This essay is derived from a caucus entitled ‘Governance and Sustainability in Private Sector Firms’ that was organized for the 2015 Academy of Management Conference. To provide some background, the abstract, description and purpose of the caucus is included below.

Caucus Abstract:
To pursue sustainability in terms of being a viable business entity, private sector firms have developed governance systems best attuned to that definition of sustainability. As the private sector is encouraged, through the UN’s sustainable development goals, to embrace a broader societal definition of sustainability, these governance systems may change.

Caucus Description:
‘Sustainability’ has been an espoused objective of private sector firms for quite some time. While what sustainability actually means can be different for virtually every firm, a workable definition can be the ability of the firm to continue to be a viable entity, where viability is a combination of profitability and competitiveness. And although the notion of sustainable development with respect to environmental issues has been around since the early 1990s, today sustainable development as envisaged by the United Nation’s sustainable development goals incorporates the interactions, interrelationships and interdependencies between the economy, society and the environment. Sustainability in the United Nations context contains a societal as well as economic element and implies the formation of a partnership involving a variety of private, public and public/private constituencies. A supportive governance structure has evolved to help achieve firm-specific sustainability, but good questions to ask are: What are the governance structures that need to be in place to enable private sector firms to engage fully with the UN’s sustainable development agenda? Should the private sector even be concerned with societal/economic sustainability? What needs to change? If change is needed how is it accomplished?

Caucus Purpose:
The purpose of this caucus is a comprehensive exploration of (a) the link between governance in private sector firms and the determination and attainment of firm-specific sustainability objectives, (b) the link between governance in private sector firms and the private sector’s ability to support broader societal/economic sustainability objectives, and (c) will governance in the private sector have to change in order for it to support those broader societal/economic sustainability objectives. The premise in this caucus is that the private sector has gone a long way to incorporate the idea of corporate social
responsibility (CSR) but that to whom or what private sector firm management has to answer will change in response to a more universal adoption of sustainable development goals. Questions the caucus will raise in the process of this exploration include: Who determines what a firm’s corporate social responsibility (CSR) is? How is CSR monitored/measured? How broad is the definition of a stakeholder? What is more important, increasing shareholder wealth or societal wellbeing? Should the private sector even be concerned with societal/economic sustainability?

Caucus Discussion:

To help frame the discussion, I began by making a few points:

1. The successful implementation of the UN’s Sustainable Development Goals will require the involvement of the private sector across several dimensions.

2. For the private sector to be involved, it needs to embrace the spirit of the Sustainable Development Goals in their economic, social and environmental aspects.

3. Embracing the spirit of the Sustainable Development Goals will require a fundamental rethinking of the ways in which the private sector conducts its business.

4. Rethinking the ways in which the private sector conducts its business has implications for both the governance of private sector firms and the governance structures that guide their activities.

5. For this ‘new’ governance and governance structures to be effective globally, there needs to be a more or less global consensus about what those are.

The participants in the caucus came from a variety of disciplines with a variety of research interests, which of course shaped the ensuing discussion. While discussion was the underlying reason for the caucus, the direction discussion can take may or may not coincide with the stated purpose of the caucus, so allow me to describe how the items that were to be ‘comprehensively explored’ were addressed.

The link between governance in private sector firms and the determination and attainment of firm-specific sustainability objectives

It was generally agreed that (of course) private sectors are governed and have developed governance structures that work for them, but that, with respect to sustainability, firms essentially self-define sustainability. Because they self-define sustainability, whatever governance mechanisms already are in place apply to the firms’ sustainability objectives.

The link between governance in private sector firms and the private sector’s ability to support broader societal/economic sustainability objectives

If a company already is inclined to support broader societal/economic issues or objectives (i.e., it embraces corporate social responsibility), its governance already has been set up to be in line with those issues and objectives. But the extent to which a company wants to, or can, extend what it does with respect to corporate social
responsibility to the societal and economic sustainability objectives contained in the Sustainable Development Goals will depend in large part on how it defines sustainability and even its corporate social responsibility.

**Will governance in the private sector have to change in order for it to support those broader societal/economic sustainability objectives?**

For those companies that already are so inclined, or for which the societal and economic sustainability objectives embedded in the Sustainable Development Goals are a natural extension of how they run their business, governance probably will not have to change. But for any company that decides it wants to embrace and pursue those societal and economic objectives, governance will have to change. What that governance will be, though, is the question, the answer to which is, to put it mildly, ‘complicated’.

