

Bistra Boeva

CAPITAL, MELTING GLACIERS AND 2 °C

SUSTAINABLE CORPORATE GOVERNANCE IN 21ST CENTURY

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PREFACE

This book is the result of my decade long research into sustainable development issues from a corporate governance perspective. There are phenomena in economic and social life, that occur far from the university lecture halls, somewhere in the world's oceans and woodlands which made me engaged in projects dealing with global supply chains from the perspective of corporate governance. A professional concern for the need for non-financial data dissemination guided my efforts while participating in an IFC project on disclosure. Gradually the key question took shape: where is the proper place of corporate governance in the clash between business and climate, between prosperity and poverty. This book attempts to give an answer by eschewing the fragmentary approach – rather than identifying the changes in the individual components of corporate governance, the research focuses on *the study of the system of corporate governance functions on its journey towards sustainable development*.

The initial two chapters outline two trends: *the macro and micro level initiatives regarding sustainable development (which also includes Sustainable Development Goals 2030)* on one hand, and the theoretical views on the ensuing changes in corporate governance on the other. Chapter 3 focuses on *the driving force behind the changes* in corporate governance related to environmental protection, social justice and governance. Ownership and sustainable corporate governance is the main topic.

Sustainable corporate governance is given legitimacy by *company stakeholder's engagement policies*, however CRS initiatives are not sufficient. In chapter 4 the increasingly important topic of global

supply chains is explored in depth in order to underscore their importance.

The topic of information disclosure is relatively well developed in modern business practices. Chapter five examines the way a public company reports the results of **its activities on environmental protection, social justice problems and corporate governance**. **By using comparative analysis the similarities and differences of recognized standards for non-financial reporting are fleshed out.**

Chapter 6 identifies the new role of corporate boards. Is their “greening” a fact? How leadership functions are carried out in achieving sustainability goals? The question of the ethical and formal compliance with the law is also examined in this part of the book

The original publication is in Bulgarian (2018). An even lengthier period of time was needed to prepare the English edition and to adapt it to the tastes and interests of an international audience. I would like to acknowledge the contributions of A. Moskova and R. Kaisheva for the translation of the text, and to M. J. Larson, R. Germanova (IFC) and E. Todorov for help in editing the text and in providing relevant commentary.

Prof. Dr.Sc. (Econ) Bistra Boeva
Sofia
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CHAPTER ONE

The Evolution and Multi-faceted nature of Sustainable Development: the Business and Corporate Governance Perspective

This chapter is devoted to the understanding of the contemporary corporate governance environment. As an indispensable component of the market economy it is traditionally presented as the result of macro- and microeconomic processes. Subsequently, voluntary commitments on the part of the business community and legal norms leave their mark on the principles and tools of corporate governance. The logic, which is most often applied in academic research, here serves to bring out *the essence and changes in corporate governance in line with economic and legal systems* (also known as „external architecture” of corporate governance). The systemic crises of the 21st century, along with environmental protection requirements, have brought about fresh approach to research to identify the factors which are shaping corporate governance milieu. In this chapter, after clarifying the concept of corporate governance, the spotlight is focused on factors changing contemporary reality. The central theme of the book: the interplay between **corporate governance and sustainable development** steers the research towards the activities of international institutions.

I. Corporate governance :a definition for the needs of this publication

Corporate governance *“involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through*

which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.¹

The need to strike a ***balance*** between the interests of owners, corporate boards² and stakeholders in the process of creating *value* in a context of ***dynamic, risky and unpredictable environment is fundamental to modern corporate governance***. Irrespective of the specifics of the jurisdiction, good corporate governance is identified by:

- shareholders' rights protection;
- ensuring transparency by the disclosure of information;
- respecting the rights of stakeholders (employees, consumers, suppliers, non-governmental organizations) in accordance with legal norms and best practices;
- Compliance with obligations of trust / fiduciary duties by members of the corporate boards (Boards of Directors and Supervisory Boards). These include e duty of loyalty and duty of care.

These definitions and principles are used in the course of examining the impact of economic processes and of the environment, associated with hard to predict risks, on corporate governance. Accordingly the following ***paragraphs will help to clarify the specific concepts of sustainable development (an enlarged framework for the functioning of corporate governance)***. It is considered a relatively new topic for corporate governance and the aim is to find out how a corporate governance system interact with sustainable development. The traditional study of capital market ***vis-à-vis*** corporate governance is deliberately limited.

