Good Governance for Quality of Life
RESPONSIBLE BOARDS FOR A SUSTAINABLE FUTURE
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RESPONSIBLE BOARDS FOR A SUSTAINABLE FUTURE

Dr. Yılmaz ARGÜDEN
“Trust is the essence of good governance and the foundation of sustainable development.”

2015 has been a milestone for a sustainable future: The world leaders adopted the Sustainable Development Goals at the UN Sustainable Development Summit September 25-27, 2015 in New York. The title of the agenda was "Transforming our world: the 2030 Agenda for Sustainable Development". In November 2015, under the Turkish presidency, the G20’s focus was on ensuring inclusive and robust growth through collective action in accordance with the “three I’s” - Implementation, Inclusiveness, and Investment for growth. In December, an enduring, legally binding treaty on climate action which contains emission reduction commitments from nearly 200 countries starting in 2020 was signed to keep the global warming below the 2°C level, and even target actions to achieve the below the 1.5°C level. This represents a turning point for action to limit climate change below dangerous levels. It signals the end of business as usual. Future investment will need to be compatible with a zero carbon world.

WHAT DO ALL THESE DEVELOPMENTS MEAN FOR THE CORPORATE BOARDS AROUND THE WORLD?

As external pressures, including resource scarcity, globalization and access to information, continue to increase, how corporations respond to sustainability challenges will determine their long-term viability and competitiveness. According to a recent survey, executives at all levels see an important business role for sustainability. Yet, there is significant room for improvement in the effectiveness of the execution and accountability of their sustainability programs. As the world continues to get smaller, the mutual interdependence of the corporations and their stakeholders grows larger. To achieve success, institutions increasingly rely upon the utilization of not only their own resources, but also the resources of others. To be able to gain access to the resources of others, institutions need to create trustworthy relationships. Therefore, the key to success and development is
gaining the trust of current and potential stakeholders. These stakeholders include not only shareholders, employees, labor organizations and customers, but also those who provide credit to the company, those in its supply chain and the governments in whose countries the business operates; in short, individuals and organizations in all parts of society.

For example, in order to be able to grow fast and compete globally, firms need to gain access to global credit or equity capital markets. Similarly, as the role of corporations in the development of the world's economy increases and the scope of their influence widens, so does the breadth of their responsibilities. The license to operate increasingly requires fulfilment of the firms' responsibilities to the community. The trustworthiness of corporate architectures, processes, and behaviors become an indispensable characteristic of the corporation not only for their shareholders, but also for their stakeholders.

Today, successful and sustainable organizations need: to demonstrate not only a willingness to involve the stakeholders in decision making; to embrace a culture of transparency and accountability; to be fair and consistent in relations with stakeholders; but also to have an organizational infrastructure that ensures “corporate trust.” Hence, good governance is the key to sustainable companies.

Many corporations' interest in sustainability issues started out as 'nice to have', as part of their social responsibility programs and to build their corporate reputation. However, those who have taken it seriously as a board and CEO responsibility soon understood that paying attention to sustainability issues was in fact a great 'risk management' technique, particularly since avoidance is much more economic than repairing corporate reputation after a significant failure. More recently, some forward-looking business leaders began to view the challenge of sustainability as an opportunity for 'value creation'. They started to realize that if sustainability issues are becoming relevant for large numbers of people throughout the globe, addressing them properly would be a good business case for satisfying a global need.

Corporations that flourish through the utilization of others' resources are becoming increasingly aware of the need to be accountable to those who have a say in those resources. As our dependence on global resources increases, we need to be aware of the need for our governance systems and attitudes to gain a global dimension as well.

Companies that have embraced these challenges and transformed it into an opportunity for innovation and long-term value creation gain a number of advantages:

- Innovation in products and ways of doing business;
- Lower cost of capital and easier access to capital markets;
- Lower cost of operation through less dependency on limited resources;
- Long-term resilience against volatility in commodity prices and resource constraints;
- Increase loyalty from customers and employees;
- Flexibility to experiment with new approaches.
There are a number of reasons why progress has been slow for companies in viewing sustainability as a strategic imperative:

- Capital markets and investor expectations evaluate company performance through short-term financial metrics rather than long-term value-creation;
- The complexity and diversity of stakeholder expectations and industry dynamics make it difficult to craft a one-fits-all approach to sustainability management, requiring each company to craft their approach to sustainability;
- As there is no value placed on natural capital and costs of externalities are not internalized, companies do not incur the costs of not integrating sustainability into their performance metrics;
- There is limited data and tools for measuring returns through non-financial metrics (incl. social, environmental and governance);
- The global nature of problems requires non-traditional partnership across corporate, non-governmental, and public spheres as well as among competitors within the same industry to share the costs of initial investments and increase effectiveness of execution;
- Change requires successful execution within the company, including adoption of vision throughout the organization, its value chain and product-cycle; which is increasingly difficult in today's multi-stakeholder world;
- The global nature of challenges and the lack of sovereign bodies make it difficult to impose penalties on responsible parties, slowing down progress.
Gaining competitive advantage and resilience in times of varied stakeholder expectations, increasing global challenges and volatile markets require re-defining the role of the corporation in today’s society.

Companies that have undertaken this challenge are transforming this into an opportunity by:

- Making sustainability a key leadership priority and part of core strategy;
- Adopting long-term view for value-creation and innovation;
- Forming partnerships to move beyond the capabilities of individual companies to solve complex global challenges;
- Focusing on capturing value across the value-chain and product life-cycle to reach their sustainability targets;
- Engaging stakeholders and increasing transparency on company performance;
- Assessing risks and performance against non-financial targets in addition to financial targets before compliance requirements increase;
- Ensuring sustainability initiatives are adopted throughout the organization.

UNILEVER’S SUSTAINABLE LIVING PLAN

Unilever's approach to sustainability is one that goes beyond an act of charity and places sustainability issues at the core of the business value proposition. The Sustainable Living Plan that Unilever CEO Paul Polman launched in 2010 defined business targets in terms of financial, economic and social metrics. Since the sustainability plan was announced in 2010, share price has increased by 40%.

Unilever's CEO, Polman decided not to report earnings quarterly so that he could focus on building long-term value rather than giving into the pressures of short-term financial metrics. He also focused on building a shareholder base that believed in his vision and wanted returns in the long-run. At the core, his choices reflect his mission to change the way people see business as value-creators and community-builders, and to get them to rethink business fundamentals that lead to financial returns.

Challenges are varied, but Unilever has seen them as an opportunity to devise new ways of doing business. To achieve targets, Unilever had to look across its supply chain, rally industry leaders behind his commitment to sourcing from sustainable resources, and focus on raising awareness to change customer behavior and designing products to minimize the environmental impact.
Role of the Board of Directors

A board of directors sets the tone at the top and is responsible for ensuring the right climate and culture exists within the organization. Corporate boards of directors do not participate in day-to-day decision-making; instead, they provide guidance, set overall policy based on the corporate mission and vision, and exercise an oversight function, reviewing the actions of corporate officers and executives in order to ensure that the company creates value on a sustainable basis while protecting the interests of all stakeholders. The essence of good corporate governance is ensuring trustworthy relations between the corporation and its stakeholders.

Sustainability is a long-term issue for companies. Boards are responsible for long term decisions and guidance and strategy setting for organizations. Therefore, sustainability is a key Board responsibility. Decisions like redesigning value chain, introduction of new technologies, investing on green innovations are some of the critical issues where boards' need to take responsibility. Boards' time perspectives should be longer than those of the management teams'. Hence, boards need to make sure that the top management does not fail to address key sustainability issues whose effects will be realized in the long term, exceeding managements' teams term.

Investing on green innovations are some of the critical issues where boards' need to take responsibility. Boards' time perspectives should be longer than those of the management teams'. Hence, boards need to make sure that the top management does not fail to address key sustainability issues whose effects will be realized in the long term, exceeding managements' teams term.

The key to good corporate governance is ensuring that the principles of Consistency, Responsibility, Accountability, Fairness, Transparency, and Effectiveness are Deployed throughout the organization (CRAFTED). Applying CRAFTED principles is a sine qua non of sustainable success.

Earning the trust of the stakeholders is the key to mobilize their resources towards a common vision. Transparency in relationships is the key to earning that trust. Success requires effective utilization of resources entrusted to a corporation. Being fair and accountable to all the stakeholders whose resources are entrusted to the corporation is the key to sustainability of access to those resources. The communication and behavior of each institution influences not only how its own resources are utilized, but also those of its stakeholders. Therefore, consistency of the policies of a corporation is key to ensure that right expectations are formed throughout the value chain, thereby making the whole value chain stronger. Value creation requires measured risk taking. Risk is the kin of profit. Therefore, taking initiative and responsibility which naturally involves risk taking is a key element of value creation. Sustainability of success requires continuous improvement and innovation. This in turn requires learning and the participation and involvement of all in the organization. Hence, creation of a climate which emphasize good governance principles and deployment of a good corporate governance culture is the key for sustainability.

