant, understandable and timely manner. This suggests that the participants be made aware of the underlying assumptions, calculations, and algorithms associated with the representations and their implications for understanding the actions of the corporation. Relatedly, the users of the information have a responsibility to attain a level of understanding so that they are able to articulate and communicate meaningful evaluation criteria related to their interests and the corporation's actions. This means that the groups come to appreciate the nature of the corporate communications and the positions taken on various issues and to identify areas of agreement as well as those of contestation and obfuscation. Engagement with experts may be needed to gain the necessary understanding, but this should be assistance so that the various interested constituencies can speak for themselves, in their own voice, and not be "spoken for" in a language that they do not fully comprehend or that is not compatible with their needs, norms and values.

While there may be fundamental agreement on the ultimate societal objective of facilitating a democratically governed society by providing goods and services, investment opportunities, and employment opportunities, there may be significant diversity in opinion as how to best accomplish the components of this objective. Socially responsible governance requires that the varied positions be considered and appropriately addressed. Participation by the various interested constituencies is a significant component in socially responsible corporate governance. Specific attention is required to ensure the efficacy of the participatory processes. Each participant should be granted the opportunity to speak for themselves and to be heard by others. Several of the issues addressed above relate to access to the information to support the dialogue and debate needed to appropriately address the contested issues that result from fundamentally different ideologies and interests of the various parties. For example, the corporation may view its operations primarily through the lens of market-based capitalism while an indigenous community might have a very different perspective by which to view corporate actions. Local or temporary compromises might be reached, but it is unlikely that the fundamental perspectives would be in total agreement. These irreconcilable differences are a major source of the political tensions surrounding meaningful participatory corporate governance and the associated accountability criteria.

Given that there will always be contention and disagreement, meaningful participatory corporate governance involves ongoing dialogue and debate among the affected parties. Ideally, all interested parties should have the right to speak, or not, and the right to disagree. In the current environment, the interested parties need legally enforceable rights to information and legitimate processes for participation rather than relying on voluntary corporate controlled initiatives. In considering effective participatory processes, we need to be cognizant of the extant power relationships. Accountability regimes and the related representation systems embody, actualize and can modify power relationships by establishing, modifying, and eliminating social relationships, privileging various governing regimes, and allocating resources. Effective participatory governance recognizes that these power differentials are inherent and ongoing, though they may shift over time. Given that the power differences will not be eliminated, though they may change, the objective becomes to make visible their effect on the decision processes and the distribution of resources.

One of the possible benefits of taking a participatory approach to corporate governance is engagement with a wide variety of constituencies and perspectives. Ideally, these engagements would provide opportunities to broaden out and open up the conceptualization of corporate social responsibility. The multiple and competing discourses that arise from the inherent tensions and power differentials suggest an ongoing contestability of the evaluation criteria as well as the accompanying representational technologies. These tensions and power asymmetries may change in location and intensity but are not alleviated. As the various parties engage in dialogue and debate regarding the accountability regime, the parties gain insights into the alternative positions represented, and new understandings that emerge hopefully lead to more productive approaches to reducing the tensions and ameliorating the power differentials.

We should not underestimate the extent of the changes that would be needed to fully implement meaningful accountability-based participatory corporate governance and corporate social responsibility. Given that the financed based evaluation criteria is currently codified into law and embedded in the prevailing regulatory regime, corporations have little leeway in fully embracing and implementing participatory governance. Thus, in order for meaningful change to occur, significant modifications in the current governing economic and social structures would be required. This would necessitate significant political will on the part of the society and its members. Unfortunately, it will probably take a major crisis for anything like this to transpire, and the outcome(s) would probably depend on the extent that the citizens of the society become engaged and active in imagining and supporting the changes. However, this should not discourage programs that would facilitate more active participation within the current structural framework as well as an increased commitment to corporate social responsibility.

First, we need to recognize that there is no "one best way", and even if genuine initiatives are undertaken the outcomes are uncertain and dependent on prevailing local conditions. For example, a corporation in the chemical industry functions within a different business environment than a fast-food corporation. Circumstances might be different for operations in developing countries from those in developed countries. The opportunities for engagement with, and the needs of, the local constituencies might be different. The power relationships and the margin potentials along the supply chain may be different, indicating opportunities and constraints.

Given the current business environment and organization structures, a significant step is for the various constituencies to acquire a voice that can be heard and understood by the corporation. One way to do this would be to ensure a meaningfully diverse board of directors. This would require a concerted effort to identify the interested constituencies, which might require outside assistance, and a willingness to listen to and value what they say. Another way would be to ensure more open annual meetings with a format that encourages significant participation and an agenda that directly addresses corporate social responsibilities. There might be opportunities to work with government and nongovernment organizations that represent the interests of marginalized groups in gaining an appreciation of their issues and developing mechanisms for taking them into consideration. Again, given the potential power differentials, the corporation must be mindful not to dominate these engagements. Within the corporation, social responsibility can be included in performance evaluations at all levels, and the responsibility for fulfilling these matters distributed throughout the operations of the entity, not just assigned to legal, shareholder management groups or public relations firms.