Now let me delve into the questions the caucus was intended to raise.

**Who determines what a firm’s corporate social responsibility (CSR) is?**

Participants in the caucus agreed that CSR is determined by management, but that it is influenced by the pressures the company’s stakeholders, including governments, can bring to bear. The extent to which stakeholder interests are inculcated in the company’s CSR depends on the power relationship between management and the stakeholder. It was acknowledged, however, that how CSR is defined – and therefore what it really is – differs depending on several factors such as the industry and markets in which operates, and the location of the company’s headquarters. As a result, approaches to CSR can differ across and within industries.

**How is CSR monitored/measured?**

Monitoring and measuring CSR depends on two things: how important CSR is to the company’s mission and reputation, and what constitutes the company’s CSR activities. Given that approaches to CSR are different, monitoring and measuring is, literally, ‘all over the place’. Not only does this make it difficult for someone to compare CSR activities across or within industries, it also does not allow for much, if any, generalizations to be made about how CSR should be monitored or measured.

**How broad is the definition of a stakeholder?**

Who a stakeholder is really depends on three things. First, what a company chooses to define as a stakeholder. Second, how important the stakeholder is to the operations of the firm. And third, the level of influence (its relative power) the stakeholder can exert on the company’s governance. While this, too, is ‘all over the place’ when it comes to a broad spectrum of firms, it is worth noting that the participants in the caucus noted the increasing importance of a company’s supply chain as a stakeholder, and how a company can be seen as a stakeholder in each company in the supply chain.

**What is more important, increasing shareholder wealth or societal wellbeing?**

Frankly, this question did not get discussed, probably because this, just like monitoring and measuring CSR and defining what a stakeholder is, can only be answered by an individual firm. The question, however, sorely needs to be discussed, for the answer will shape governance. One way to frame the discussion was suggested by one of the
participants, who noted that maybe companies should start by asking this question:
What can work for 10 billion people for 500 years?

Should the private sector even be concerned with societal/economic sustainability?

The consensus was that, yes, the private sector should be concerned with societal and
economic sustainability because it is in the private sector’s long term interests. The
extent to which individual parts of the private sector are concerned, however, varies
widely. Ultimately this is a management decision, but how management reaches that
decision is going to be influenced by its governance. The question about what can work
for 10 billion people for 500 years applies here as well.
Let us return to the questions that were ‘good to ask’ when considering that companies
have developed supportive governance structures to pursue their own sustainability.
Now, it should be noted that what ‘sustainability’ means in this context is the continuation
of the company as a viable entity, which means that it can continue to produce goods
and services while providing a positive return to its owners.

What are the governance structures that need to be in place to enable private
sector firms to engage fully with the UN’s sustainable development agenda?

This is a question sorely in need of an answer, but currently no one answer exists. This
is not to say that there are no governance structures in existence that are compatible
with the UN’s sustainable development goals. What Unilever does and how it is
governed might provide a model, as might industry-specific approaches to governance
such as what is emerging from the Extractive Industries Transparency Initiative. Rather,
an answer that perhaps can serve as a base model across industries currently does not
exist.

Should the private sector even be concerned with societal/economic sustainability?

Yes. (see above)

What needs to change?

What needs to change is an attitude toward what it means to be a ‘viable sustainable
company’ and a recognition that sustainability is not just about the survival of an
individual company but the preservation of the environment and the earth’s resources
that will enable everyone to enjoy a decent quality of life.

If change is needed how is it accomplished?

Change is needed, and while it might first have to come from a change in attitude, it
needs to be supported by governance structures that recognize the complicated
interactions, interrelationships and interdependencies between a company, the
economy, society and the environment. To be sure, this is a daunting task, but one that
must be done.
Conclusion

Given that the caucus involved a group of academics, it should be no surprise that more questions were raised than answered. Academics, however, also like to research questions, and one that might have promise with respect to governance and sustainability involves the role of companies’ supply chains in their efforts to address their carbon footprint, their use of resources, the amount of waste for which they are responsible, and their impact on local communities. How supply chains are managed, and how they are adapted in the face of resource constraints and the effects of climate change, especially if companies start seeing their relationships with supply chains as cooperative rather than arm's length, might well lead to new approaches to governance.