The term fiduciary refers to a relationship in which one person has a stewardship responsibility of care for the assets or rights of another person. A fiduciary is an individual who has this responsibility. The term "fiduciary" is derived from the Latin term for "faith" or "trust." The term “stewardship” implies an inherent
willingness to serve others (**a moral duty**), and a willingness to subordinate one's interests to that of others by acceptance of the duty to serve.

As early as 1790 B.C. the Babylonian Code of Hammurabi established rules of law governing business conduct for the behavior of agents entrusted with property[^1]. Aristotle (384 B.C.- 322 B.C.), influenced the development of fiduciary principles, recognizing that in economics and business, people must be bound by high obligations of loyalty, honesty and fairness, and that when such obligations are not required or followed, society suffers[^5].

Corporate board members have a fiduciary responsibility to act in good faith and with a reasonable degree of care, and they must not put themselves any conflicts of interest. The fiduciary responsibilities of board members fall into three categories: duty of loyalty, duty of care, and duty of full and fair disclosure.

- **The duty of loyalty** imposes on the board an affirmative duty to protect the interests of the corporation, and also an obligation to refrain from conduct which would injure the corporation and its shareholders. Directors must avoid any conflict between duty and self-interest. Undivided allegiance to the corporation's best interest is required.

- **The duty of care** requires directors to make a business decision based on all available and material information and to act in a deliberate and informed manner. First, the board members must act in good faith for the company's best interest. Second, they must believe that their decisions promote the best interest of the corporation in both the short and the long term based on a reasonable investigation of the available options.

- **The duty of full disclosure** is to provide reasonably complete disclosure especially when shareholders are asked to vote and when the company completes a conflict of interest transaction. However, extending the duty of full and fair disclosure further to include environmental, societal, and governance matters is critical for gaining and retaining the trust of present and future stakeholders.

According to the Conference Board[^6], recently the notion of fiduciary duty is expanding to include sustainability issues. Increasingly the pursuit of sustainable business initiatives is viewed as consistent with corporate governance standards. In particular, judicial action[^7], and recent stakeholder constituency statutes[^8] and statutory exculpatory provisions under corporate law[^9], have laid the groundwork for boards to consider non-shareholder interests and concerns in making investment decisions. Similarly, in 2009 the Committee for Economic Development issued recommendations on the potential contributions that boards of directors can offer to improve overall business performance while responding to societal concerns[^11].

Therefore, the responsibilities of the board members are not limited to short term interests of the shareholders, but also include long term impacts on anyone effected by their decisions and future generations. As 'trusted' agents, board members need to ensure that the stakeholders 'trust' the corporation to ensure their long term commitment to work with the corporation towards achieving its mission.
EMERGING STANDARDS OF SUSTAINABILITY

According to the Brundtland Commission (Our Common Future report) of the United Nations on March 20, 1987: “sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” The United Nations Millennium Declaration identified principles and treaties on sustainable development, including economic development, social development, and environmental protection. The 2005 World Summit on Social Development confirmed the same dimensions for the sustainable development goals. These three pillars have served as a common ground for numerous sustainability standards and certification systems in recent years.

Later, the United Nations Agenda 21 specified culture as the fourth domain of sustainable development.

One of the main outcomes of the Rio+20 Conference in 2012 was the agreement by member States to launch a process to develop a set of Sustainable Development Goals (SDGs), which have been built upon the Millennium Development Goals and converge with the post 2015 development agenda. The outcome document of Rio+20, The Future We Want, resolved to establish an inclusive and transparent intergovernmental process on SDGs that is open to all stakeholders with a view to developing global sustainable development goals to be agreed by the UN General Assembly. In September 2015, 17 aspirational, action oriented SDGs have been agreed upon by the UN General Assembly. The SDGs cover areas such as: poverty reduction, universal access to health, education, energy, and water; reducing inequalities; climate change and environmental protection; promoting peace and good governance throughout the globe.

UNFCCC Climate Conference COP21 was organized on December 21, 2015, in Paris. This conference brings all nations into a common cause based on their historic, current and future responsibilities. So, the Paris Agreement is a milestone. The universal agreement's main aim is to keep a global temperature rise this century well below 2 degrees Celsius and to drive efforts to limit the temperature increase even further to 1.5 degrees Celsius above pre-industrial levels.

The universal agreement's main aim is to keep a global temperature rise this century well below 2 degrees Celsius and to drive efforts to limit the temperature increase even further to 1.5 degrees Celsius above pre-industrial levels12.

The Paris Agreement and the outcomes of the UN climate conference (COP21) cover all the crucial areas identified as essential for a landmark conclusion:

- Mitigation - reducing emissions fast enough to achieve the temperature goal
- A transparency system and global stock-take - accounting for climate action
- Adaptation - strengthening ability of countries to deal with climate impacts
- Loss and damage - strengthening ability to recover from climate impacts
- Support - including finance, for nations to build clean, resilient futures

All 195 countries will submit climate action plans to reach the goals. Corporations would be part of these plans and would have responsibility in reaching the national and international targets. Addressing challenges in a global scale will require governments to devise innovative ways devising new ways of partnering with other governments, corporations and civil society, developing accountability structures and changing national education systems. Solving problems such
as decreasing carbon emissions or water scarcity require multi-stakeholder problem-solving, execution and accountability. See for example Box 24.2. Humanity Needs a Fundamental Mentality Shift.

In short, a sustainable global economy is one that combines long term profitability with ethical behavior, social justice, and environmental care. Sustainability is improving the quality of human life while protecting the potential of

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<th>GOAL</th>
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<td><strong>Goal 1 End Poverty</strong></td>
<td>End poverty in all its forms everywhere</td>
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<tr>
<td><strong>Goal 2 Zero Hunger</strong></td>
<td>End hunger, achieve food security and improved nutrition and promote sustainable agriculture</td>
</tr>
<tr>
<td><strong>Goal 3 Good Health</strong></td>
<td>Ensure healthy lives and promote well-being for all at all ages</td>
</tr>
<tr>
<td><strong>Goal 4 Quality Education</strong></td>
<td>Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all</td>
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<tr>
<td><strong>Goal 5 Gender Equality</strong></td>
<td>Achieve gender equality and empower all women and girls</td>
</tr>
<tr>
<td><strong>Goal 6 Clean Water</strong></td>
<td>Ensure availability and sustainable management of water and sanitation for all</td>
</tr>
<tr>
<td><strong>Goal 7 Affordable Energy</strong></td>
<td>Ensure access to affordable, reliable, sustainable and modern energy for all</td>
</tr>
<tr>
<td><strong>Goal 8 Decent Work</strong></td>
<td>Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</td>
</tr>
<tr>
<td><strong>Goal 9 Industry, Innovation, Infrastructure</strong></td>
<td>Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation</td>
</tr>
<tr>
<td><strong>Goal 10 Reduced Inequality</strong></td>
<td>Reduce inequality within and among countries</td>
</tr>
<tr>
<td><strong>Goal 11 Sustainable Cities</strong></td>
<td>Make cities and human settlements inclusive, safe, resilient and sustainable</td>
</tr>
<tr>
<td><strong>Goal 12 Responsible Consumption&amp;Production</strong></td>
<td>Ensure sustainable consumption and production patterns</td>
</tr>
<tr>
<td><strong>Goal 13 Climate Action</strong></td>
<td>Take urgent action to combat climate change and its impacts</td>
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<tr>
<td><strong>Goal 14 Life below Water</strong></td>
<td>Conserve and sustainably use the oceans, seas and marine resources for sustainable development</td>
</tr>
<tr>
<td><strong>Goal 15 Life on Land</strong></td>
<td>Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss</td>
</tr>
<tr>
<td><strong>Goal 16 Good Governance</strong></td>
<td>Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels</td>
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<tr>
<td><strong>Goal 17 Partnerships</strong></td>
<td>Strengthen the means of implementation and revitalize the global partnership for sustainable development</td>
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future generation to do the same. Good governance is also a responsibility towards a sense of universal commitment and universal participation in sustainable development.

Below is a list of widely-accepted voluntary standards and guidelines that influence priorities in sustainability reporting and sustainable investing (Table 3).