¹ G20/OECD Principles of corporate governance, OECD, P. 2015, p. 9.

² This publication adopts the established generic concept in the OECD Principles of Corporate Governance. Corporate boards, as this term will be used, also include boards of directors and supervisory boards.

2. Sustainable development :on the consensus of reaching an understanding

Sustainable development is a topical issue, used as an argument in political confrontations. Quite often it pits the interests of business against the interests of society; the desire for quick profit against sustained prosperous development.

Ordinarily, sustainable development is used as a code word, offered by a diverse team of international experts, for diagnosing problems and offering solutions. As quoted in the “*Our common future*” report: “Sustainable development seeks to meet the needs and aspirations of the present without compromising the ability to meet those of the future.”¹ A definition shared by the author of this publication. The purpose of this book is not to question the theories and concepts of sustainable development. It is more important to evaluate and to utilize the core ideas of the report, chief among them: “Sustainable development provides a framework for the integration of environment policies and development strategies – the term ‘development’ being used here in its broadest sense. The word is often taken to refer to the processes of economic and social change in the Third World. But the integration of environment and development is required in all countries, rich and poor. The pursuit of sustainable development requires changes in the domestic and international policies of every nation.”² For that reason the terms “sustainable development” and “sustainability”³ are used interchangeably. The notion of sustainability stems from the concept of sustainable development, which entered the lexicon of the First Earth Summit Rio de Janeiro 1992 (United Nations Conference on Environment and Development – UNCED).

¹ Gro Brundtland Report of the World Commission on Environment and Development: *Our Common Future*, April 1987.

² Report of the World Commission on Environment and Development: *Our Common Future*, April 1987.

³ This is done in order to avoid different interpretations in various languages, including the interpretation of sustainability only as stability.

This comprehensive definition has *practical value* because it touches on critical issues of global importance, namely:

- long- term as opposed short-term horizons in decision – making;
- eco-efficient way in utilizing resources;
- the emerging importance of climate change.

However we are presented with a dilemma: does the sustainable utilization of non-renewable resources benefit future generations only or does it affect the current political, economic and social order, as well. Th. Friedman's arguments in this respect, which have no claim on a profound scientific reasoning, serve as a *valuable illustration*: "...The green revolution is not only about the whales anymore. And it is not about "our children's children a generation so distant that it is really hard to get energized about it. This is about us."¹

Even though there is little point in debating the Commission Report, the volatile dynamics of environmental change and its global impact brings about the need to confront some of the findings in Brundtland's Report. At present, the current threats to the well-being of mankind include global warming, shortages of critical resources for manufacturing, availability of drinking water, (a particularly acute problem in cities like Cape Town), etc. This is the reason why the author of this publication regards the problem of preserving scarce natural capital (clean air, forests, soil and water, effective waste management) as a contemporary problem.²

The partnership between the state and business in the struggle for sustainable development that the report outlines is still relevant in the 21st century. „...Changes are also required in the attitudes and procedures of both public and private-sector enterprises and all compo-

¹ Friedman, Th. Hot, flat and crowded, Picador/Farrar, Straus and Giroux, NY, 2009, p. 9.

² P27 Report of the World commission for environment and development, April 1987.

nents of development policy.”¹ The private sector is call on to include sustainability criteria in its investment decisions. The report points out that the issue of sustainability is, above all, up to the individual: nothing but a shift in the attitudes and behavior will lead to seismic changes. All efforts for sustainable development should be elevated to the status of “global ethics”². The concept of sustainable development is complemented by “honesty and integrity in relation to future generations”³.

Thirty years after the publication of the report, the moral aspects of sustainability-oriented actions of individuals and business, are still as valid and are positively accepted as *a sine qua non* with regard to sustainability measures of investors, owners, companies and the State.

The key conclusions of the Brundtland Commission Report are echoed ***on the pages of this book: how and to what extent companies in the present day, their owners and executives steer the economic processes in compliance with sustainability requirements.*** Corporate governance, an inherent element of the private sector, functions in an atmosphere of significant environmental changes, forcing it to take into account initiatives for sustainable development, which will be reviewed on the following pages.

¹ Op.cit.

² Op.cit

³ Op.cit.