An expanded perspective might motivate a more comprehensive and realistic conceptualization of risk. Economic risk should be supplemented by environmental and social risk. To better understand these risks, input from other affected constituencies is important. What are the implications for the various groups, and what are the primary and secondary implications for the corporation, the environment and the (global) community? Gaining these insights requires meaningful engagement with the various constituencies. To be most effective, participatory forums probably need to be carried out by an independent entity to prevent both actual and perceived control and manipulation by the corporation.

Central to any meaningful participatory program is accountability on the part of the power holder, the corporation. In any of these courses of action, the need for relevant, timely and understandable information is central. This requires going beyond the current voluntary corporate "citizenship" reporting to providing meaningful information regarding both goals and outcomes. Attempts should be made to avoid reducing complex problems to apparently encompassing aggregate representations, such as monetary ones, based on complex algorithms and subjective estimates and assumptions. For such representations, the underlying assumptions, estimates and algorithms should be made explicit. Engagements need to be sensitive to the dominance by "experts" speaking in a language little understood by others and respond by "translating" the concepts and proposals into the language of the various interested parties.

Also, we need to recognize the necessity for external verification of the information provided and the actions undertaken. This could be patterned after what should be the situation regarding financial audits and oversight by the Securities and Exchange Commission in the USA. There should be a competent evaluation by an independent professional supported and overseen by an independent entity with enforcement authority. In the current environment, the corporation might have to cede some of its power. This would require recognizing asymmetrical power relationships and submitting to be held accountable for its actions. Accountability without consequences is not legitimate accountability. What is being proposed is not a panacea, but pragmatic suggestions for anticipated marginal improvement in participatory governance and corporate social responsibility.

27.4 SUMMARY AND REFLECTIONS

The purpose has been to consider generally what are a corporation's responsibilities to society and how might we think about meaningful accountability systems that would evaluate and motivate the desired socially responsible behavior and accounting and information systems needed to support them. An ethic of accountability also points out the rights and responsibilities of the state and the members of civil society. Developing socially responsible corporate governance represents an ongoing, dialectical process among the various parties whereby new and unimagined participatory processes can emerge. By being aware of and participating in pluralistic engagements, we begin to acknowledge heretofore unrecognized possibilities for the design, implementation and evaluation of accountability systems. Developing socially responsible participatory corporate governance means that engagement with "stakeholders" goes beyond what has traditionally been termed "stakeholder management", designed to further the interests of the corporation. The ethic of accountability provides a framework where the various parties exercise their rights and fulfill their responsibilities as members of an ongoing community. Taking pluralism seriously within this context means that the corporation owes an account to all interested constituencies. It also means that the account holder has a responsibility to provide thoughtful, relevant and practical evaluation criteria and that the state or other authoritative body has a responsibility to provide the necessary implementation infrastructure and oversight.

Even though there may be many different perspectives from which a corporation should be evaluated to adequately address the varied interests of those affected by its actions, within the current environment the financers are the dominate group shaping the corporate accountability agenda. We should not underestimate the challenges in establishing a participatory ethos and implementing effective and meaningful socially responsible participatory corporate governance in a domain traditionally dominated by the "financial market". The suggestions presented here do not represent a program for achieving immediate substantial change, but they do provide a framework within which dialogue, debate and experimentation can be fruitfully undertaken. Pursuing what might be deemed pragmatic goals for the present can provide the groundwork for progressive and innovative programs in the future.

NOTES

1. Social responsibility will be used as a collective term that includes the social, environmental and economic responsibilities.
2. See inter alia, Brown (2009, 2017); Brown and Dillard (2013a, 2013b, 2015, 2019); Brown, et al. (2015); Brown, et al. (2017); Brown and Tregidga (2017); Dillard and Brown (2012, 2014, 2015); Dillard and Vinnari (2017, 2019); Gallhofer and Haslam (2019); George, et al. (2021); Hopper and Tanima (2018); Kingston, et al. (2020a, 2020b); O'Leary and Smith (2020); Puroila and Mäkelä (2019); Tanima, et al. (2020); Tanima, et al. (2021); Tregidga and Milne (2020); Vinnari and Dillard (2016).
3. Dillard and Vinnari's (2019) definition and conceptualization of accountability follows from the political science and international governance literature summarized by Rached (2016), Bovens (2010) and Grant and Keohane (2005). See Dillard and Vinnari (2019) for a more complete discussion.
4. For a more complete discussion see Dillard (2007, 2008, 2011) and Dillard and Brown (2014).
5. For a more in-depth discussion see Dillard and Vinnari (2019).

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