<table>
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<tr>
<th>INITIATIVE</th>
<th>DESCRIPTION</th>
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<tr>
<td>UN Global Compact (UNGC)</td>
<td>The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.</td>
</tr>
<tr>
<td>OECD Guidelines for Multinational Enterprises (GME)</td>
<td>The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises operating in and from adhering countries. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognized standards.</td>
</tr>
<tr>
<td>UN Principles for Responsible Investment (PRI)</td>
<td>PRI aims to help investors integrate the consideration of environmental, social and governance issues into investment decision-making and ownership practices, and thereby improve long-term returns to beneficiaries.</td>
</tr>
<tr>
<td>Global Reporting Initiative (GRI)</td>
<td>GRI promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to sustainable development.</td>
</tr>
<tr>
<td>International Integrated Reporting Council (IIRC)</td>
<td>IRI is a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation.</td>
</tr>
<tr>
<td>Guidance Standard on Social Responsibility (ISO 26000)</td>
<td>ISO 26000 provides guidance on how businesses and organizations can operate in a socially responsible way through organizational governance, human rights, labor practices, the environment, fair operating practices, consumer issues and community involvement.</td>
</tr>
<tr>
<td>Equator Principles</td>
<td>The Equator Principles (EPs) is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making.</td>
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HUMANITY NEEDS A FUNDAMENTAL MENTALITY SHIFT:
THE MISSING DEBATE

Despite all the good intentions and good ideas coming out of numerous meetings at the Rio +20, we are unlikely to solve the world's economic, social, and environmental problems with these efforts. The reason is simple: the agenda of all these meetings do not include the right issues.

Let me be more specific. The real issue is not being unaware of the situation or technological impediments; it is the way humanity has organized itself. The real issue is the global governance structures, the way the incentive systems are organized, and lack of credible leadership on global issues that has the authority and ability to impose remedies.

Who is in charge of the carbon emissions?
Who is in charge of the oceans?
Who is in charge of the poverty and millions who do not have access to clean water and electricity?

When everybody is responsible, actually no body is responsible.

Therefore, the first agenda item for all these meetings should be how to consensually delegate sovereignty to global institutions and how to make these global institutions have real legitimacy and jurisdiction over key global issues.

The ongoing global financial, economic, and environmental crises have made it clear that many of the issues impacting quality of life throughout the world are global in nature.

However, the way that humanity has organized itself, particularly on the public administration front, is national in nature. The fact that jurisdictions for key governance issues -- such as elections, education systems, taxation, and military organizations -- are based on national boundaries makes it difficult to organize on a global scale. Furthermore, as most elected governments are elected for four to five year terms, when they meet around a table the average perspective of an elected national leader is about 2.5 years!

It would be naïve to suggest dismantling national structures and moving towards a global government. Yet, longer perspective and more collaboration are definitely needed to address global issues. Forward-looking politicians need the support of the public in such a collaborative approach.

Global solutions require consensual delegation of sovereignty, in certain areas, to global institutions with adequate resources. Raising adequate resources for global institutions, in turn, needs appropriate power-sharing arrangements.

The second agenda item should be to change the way we teach to prepare the next generations for a more collaborative world. To deal with global issues in an effective manner, the citizens need to understand the interdependencies between countries. Curricula of many national education systems focus on nation building, with insufficient emphasis on global citizenship and sustainability.
Therefore, a **Global Education Initiative** is required to ensure that people fully understand their mutual dependence, rather than seeing neighbors and other foreigners as scapegoats for local problems.

Living together requires sharing power -- whether in the family, in the village, in the city, in a nation, or in the world. Only when such an understanding becomes prevalent, could we create global institutions with adequate resources and decision-making powers that are shared and exercised equitably.

Companies are the institutions that have best adapted to globalization. They have centralized strategic decision making, but increased empowerment of the local offices, eliminating mid-management levels. If we are to address global issues, the governments need to consider consensual delegation of sovereignty to global institutions with legitimacy and sufficient resources to implement remedies. On the other hand, unless we change the way we manage global institutions it would be impossible for them to have legitimacy.

The essential principle driving modern human rights and democracy is this: **People should have a say in shaping their own future and be able to contribute in the global decision-making processes that influence their lives.**

Global institutions will gain real legitimacy only if this understanding is applied to global governance mechanisms. This in turn, requires a significant change in awareness of the responsibilities of global citizenship by the people. Such a change can only be accomplished through a Global Education Initiative.

**The third agenda item should be how to reshape our incentive systems, in particular taxation schemes.** The world is concerned about rising unemployment, yet most governments impose taxes on employment and subsidize unemployment. World is concerned about economic growth, yet most governments impose taxes on economic activity (sales and income), world is seeking innovation yet most governments impose taxes on value added. On the other hand, we are all worried about issues such as carbon emissions, yet there are no universal taxes on carbon emissions to help the companies and individuals internalize these externalities. If we are concerned with gender inequality, shouldn't we consider imposing taxes only on male employment in excess of female employment, rather than on all employment?

Obviously, I am not suggesting that the governments increase overall taxes in an environment where we all need increased economic activity. I am suggesting to change the way taxes are imposed. I am also fully aware of the measurement and implementation difficulties of changing the way taxes are collected. Yet, unless we put our minds together to identify solutions to changing the adverse incentive systems (imposed by taxes), we are unlikely to make a sufficient impact on issues world is facing.

In short the real issues around global problems is one of **governance structures, incentive systems, and lack of understanding and acceptance of the rights and responsibilities of global citizenship** by the people.

Therefore, unless we bring these issues to be on the agenda of these global gatherings, we are unlikely to make significant progress in solving the environmental, social and economic problems we are facing.

*Originally published at The Globalist, July 2012, by Dr. Argüden*
UN Global Compact

Initiated by Kofi Annan’s speech to Davos participants in 1999, the UN Global Compact is a strategic policy initiative for businesses whose CEO’s make a commitment to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment, and anti-corruption.

Kofi Annan’s call to action was operationalized brilliantly with a very simple, but very effective requirement for the signatories: that they would annually report (Communication on Progress, COP) to the UN Secretary General what they are doing for each of the ten universally accepted principles, confirmed by their CEO’s signature, and that these reports would be publicly available. There are no specific targets (each organization picks their own targets), there is no third party verification (although this is recommended, it is not a requirement), and the initiative is totally voluntary. There is only one penalty for those who fail to report: to be delisted from the UN Global Compact signatories list.

However, this simple requirement of annual Communication on Progress by organizations who voluntarily signed on has served extremely well. First of all, organizations from different geographies and different scales have picked achievable targets that were appropriate for themselves. This in turn, improved their motivation to do even better each year. The requirement of CEO’s signature provided much needed focus on each organization’s voluntary activities on these principles and improved both resource utilization and deployment throughout the organization and geographies.

Competitive instincts of corporate leaders pushed them to do better each year, rather than seeing the target they have picked for themselves as regulatory hurdles to be met. So a virtuous cycle for continuous improvement was set in motion. Also, the fact that the reports are publicly available have provided both a self-discipline and potential for review by other stakeholders, as well as a benchmarking and a learning opportunity from peers.

Under the able leadership of its founding Executive Director, Georg Kell, in 15 years the UN Global Compact has become the largest voluntary corporate responsibility initiative and sustainability platform in the world, with its more than 12,000 members, more than 8,000 of which are businesses, from over 145 countries. More than 100 countries have established Local Networks of Global Compact signatories in their respective countries. On a global scale these national networks meet annually to learn from each other and provide guidance to the overall development of the initiative.

UN Global Compact has recently piloted a sustainability education program for the board members: the LEAD Board Program. The Program aims to equip Directors to more effectively oversee the implementation of corporate sustainability strategies. Five companies have agreed to incorporate this two-and-a-half-day program into their 2013-24 board agenda: power and gas utility Enel and petroleum producer Eni (both of Italy); power and gas utility Eskom (of South Africa); chemicals maker Yara (of Norway); and cellular company SK Telekom (of South Korea).

UN Global Compact was recognized as a role model initiative in the B20 recommendations to the G20 in Antalya on November 2015.
OECD GUIDELINES FOR MULTINATIONAL ENTERPRISES

The Guidelines provide voluntary principles and standards for responsible business conduct in areas such as employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation.

The Guidelines are a leading tool to promote responsible business conduct in the changing landscape of the global economy. Observance of the Guidelines by enterprises is voluntary and legally not enforceable. Yet, a significant number of companies on the FTSE4 Good and Dow Jones Sustainability Index refer to the OECD MNE Guidelines in their corporate social responsibility (CSR) reports.

The fact of the endorsement of The Guidelines by the OECD countries is a differentiating factor from other voluntary initiatives. The Guidelines are applicable to large and to SME multinational enterprises; the criterion is not the size but the multinational character of the company. Although the content of the Guidelines does not apply to non-MNE's, it can well be relevant for non-MNE's, especially as a source of inspiration.

PRINCIPLES FOR RESPONSIBLE INVESTMENT

Developed with the contributions of a multi-stakeholder group including the global investment industry, intergovernmental organizations, civil society and academia, the Principles for Responsible Investment Initiative (PRI) is an investor-led coalition in partnership with the United Nations Environmental Program Finance Initiative and the United Nations Global Compact.

More than 1,250 asset owners and investment managers who are decision makers for $45 trillion of assets under management are PRI signatories. They explicitly accept that their fiduciary role calls them to incorporate environmental, social, and corporate governance (ESG) issues into their investment decisions. They are a powerful force who are giving an impetus to responsible business.

The Principles are voluntary and aspirational. The PRI Initiative has quickly become the leading global network for investors to publicly demonstrate their commitment to responsible investment, to collaborate and learn with their peers about the financial and investment implications of ESG issues, and to incorporate these factors into their investment decision making and ownership practices.

Not only investors and managers of huge assets are beginning to focus on responsible investment, thereby providing financial incentives for responsibility in board rooms, but also credit markets are developing with an increasing focus on transparency and reporting the environmental and climate impact of supported projects. In January 2014, The World Bank Group President Jim Yong Kim urged the audience at the World Economic Forum in Davos to look closely at a young, promising form of finance for climate-smart development: green bonds. The green bond market had surpassed US $10 billion in new bonds during 2013 and President Kim called for doubling of the volume of annual issuances in 2014 by the UN Secretary-General's Climate Summit in September.
Global Reporting Initiative

GRI's Sustainability Reporting Framework is a reporting system that enables all companies and organizations to measure, understand, and communicate four key areas of their performance and impacts: economic, environmental, social, and governance. GRI's mission is to make sustainability reporting standard practice. GRI provides one of the world's most prevalent standards for sustainability reporting. GRI Guidelines seek to enhance comparability between different corporations' sustainability reports by providing a holistic framework and encouraging the use of common indicators.

GRI has issued its first reporting framework in 2000 and over the years the GRI framework has become the benchmark for best practice in sustainability reporting. Over 11,000 companies now use the GRI framework as the basis of their reporting.

The GRI framework has gone through series of evolutions and its most recent version, G4 is a major overhaul. In particular, G4 is focusing on supply chain materiality and allowing companies to report only on what matters most to them. Many companies' greatest sustainability impacts are in the supply chain. By encouraging the companies to explore and report more detail about suppliers, G4 aims to improve their overall sustainability performance.

Also, with the aim of putting sustainability higher on the board's agenda and ensuring a better link between sustainability and remuneration, G4 is increasing its disclosure requirements around governance and remuneration with new indicators. The reporting levels A, B, C have been abandoned as these levels were often misunderstood as indicators of sustainability performance, rather than what they are, which is simply the extent of disclosure.

GRI has strategic partnerships with the UN Global Compact, the Organization for Economic Co-operation and Development, the International Organization for Standardization, and the United Nations Environment Program.

International Integrated Reporting Council – IIRC

Launched in 2010 by HRH the Prince of Wales, the International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. Its mission is to create the globally accepted International Integrated Reporting Framework that would improve disclosure on the organizations' value creation process by incorporating material information about the organizations' strategy, governance, performance and prospects in a clear, concise and comparable format.

An integrated report aims to provide insight about the all material resources and relationships used and affected by an organization. It seeks to explain how the organization interacts with the external environment and the financial, manufactured, intellectual, human, social and relationship, and natural capitals to create value over the short, medium and long term. It is seeking to forge a global consensus to establish a single, unified approach to financial and sustainability reporting.

More than 80 companies have signed up to be part of the IIRC's pilot program. According to the Chairman of the initiative, Mervyn King: "A key challenge for leadership is to make sustainability issues mainstream. Strategy, risk, performance, and sustainability have
become inseparable; hence the phrase 'integrated reporting.'

Under the Turkish Presidency of the G20, Integrated Reporting was among the B20 recommendations to the G20: “Implementation of inclusive and sustainable development will depend on the active engagement of the public private, and non-governmental sectors, including but not limited to the increasing number of actors signing the UN Global Compact and UN Principles for Responsible Investments (UNPRI). Good governance and responsible behaviour by all actors should be established by creating a regulatory environment where transparency in the public and private sectors is the norm. Embracing reporting best practice and encouraging market-led initiatives, such as Integrated Reporting, focused on communicating value creation and sustainability performance across the economy would be the most effective way of improving transparency and building trust.”

International Organization for Standardization’s Social Responsibility Standards (ISO)

ISO 26000 provides guidance on how businesses and organizations can operate in a socially responsible way that contributes to the health and welfare of society. Developed through a multi-stakeholder process, ISO 26000 is a voluntary guidance standard and applicable to all organizations, not only limited to corporations.

The Standard covers seven key principles, advocated as the roots of socially responsible behavior: Accountability, Transparency, Ethical behavior, Respect for stakeholder interests, Respect for the rule of law, Respect for international norms of behavior, and Respect for human rights. The core subjects, which every user of ISO 26000 should consider are: Organizational governance, human rights, labor practices, environment, fair operating practices, consumer issues, and community involvement and development.

The Standard involves a seven step approach to sustainability:

1. Working with stakeholders to recognize their concerns,
2. Defining the scope of social responsibility for the organization,
3. Designing enterprise-wide procedures to integrate the sustainability program into the organization's mission, vision, strategies, and policies,
4. Overseeing the implementation of the procedures,
5. Communicating on social responsibility internally and through public disclosure,
6. Evaluating the sustainability program through performance metrics,
7. Making continuous improvements through the learnings achieved.

Equator Principles

The Equator Principles (EPs) is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making.

The EPs apply globally, to all industry sectors and to four financial products.
1. Project Finance Advisory Services
2. Project Finance
3. Project-Related Corporate Loans and
4. Bridge Loans.

EP signatories (80+ top financial institutions) do not provide finance to the projects that are not satisfying the requirements of EPs. EPs also helped the convergence of environmental and social standards in financial sector. EPs signatories (80+ top financial institutions) do not provide finance to the projects that are not satisfying the requirements of EPs. EPs also helped the convergence of environmental and social standards in financial sector.

Collaboration between these initiatives is increasing. For example, the former and now Honorary Chairman of GRI, Mervyn E. King, is also chairing the IIRC. UN Global Compact has signed a cooperation agreement with the GRI and is promoting utilization of GRI for its own Communication on Progress (COP) reports. In July 2014, the Boards of UN Global Compact, PRI, and PRIME (UN Principles of Responsible Management Education) met jointly in New York. More than 500 business schools are signatories of the UN PRIME. In doing so they have committed to addressing this need for change in leadership capabilities through education, research and engagement. However, universities and governments have been slow to create opportunities and rewards for inter-disciplinary research and broad public dissemination of research results. The mechanisms by which universities are funded, journals are ranked and academics are assessed discourage academics from engaging with real problems and communicating their work to those who can act upon it.

RESponsible BORds for a Sustainable Future

In order to move towards a more sustainable future, we need to have organizations who assume their sustainability responsibilities and act upon them. Corporations have the opportunity to be at the forefront of this change with their resources, efficiency, innovation capabilities, and access to talent. While the key implementation responsibility lies with the CEOs, the top decision making bodies for the organizations, their Boards of Directors, have a critical role to play in providing guidance and oversight to the management for a better future for the humanity.

According to 2010 research by the UN Global Compact - the world's largest corporate citizenship and sustainability initiative - only 39 percent of 1,300 surveyed companies have boards that routinely address corporate sustainability issues. The mechanism used by companies varies widely, with three models appearing most frequently: full board oversight, dedicated sustainability committees, and existing committees taking responsibility for sustainability.

Regardless of the mechanism in order to fulfill their sustainability responsibilities properly, the boards need to ensure that;

• The corporation's sustainability goals are made part of the business strategy that the board oversees,
• Appropriate resource allocations, organizational infrastructure and responsibility assignments are made,
• Internal control and monitoring systems properly incorporate sustainability issues and are effective,
• An adequate process has been established to engage the stakeholders to allow for inputs from stakeholders,
There is a rigorous sustainability risk analysis process that focuses on current and future impacts throughout the value chain and life-cycle of the product portfolio,

There is a verifiable process to measure the progress towards corporation's sustainability targets,

An effective internal communications and educational platform is established to regularly inform and motivate all organizational ranks,

The key sustainability performance indicators are incorporated into the corporation's information, hiring, and incentive systems,

The corporation is transparent and accountable with its sustainability efforts and disclosure policy.

The Sustainable Development Goals (SDGs) define global sustainable development priorities and aspirations for 2030 and seek to mobilize global efforts around a common set of goals and targets. The SDGs present an opportunity for business-led solutions and technologies to be developed and implemented to address the challenges. As the SDGs form the global agenda for the development of our societies, they will allow leading companies to demonstrate how their business helps to advance sustainable development, both by minimizing negative impacts and maximizing positive impacts on people and the planet. The SDGs can help to connect business strategies with global priorities. Companies can use the SDGs as an overarching framework to shape, steer, communicate and report their strategies, goals and activities, allowing them to capitalize benefits and create value.23

Responsible boards need to actively engage in embedding SDGs and COP21 responsibilities to their corporations' business strategies to create sustainable value for all stakeholders, realize benefits for their shareholders, and be a leading institution for a sustainable world.

Examples from Corporations that made Commitments for Fighting Climate Change in COP21 Meeting in Paris

Philips

Royal Philips committed to becoming carbon neutral by 2020. As Philips joins world leaders in Paris for COP21, the company pledged to play its part in reducing greenhouse gas emissions by cutting its carbon footprint to zero. From 2007 until 2015, Philips expects to have reduced its carbon footprint by 40%, but wants to accelerate its emissions reductions and achieve carbon neutrality in the next five years. Philips plans to meet the goal through a multi-pronged attack on the way it uses energy, aimed to drive down energy consumption in its own operations by reducing energy use, logistics and business travel. An action already taken towards this goal is Philips' membership of the RE100 program - a collaborative initiative of influential businesses committed to 100% renewable electricity. Philips already increased its use of renewable energy from 8% to 55% in 6 years (2008-2014).
The announcement comes as Eric Rondolat, Chief Executive Officer, Philips Lighting, addressed the COP21 Energy Day Summit urging leaders to set more aggressive targets to prevent climate change. "As it stands, we've reached the climate change checkout and all the contributions from around the world have proved insufficient to prevent a potentially catastrophic rise in global temperatures. The world must set more ambitious goals to improve energy efficiency," he said. "Faster adoption of LED lighting, and a drive to renovate existing city infrastructure and greater use of solar-powered LED lighting would have a huge impact."

Mr. Rondolat stressed the importance of the lighting industry in helping improve energy efficiency, as it accounts for 19% of global electricity consumption. Philips has gone further by developing connected LED lighting systems - to enable remote management and provide light only on demand - that can deliver energy savings of up to 80%. The company has undertaken more than 260 connected street lighting projects around the world since 2011, from picturesque towns in Italy to megacities like Los Angeles.

Mr. Rondolat highlighted that significant progress is being made in the global lighting sector. Even as global trends like population growth, urbanization and the rise of the middle class will lead to an increase of 35% in the number of light points by 2030, the vast improvements in LED and connected lighting could contribute to delivering higher than previously foreseen carbon emission reductions. The global transition to LED lighting will bring by 2030 an energy saving of 53% compared to business as usual scenario.

He said new business models, financing options, incentives, and a move towards circular service models would stimulate shorter renovation cycles. But he added that government regulatory bodies must also be prepared to set high but attainable energy standards to encourage faster adoption.

Unilever

Making the announcement at COP21, Unilever said that they would be carbon positive by 2030 and would get all their electricity from renewable energy. The company also pledged to stop coal usage within the next five years.

In 2014 Unilever's CEO Paul Polman received a Lifetime Achievement award from the Rainforest Alliance as a result of the company's work with the organization. Unilever sources 100% of their palm oil sustainably and roughly 50% of the company's tea originates from Rainforest Alliance Certified farms. They are also reported to be working towards sourcing 100% of their raw agricultural materials from sustainable origins.

Keith Weed, CMO of Unilever, said: "Some people ask me, how can you have a business case for low carbon? I say how can you have a business plan for wrecking the planet."
Microsoft

Microsoft has been powered 100% by renewable energy since 2014 through purchasing renewable energy credits and investing in wind turbines and onsite solar panels at their data centers. Microsoft invested in 520 acres of forest land near Mount Rainier National Park to offset their carbon emissions. In November 2015 the company announced that they would be increasing direct purchase of renewable electricity that they use.

Rob Bernard, Chief Environmental Strategist at Microsoft, told the Climate Group: "We are committed to increasing our purchase of green power and making long-term purchase agreements to power our facilities with local renewable energy. [In 2015] we purchased more than 3.2bn kilowatt hours of renewable energy."

Adobe

With the invention of the PDF, Adobe became the first company to mark the beginning of a paperless office by reducing the need to print documents. In December 2015 the company took their commitment to the environment even further when they pledged to operate on 100% renewable energy by 2035. Adobe have also made significant commitments to clean water access by reducing their water consumption by more than 60%.

Michelle Crozier Yates, Director of Corporate Responsibility at Adobe, said: "COP21 is a critical milestone toward a global commitment to stopping climate change. Adobe is proud to be one of the companies leading the way."

Google

Until December 2015, Google was already leading the way in clean energy by pledging to "purchase more renewable energy than any other company". But now Google has gone a step further towards achieving their goal of powering all their activities with clean energy. They have been signing "power purchase agreements" that will allow them to buy clean energy in long term contracts. The electricity is then used to power their data centers, which are currently major consumers of power. Google aim to triple their purchase of renewable energy by 2025, meaning that Google searches, emails and everything else linked to the search engine are increasingly being powered by wind and solar energy.

Additionally, Google has announced a fund of $2.5bn (£1.6bn) for 22 renewable energy projects around the world, including in Germany and Kenya. Announcing the program, a spokesperson for Google said: "These investments have been in some of the largest and most transformative renewable energy projects in the world, with a goal to help drive renewable energy development not only as a customer but as an investor and bring down costs for everyone."
Speaking at COP21, John Woolard, Vice President Energy at Google, said: "Google is the largest corporate renewable energy buyer in the world but we still need every company in the world to follow us, as the scale needed is staggering. Solar and wind prices have dropped dramatically over the last decade but it's not enough. There is never a single solution."

**Apple**

In November Apple announced that their operations in Singapore would be fully powered by solar energy by the beginning of January 2016. The move makes them the first company in Singapore to be powered 100% by renewable energy, which will be provided mainly through rooftop solar installations.

Lisa Jackson, Apple VP of Environment, Policy and Social Initiatives, told Clean Technica: "Climate change is one of the great challenges of our time, and it's going to take determination and innovation to make the much-needed transition to a green economy. This deal will cover all of our electricity needs in Singapore, including our 2,500-person corporate campus and new retail store."

Ahead of COP21, Apple CEO Tim Cook said that each Apple product is recyclable, energy efficient and free of toxins. The company is also building the country's largest private solar farm to supply their data centers with 100% renewable energy.

**ING**

Dutch multinational banking service ING, announced in December 2015 that they are committed to ensuring 100% renewable energy for all its operations worldwide by 2020. The firm has been climate-neutral since 2007 by offsetting their emissions, while they have also set targets to reduce their CO2, waste and water footprint by 20% by 2020. The initiatives were set up as part of an internal program to reduce their direct environmental impact.

Roel Louwhoff, Chief Operations Officer of the ING Environmental Program, said: "This move sends a signal both internally and externally that we are serious about doing what we can to combat climate change. We'll continue to look critically at where we can improve and take an aggressive approach to meet our direct footprint goals."
# RESPONSIBLE BOARDS FOR A SUSTAINABLE FUTURE

## THE BOARD’S SUSTAINABILITY RESPONSIBILITIES

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1. Crafting the Sustainability Vision

Defining sustainability responsibilities with a comprehensive scope

The boards should clearly define their sustainability responsibilities through a "Sustainability Charter." The Charter should clearly specify the scope of the board's oversight of sustainability issues; specifically reference the company's priority sustainability issues; make the linkages with the business strategies and priorities; and provide a framework for the integration with the company's risk management systems.

The scope of sustainability issues that need to be covered should include a comprehensive set of subjects such as safety, health, environmental, and community impact; human rights, labor rights, anti-corruption and business ethics. Another key issue to consider is the standards of conduct and level of implementation in all the jurisdictions that the company operates in. OECD MNEs Guidelines particularly focus on this issue.

Supply chains are critical links that connect an organization's inputs to its outputs. Sustainability efforts of many companies are limited to measuring the sustainability of their own business operations and do not extend these efforts to their suppliers and customers. However, brand owners need to accept responsibility throughout their value chains. This may involve utilizing their purchasing power to encourage, audit, collaborate with, and provide benchmarking and learning opportunities with its suppliers on key sustainability issues. Apart from such engagement with the suppliers within the value chain, approaches such as supplier management, product design, manufacturing rationalization, and distribution optimization can be utilized to minimize negative externalities throughout the company's value chain. Furthermore, the sustainability impacts of the company's activities further downstream, including its final customers can also be mitigated by product design and customer education. In short, the company should manage the impact of all its activities, including its supply chain as well as its full product portfolio throughout the lifecycle of its products.

Hence, the boards need to focus not only the sustainability issues arising from company's own operations, but also on minimizing the impacts throughout its value chain and throughout the life cycle of its full product portfolio.

Materiality and Risk Management

Despite the fact that market performance is currently measured through short-term financial returns, sustainability issues are becoming more relevant for investors, customers and the communities. According to the Intangible Asset Market Value report only 20% of an S&P 500 company's market value can be explained by its physical and financial assets (down from 83% in 1975) and the remainder comprises intangible factors, such as intellectual capital, human capital, brand and reputation, and relationships with regulatory bodies, non-governmental organizations, customers, suppliers and other external stakeholders. Therefore, sustainability issues that may have an impact on these intangible areas pose a significant risk for the value of a company. Boards need to seriously consider sustainability risks in four dimensions: strategic, operational, compliance, and disclosure.
The sustainability risk analysis for the company would typically include seven questions:

1. Which aspects of sustainability issues are relevant for the company?
2. What are the procedures and tools utilized for the assessment?
3. What are the short-and long-term economic, environmental and social impacts?
4. What are the major synergies, conflicts, and trade-offs?
5. What measures can be put in place to mitigate harmful impacts?
6. How does the management handle variability, uncertainty, complexity, and ambiguity (VUCA) around the key issues?
7. What is the least-cost (economic, environmental and social) mitigation option?

The responses to these questions should assess stocks and flows of economic, environmental, human, and social impacts; identify positive, negative or constant trends; determine degree to which effects can be reversed; determine degree to which negative impacts are shifted to future generations; and estimate long-term costs of failure to act at present.

The boards need to ensure that the material issues that would substantively affect the company's strategy, business model, capital, or performance are properly identified. In doing so the boards need to be actively involved in setting the materiality thresholds and ensure that the trends, current and future impacts have been considered. Boards also need to ensure that the management has prioritized the key sustainability issues and considered the resource requirements to deal with the prioritized issues in its mitigation plans.

Stakeholder Engagement

Stakeholder engagement is a critical process that helps companies understand their key environmental and social impacts and identify sustainability risks and opportunities. First, the company needs to prepare a map of its key stakeholders for the issue at hand. Then, comes the choice of the engagement model, communication, consultation, participation, and partnership, with each level requiring more resources. Tools of engagement may include interviews, workshops, focus groups, town-hall meetings, stakeholder perception surveys, stakeholder panels, and joint decision making for pros and cons for each. The boards need to understand the key issues raised by the stakeholder engagement process and how the management plans to address them.

2. Building Sustainable Boards

Ensuring a Board with Appropriate Skills

Boards need to have members who understand the impact organizations have on the environment, their employees, and society in general. Corporate boards have to make difficult trade-offs when considering actions that are not positive contributors to all areas of sustainable effectiveness. Therefore, boards need to receive good information about the environmental performance and social impact of their corporation.

There are two key roles for the boards: providing guidance and providing oversight.

The guidance role of the board requires setting the strategic direction, controlling the executive recruitment and motivating the right kind of management behavior by setting the executive remuneration policies, understanding the stakeholder concerns by an effective stakeholder engagement process, providing leadership
and a climate of continuous learning and development.

The oversight role in turn, requires setting up an effective internal control mechanism, ensuring independence of audit and strict compliance, monitoring ethics and business conduct within the company and its value chain, and transparency in external reporting and disclosure. Therefore, boards need to have members who not only are experienced in providing guidance and oversight, but also have a sound understanding of the concerns and decision making processes of the company's stakeholders, as well as familiarity with the sustainability issues and the evolving sustainability standards and benchmarks. These matters need to be taken into account both at the recruitment stage for board members and at the design and implementation of the orientation and board education programs.

In order to gain and retain the trust of stakeholders the most important issue is to have the right attitude. The yardstick should be the ethic of reciprocity that is prevalent in most religions and philosophers' writings summarized as "Do unto others as you would have them do unto you."31

Recent studies have shown a positive correlation between board diversity and both strategic innovation and corporate reputation.32 Board diversity, in all sense of the word including but not limited to gender diversity, is really important in ensuring the board is fit to drive change towards a sustainable business. Diversity of age, tenure, gender, ethnicity, cultural background, geographic, functional, and industry experience ensures that multiple perspectives are represented as the board engages in strategic discussions and makes long-term business decisions.33,34,35

In order to adequately evaluate the different dimensions, perspectives, and risks of the sustainability issues, industry experience diversity would be useful to better understand benchmarking opportunities. Tenure diversity would help avoid group thinking. Age diversity is recommended to better understand the sensitivities of different cohorts of customers and stakeholders. Ethnic, gender, and geographic experience diversity improves understanding of the sensitivities of different social segments and markets. Finally, stakeholder experience diversity helps better understand decision making process of different stakeholders.

**Board Processes to Support Sustainability Responsibilities**

Many boards establish a separate Sustainability Committee. The committee may also be named Responsibility Committee; Safety, Health, Environmental Protection, and Stakeholder Engagement Committee; or the responsibility may be assigned to the Audit or Risk Committees. to review the sustainability risks and remedial plans to highlight the key issues for the full board to consider.

At a minimum the following steps should be taken by the Sustainability Committee:

- Identification and management of key social and environmental issues and ensuring the reliability of social and environmental performance management information;
- Identification of and engagement with key stakeholders;
- Monitoring the efficiency and effectiveness of sustainability management systems and controls.

The boards need to understand the sustainability risks and impacts across the corporation's value chain and how this might impact the business model and competitive positioning of the corporation. They need focus on sustainability driven innovation
and value creation opportunities, and provide guidance on the relationship of sustainability issues with the corporate strategy.

The boards also need to provide sufficient oversight to the management's identification of risks and opportunities of sustainability issues, including those related to strategy, regulatory and legal liability, product development and pricing, disclosure and reputation, as well as the management's action plans. In doing so, the boards' unfettered access to outside experts should be assured. In camera sessions with these experts are recommended to receive independent advice.

The sustainability committees and/or the boards need to have access to stakeholder engagement processes in order to be able to form independent views on the highlights of stakeholder concerns. Yet, it is critical that the members should not put themselves in a position to commit the company for any course of action as that is a management responsibility; the board is a decision making body as a team.

The boards also need to ensure that the internal control and monitoring systems provide sufficient attention to sustainability issues, compliance and timeliness and adequacy of external reporting. Obviously, all these activities take time and therefore the boards need to allocate sufficient time and resources to deal with sustainability risks and management plans to address them. The time allocation should consider the breadth and immediacy of key sustainability issues that need to be addressed.

The board deliberations should also include evaluation of the adequacy of the D&O insurance package to sufficiently protect the directors against liabilities arising from sustainability issues. Boards should institute a learning and continuous improvement process for their own operations by incorporating the recommendations of the insurers into its sustainability plans and by conducting a regular self-evaluation exercise that evaluate the board's approach and effectiveness in providing guidance and oversight on sustainability issues. Many companies utilize independent third party experts to help conduct a comprehensive and objective self-evaluation process.

**Information Quality Determines the Decision Quality**

Information flow to the board needs to be relevant, context based, timely, balanced, and comprehensive.

Balance refers not only to the amount different dimensions of information, but also to its detail. **Relevance** and **context** are two key elements of for board information. Putting information into context requires an ability to show the bigger picture as well as including comparative benchmarking data. Relevance of information, in turn, is related to the decision-making process. The board has to understand the issue, and the options, costs, risks, and impacts of each option for different stakeholders. Comprehensiveness refers to the different dimensions of sustainability, including social, environmental, and governance aspects. Environmental impacts may also include a broad range of issues, anywhere from carbon emissions to biodiversity, from energy efficiency to water and air pollution etc.

For information to be **useful**, it needs to be presented within a context which should include comparisons with past performance and budget targets, lead indicators, current trends, emerging issues, emerging benchmarks, compliance with applicable laws and regulations, and the key upcoming regulations and standards.
In general, financial information is more readily available and presented in great detail, ignoring other key information requirements for quality decision making such as information about the level of intellectual capital and reputation of the corporation, and supplier, customer, employee, and community satisfaction surveys. Yet, these types of information may have a greater relevance for the future value of the corporation and for the board members to fulfill their stewardship roles.

In order for the board to exercise its oversight responsibilities, the boards should receive findings and recommendations from any investigation or audit by internal audit department, external auditors, regulatory agencies, corporation’s insurance companies, or third party consultants concerning the corporation’s sustainability matters on a timely basis.

Finally, the boards should determine the key sustainability performance indicators (KPIs) they would like to follow on a regular basis and to incorporate into the executive remuneration policies. They should also receive regular information on these KPIs to be able to monitor progress towards sustainability goals.

All these decisions, that have been made through this decision making processes by using the provided information, have a financial impact on the company’s balance sheet and will be a key determinant in calculating enterprise value of the business itself.

**Integrating Sustainability into the Organization**

**Leadership and Culture**

Good governance is a culture, a climate, and a set of behaviors that is exhibited throughout the organization, followed everywhere and every time, without written instruction or explicit mention. The tone at the top sets the corporate culture. Therefore, not only the conduct of the board members but also their decisions and how they communicate these decisions are critical. All the members of the board should support, improve, and guide the corporate culture with their actions.

Corporate culture is the cornerstone of creating trust inside and outside the company.

Furthermore, the boards need to consider incorporating sustainability consciousness as a key criteria in choosing CEOs and filling the other top executive positions. The potential candidate needs to have strong conviction to convince others to follow and an appreciation that identifying sustainability risks requires stakeholder engagement. The boards also need to hold the CEO to account on the sustainability performance of the corporation by incorporating sustainability performance data to inform its deliberations on executive remuneration policies.

Open-minded, early, and honest communication is a key enabler of a good governance culture. Transparency requires that analyses, decisions, and actions are documented, put into context, and considered for materiality. Information relevant for governance needs to focus on costs, risks, options, and impacts. Its context, timeliness, and comparison with relevant benchmarks are more important than its ultimate precision. Therefore, it is the management’s responsibility to explain the bigger picture, issues, options, and recommendations in a way that is up-to-date and comprehensible, and in an executive format.

Creating an appropriate climate for learning is a critical leadership challenge. Actions speak louder than words. Therefore, leaders who wish to create an environment that promotes learning should start with themselves. They should share their own mistakes and the lessons they have learned in order
to develop the feeling of trust within the corporation. They must further turn this into a common learning process and create a transparent environment that will set the stage for continuous learning. Leaders should ensure that the corporate culture embodies an understanding that “To win we have to make calculated experiments,” rather than “We should do nothing for fear of making a mistake.”

Professional diligence also requires that the management **discloses mistakes**, and problems on a timely fashion. This may be unpleasant, but it builds trust and helps build a continuous learning culture. If the management has valid concerns, the board has to know them. Mutual trust between the board and the management also requires the acceptance and the internalization of the separation of management and governance rights.

Sustainability issues are generally long-term issues that need long-term attention. Therefore, the sustainability of effort is critical as the Turkish saying “What breaks a rock is not the strength, but the continuity of water flow”. Therefore, the board should ensure that the efforts are sustainable to make a sustainable impact. Hence, sufficient financial **resources**, organizational/human resources, and intellectual resources should be allocated to address the key sustainability issues.

**Deployment and Learning**

Both the competitive pressures and the increasing expectations of the stakeholders call for **continuous learning** and development from the corporations. Therefore, the board needs to take action to ensure that the sustainability agenda of the corporation is an integral part of the culture and its systems assure learning and continuous improvement. For this purpose, the key sustainability issues need to be identified and incorporated into strategies, policies, objectives, and associated management systems with a particular view towards value creation opportunities.

Another key concern is the deployment of the board’s sustainability priorities throughout the organization. A successful deployment program requires establishing framework for effective communication and learning for the employees and the members of the supply chain; incorporating sustainability issues into hiring and remuneration policies as well as supplier identification processes (having appropriate incentive systems); establishing clear guidelines and remedies for those who fail to follow the corporation's sustainability standards; and making sure that the management information systems provide for adequate, appropriate, and verifiable data on key sustainability priorities.

Internal control systems, external reviews, stakeholder engagement processes, and compliance requirements should all be utilized for continuous learning opportunities, rather than as tick the box compliance requirements.

**Transparency and Reporting**

Despite the fact that emerging global standards for sustainability reporting, including the G4 and IIRC, are gaining broader acceptance, the field of sustainability reporting is still open to experiment with new approaches. For example, the government of New Zealand is publishing a balance sheet for the assets and liabilities of the government. Despite being a leading example for governments elsewhere, this public balance sheet approach has significant room for improvement, particularly in incorporating environmental assets and liabilities. On the corporate side, Puma has come up with another path breaking example by including the environmental costs of all its supply chain in its sustainability reporting.
What gets measured, gets improved. Therefore, it is these examples are particularly important. Also, they provide benchmarking opportunities for others to follow, thereby increasing the speed of learning.

**PUMA'S GROUNDBREAKING APPROACH TO QUANTIFYING THE "REAL" COSTS OF OPERATIONS**

PUMA is one of the companies leading the field. Their innovative approach to costing all its environmental, social and economic impacts is a best-in-class example of a holistic approach to reporting that goes beyond compliance and an example for companies who will follow suit. In its 2010 EP&L, Puma quantified and added the costs of its environmental impact to its Balance Sheet and reported its actual costs.

Executive chairman Jochen Zeitz wrote "I sincerely hope that the Puma EP&L and its results will open eyes in the corporate world and make the point that the current economic model, which originated in the industrial revolution some 100 years ago, must be radically changed. A new business paradigm is necessary and a transformation of corporate reporting will be central to this - one that works WITH nature and not AGAINST it."

PUMA’s approach highlights some of the challenges inherent in managing for sustainability, namely the difficulty of defining metrics to set targets and the difficulty of the company’s ability to control the impact on these targets. Quantifying environmental costs required Puma to develop methodologies for assigning costs to metrics from greenhouse emissions and land usage to working with its supply chain to identify the points where most costs were incurred. Tackling this issue has allowed Puma not only to have a positive influence on managing the entire environmental footprint of its operations by looking at the entire value chain, but also for the Board to better evaluate risk, achieve cost savings and fuel innovation.
CONCLUSION

Sustainability is balanced pursuit of three goals mutually: ecological health, social equity, and economic welfare. Sustainable behavior calls for nature's functions and diversity not to be systematically impoverished by human intervention and resources to be utilized fairly and efficiently in order to meet basic human needs globally, including the preservation of the opportunities for the future generations to continue to improve quality of life.

The main purpose of ethical and moral behavior is to constrain the individual's short term interests for the long term survivability of humanity (the community/future generations). Therefore, sustainability is firmly engrained in ethical and moral behavior.

Hence, all organizations and as their stewards, boards of directors, are responsible for a sustainable future. This book, summarizes the key responsibilities and activities for boards of directors to fulfill their fiduciary, ethical, and moral responsibilities for a sustainable future.

Responsible boards are critical not only for the survival of the corporation that is entrusted upon them, but also for the survival of the human kind and our planet for a sustainable future. In order to properly fulfill their sustainability responsibilities, boards need to address and reflect upon, at a minimum, the following 35 questions.
SUSTAINABILITY QUESTIONS FOR RESPONSIBLE BOARD MEMBERS
1. Crafting the Sustainability Vision

**Comprehensive Scope:** Does the Board have a Sustainability Charter with appropriate scope?

1. Does it include all areas of sustainability, such as safety, health, environmental and community impact; human rights, labor rights, anti-corruption and business ethics?
2. Does it include the responsibilities throughout the value chain?
3. Does it include product responsibilities throughout the life-cycle of the corporation's full product portfolio?

Does it include highest standards of conduct in all the jurisdictions that the corporation operates in?

**Stakeholder Engagement:** Has an adequate stakeholder engagement process been conducted?

1. Has the management comprehensively identified its relevant stakeholders and prepared a stakeholder map?
2. Has the management identified sustainability initiatives targeting each stakeholder group through 2-way communication?
3. Does the Board have access to the key issues raised by this process?
4. Does the Board have a process to evaluate the management's sustainability plans to address the key issues?

**Materiality and Risk Management:** Have the material issues that would substantively affect the company's strategy, business model, capital or performance been properly identified?

1. Has the Board been involved in setting the materiality thresholds in each sustainability area (i.e. economic, environmental, and social)?
2. Have the trends, current and future impacts been considered?
3. Has the management prioritized the key sustainability issues?

Has the management considered resource requirements to deal with the prioritized issues in its mitigation plans?

2. Building Sustainable Boards

**Skills and Team:** Does the Board have the right skills to provide guidance and oversight to the sustainability plans of the corporation?

1. Does the Board have sufficient expertise to understand the decision making processes of key stakeholders?
2. Does the Board have members who are familiar with the evolving sustainability standards and benchmarks?
3. Does the Board have enough diversity to adequately evaluate the different dimensions, perspectives, and risks of the sustainability issues?

- Industry experience diversity to better understand benchmarking opportunities
- Age diversity to better understand the sensitivities of different cohorts of customers and stakeholders
- Ethnic, Gender, and Geographic
diversity to better understand the sensitivities of different social segments and markets

• Stakeholder experience diversity to better understand decision making process of different stakeholders

Processes: Does the Board have the right processes to provide guidance and oversight to the sustainability plans of the corporation?

1. Has the Board established a special **Sustainability Committee** to review the sustainability risks and plans to highlight the key issues for the full Board to consider?

2. Does the Board understand the **sustainability risks and impacts** across the corporation's value chain and how this might impact the competitive positioning of the Corporation?

3. Does the Board provide guidance on incorporation of sustainability issues to corporate strategy and focus on sustainability driven innovation, value creation opportunities?

4. Does the Board provide sufficient **oversight** to the management's identification of risks and opportunities of sustainability issues, including those related to strategy, regulatory and legal liability, product development and pricing, disclosure and reputation, as well as the management's action plans?

5. Does the Board have **access to outside experts** on various dimensions of sustainability to receive second opinion on management reports on sustainability issues?

6. Has the Board allocated **specific and sufficient time** during its annual time budget to adequately review the sustainability issues for the corporation?

7. Does the Board conduct a regular **self-evaluation exercise** that incorporates the Board's approach and effectiveness in providing guidance and oversight on sustainability issues?

8. Does the Board **D&O insurance package** sufficiently protect the directors against liabilities arising from sustainability issues and does the Corporation incorporate the recommendations of the insurers into its sustainability plans?

Timely and adequate information: Does the Board receive timely and adequate information to evaluate the performance of the Corporation's sustainability plans?

1. Does the board regularly receive sufficient information about sustainability performance of the corporation, including comparisons with past performance and budget targets (**oversight of the quality of implementation**)?

2. How about lead indicators, current trends, emerging issues, emerging benchmarks, compliance with applicable laws and regulations, and the key upcoming regulations and standards (**continuous learning**)?

3. Is information about the level of intellectual capital and **reputation** of the Corporation measured and made available to the Board?

4. Does the board receive **findings** and **recommendations** from any investigation or audit by internal audit department, external auditors, regulatory agencies, corporation's insurance companies, or third party consultants concerning the corporation's sustainability matters on a timely basis?
3. Integrating Sustainability into the Organization

Leadership

1. Are the key sustainability issues identified and approved by the Board incorporated into Corporation’s strategies, policies, objectives, and associated management systems (value creation opportunities)?

2. Has the Corporation allocated sufficient resources to address the key sustainability issues (sustainability of the efforts)?
   - Financial resources
   - Organizational/human resources
   - Intellectual resources
   - Are any significant changes to the plans and resource requirements reported to the Board?

Deployment

1. Are all the executives and key employees of the corporation in different geographies familiar with the sustainability priorities of the corporation (deployment)?

2. Does the Board link sustainability performance metrics with the remuneration policy for top management (incentives)?

3. Does the Board have an explicit policy for those who fail to follow the sustainability standards of the Corporation (remedies)?

4. How does the board ensure continuous learning both within the organization, as well as throughout the supply chain regarding developing sustainability issues?

Reporting and Communication

1. Has the Board adopted a Disclosure Policy for the Corporation’s sustainability program and does it review the Disclosure on Management Approach to sustainability?

2. How does the board ensure itself that the sustainability reporting by the company is adequate, appropriate, and verifiable?
1. The author would like to thank Sir Mark Moody-Stuart, former Chairman of Royal Dutch Shell, Anglo American, and Hermes Equity Ownership Services; Paul Polman, CEO of Unilever; Alan Clark, CEO of SAB Miller; Jochen Tilk, CEO of Potash Corp.; Damian Gammell, CEO of Anadolu Efes; Paul Gagné, former CEO of Avenor Inc and former Chairman of the Canadian Pulp and Paper Association; Matt Fullbrook, Manager of Clarkson Centre for Board Effectiveness at the Rotman School of Management; Gizem Argüden from McKinsey, and Dr. Erkin Erimez from ARGE Consulting for their review and constructive comments on an earlier draft.


7. For examples of cases where the legal courts underscored the importance of assessing the impact on key stakeholder relations of a Business decision made in the context of hostile takeovers a shareholder-instituted derivative actions: Unocal Corp. Mesa Petroleum Co., 493 A. 2d 946, 955 (Del. 1985), discussing how boards should consider the impact on constituencies other than shareholder when analyzing the reasonableness of defensive measures; and Paramount Communications, Inc. v. Time Inc., 571 A. 2d 1140, 1153 (Del. 1989).


9. Delaware Code Annotated, Title 8, Section 102(b) (7), permitting the use of clauses in the certificate of incorporation (therefore approved by shareholders) to insulate corporate directors from monetary liability for any action arising from a breach of their duty of care. Exculpatory clauses provide more freedom and leniency to directors in their decision-making capacity, and encourage them to take strategic risk.


12. UNFCCC: The United Nations
Framework Convention on Climate Change (UNFCCC) is an international environmental treaty negotiated at the Earth Summit in Rio de Janeiro from 3 to 14 June 1992, then entered into force on 21 March 1994.

13. The author was one of the participants of the World Economic Forum’s Davos meetings where Kofi Annan, the seventh Secretary General of the United Nations, made this speech and called business and civil society leaders to action. Dr. Argüden became the first Turkish signatory of the UN Global Compact both as a business (ARGE Consulting) and an NGO (National Quality Association) leader.

14. Perhaps partly because of the resource limitations of the UN Global Compact, and its limited ability to apply remedies. Necessity is the mother of innovation.

15. In some cases, regions, such as Gulf countries or Scandinavian countries.


24. Sometimes may also be called “Corporate Responsibility Charter”

25. If there is a specific committee assigned for this responsibility, the Charter may cover the relevant committee’s responsibilities.


29. See, Neil Jeffery, “Stakeholder Engagement: A Road Map to Meaningful Engagement” Doughty Centre, Cranfield School of Management, July 2009 for pros and cons for each.


31. “Regard the other, as you regard yourself ” by Yunus Emre (1240 -1321)
the famous Turkish poet and Sufi mystic.


36. The committee may also be named Responsibility Committee; Safety, Health, Environmental Protection, and Stakeholder Engagement Committee; or the responsibility may be assigned to the Audit or Risk Committees.


38. Therefore, the sustainability of effort is critical as the Turkish saying “What breaks a rock is not the strength, but the continuity of water flow.”

39. This definition is based on Ege Cansen’s speech on “Ethics and Morality” for the Argüden Governance Academy, January 2014.
"Gender Equality" Training Program is designed to raise awareness of the private sector on gender equality with a perspective of good governance culture. Our trainings which are designed based on companies' needs.

Training program is mostly focusing on the discussion of roles and attitudes of individuals in the society through a new perspective. The aim of the program is to raise awareness in different areas of life (employment, family, education, health, violence) with specific strategies and tools supporting the opportunities of both genders and life equality.

The courses are enriched with working groups, data analysis, research reports and analysis of scenes from the movies. The course schedule and time requirements for the program are determined in accordance with the expectations and contemporary needs of the institutions.
ARGÜDEN GOVERNANCE ACADEMY

The non-profit Argüden Governance Academy’s mission is to improve the quality of “Governance” by increasing trust for the institutions to build a better quality of life and a sustainable future.

The Academy conducts education, research, and communication activities to disseminate the good governance culture at all levels of the society (public, civil society, private sector, and global actors), including the children.

The Academy’s vision is to become “a center of excellence in governance” and “a reference institution” by creating a knowledge and experience platform on governance at the national and international level.

Argüden Governance Academy is committed to play a pioneering role by adopting “Integrated Thinking” and “Good Governance Principles” (consistency, responsibility, accountability, fairness, transparency, effectiveness, and deployment) to all its work and stakeholder relationships.

The Academy aims to:

• Ensure that good governance is adopted as a culture,

• Raise the understanding of “the key role of good governance in improving quality of life and sustainability of the planet”,

• Guide the institutions by developing methods to ease the implementation of good governance principles,

• Inspire future leaders by promoting “Best Practices” of good governance,

• Increase the next generation leaders’ experience of good governance,

• Disseminate global knowledge and experience at all levels of the society with a holistic approach,

• Become “the right cooperation partner” for the leading institutions in the world by creating common solutions for global issues.

The Academy advocated “Integrated Thinking” during Türkiye’s presidency of the G20 and adopts this culture in all its activities.

Argüden Governance Academy became the first non-governmental institution in the world to report its work as an Integrated Report since its founding.
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