Redefinition of the Corporate Purpose and the Increased Importance of «E» and «S» within ESG

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Since some time, a shift in public expectations and increased regulatory focus has amplified the importance of ESG for companies.

While traditional (corporate) governance topics (the «G» within ESG) – mainly board composition, shareholder rights and executive compensation – remain a focus area, the environmental and social aspects of ESG (the «E» and «S») have gained importance. Companies are expected to commit to a purposeful business, integrate societal goals in their strategy and disclose ESG information. Today, there is a growing consensus that companies (have to) play an increasingly important role in solving the challenges of our society and the planet.

These pre-existing trends are being accelerated by the current global economic and health crisis resulting from COVID-19.

From Business to Purposeful Business

The shift from a shareholder primacy to a more holistic stakeholder view was promoted by Blackrock's «Dear CEO Letter of 2018 – A Sense of Purpose», which stated that society is increasingly turning to the private sector to respond to broader societal challenges and serve a social purpose.[1] This shift has been confirmed by the U.S. Business Roundtable statement on «Redefining the Purpose» in August 2019[2] as well as the 2020 WEF manifesto towards a universal company purpose.[3] Nowadays, there is broad consensus that companies should (also) focus on their social impact. ESG cannot be outsourced to governments and politicians alone.

1 https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter.
2 https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans.
3 https://www.weforum.org/agenda/2019/12/davos-manifesto-2020-the-universal-purpose-of-a-company-in-the-fourth-industrial-revolution/.

6. Ecosystem governance

Can the group governance framework outlined and the related principles be used as a guiding model for an ecosystem? Which aspects should an ecosystem consider implementing in its governance? In light of the above considerations on the nature and challenges of an ecosystem, it seems advisable that the governance of an ecosystem should aim to have the same purpose as that of a group. In other words, the ecosystem's governance should help mitigate risks, ensure compliance with regulatory requirements, define roles and responsibilities and make sure that information flows between sponsors and partners. According to M.G. Colombo et al., the governance of ecosystems is about governing relationships to achieve competitive advantages, coordinating, motivating and governing the business network.[12] J.A. Cunningham et al. found that an efficient and functioning governance of an ecosystem should ensure that all participants who contribute to the ecosystem's value creation should receive a return on the value that they create together.[13] To this end, and similar to a group, an ecosystem needs to implement not only an organisational structure as well as oversight and management controls, but also policies that govern partner cooperation and participation. This being said, the appropriate documentation relating to the governance framework and corresponding principles are just as important for an ecosystem as they are for a group. The documents support the implementation of the ecosystem's governance structure and standards, while fostering an understanding of the ecosystem's governance among partners. Taking into account the sponsor's chosen level of ecosystem openness, the documents ensure a consistent governance approach across the ecosystem. To sum up the above considerations, the governance structure and principles for an ecosystem need to be adapted to the dynamic nature of an ecosystem as well as to the requirements set by each lifecycle. The governance framework needs to be robust enough to protect the sponsor, yet flexible and adaptable enough to allow the ecosystem to continuously evolve. It is essential that the governance of an ecosystem leaves room for flexibility, so that it may be continuously aligned with the adapted strategy. An appropriate governance framework supports the sponsor in attracting partners. An open and healthy culture also plays an important role. Sponsor and partner culture and governance should fit well with each other.

7. Conclusion

Good governance is very much in the interest of stakeholders, including investors, shareholders, clients and employees. In general, corporate governance continues to progress towards increased transparency and accountability of companies to stakeholders. Investor expectations can shift with one example being the increased demands for more meaningful and more frequent engagement with boards and management. Ecosystems face similiar demands and challenges. Lately, there have been concerns raised regarding competition and data protection law matters relating to ecosystems. The corresponding laws and the understanding of what is permissible vary greatly from one country to another. A meaningful and comprehensive dialogue with stakeholders – including regulators – seems important, not only for groups but also for ecosystems. Appropriate governance frameworks may vary considerably between ecosystems, depending on specific setups and decisions. One governance structure might be suitable for one ecosystem but not for another. However, it is safe to acknowledge that for all types of ecosystems the governance framework and related principles must support business opportunities and value creation, while ensuring the desired level of standards and control in order to remain competitive and respond to regulatory challenges.

12 Colombo, M.G., Dagnino, G.B., Lehmann, E.E., Salmador, M.P. (28 November 2017). The governance of entrepreneurial ecosystems. Small Business Economics, 419-428, in particular 423.

13 Cunningham, J.A., Menter, M., Wirsching, K., Small Business Economics, 545-562, in particular 553.

4. Challenges of an ecosystem

According to Avramakis et al., an ecosystem fails if it does not successfully engage partners, offer them attractive incentives or if it underestimates the importance of gaining a critical number of participants that foster profitability.[7] Participants are connected to the ecosystem through the sharing of resources and data. They have governance challenges such as the allocation of resources or dealing with conflicts of interest related to the distribution of costs and gains.[8] As outlined by Avramakis et al., an ecosystem may also fail due to an imbalance between openness and control.[9] The ecosystem must not be too tight nor too open. Jacobides sees two key governance choices for ecosystems;[10] in the first, the sponsor must decide early during the creation whether the ecosystem will be open, managed or closed. Depending on the level of openness, partners can participate in the ecosystem based on general standards or specific rules, or their participation may require approval and be tightly controlled. The more open an ecosystem is, the easier it is to attract partners. There is a balance between having many partners providing services and products while ensuring high-quality standards and profitable value creation for participants. The second option offers the sponsor a choice between an ecosystem that grants easy access for partners and one in which partners are tightly bound. The latter aims for greater exclusivity of products and services and higher quality standards. A well-known, attractive sponsor and a closed ecosystem are able to pull in many interested partners. For a smaller sponsor, the number of potential partners that can be attracted depends on what alternatives partners have. Schmeiss et al. identified access, control and incentives as the three overarching governance mechanisms for ecosystems that operate through a platform.[11] Access criteria and rights enable the participation of the relevant partners. Control defines the standards that form the basis for partners to participate and incentives serve to attract partners.

5. Group corporate governance

How can the described choices be embedded in the governance of an ecosystem? Could the governance framework of a group serve as a guiding model? In line with the characteristics of a group being solid, well-positioned, profitable and successful, the main purpose of its governance is to minimise risk, adhere to regulatory requirements, define roles and responsibilities and ensure the flow of information. A group governance framework provides organisational structure, oversight and management principles as well as reporting procedures. It clearly allocates roles, responsibilities and authorities in addition to line-management reporting within the group. Several documents govern such types of governance frameworks and their principles. At the uppermost level of hierarchy, a code of conduct or similar document sets out key principles that guide the group's companies in making responsible decisions and achieving results using the highest ethical standards. Articles of Association define the legal and organisational framework of the group parent company. Similarly, corresponding bylaws define the governance framework and cover the responsibilities of both the oversight body and those delegated to the management body, including the authorities of their members. Group-wide standards allow steering of the group companies in an efficient and harmonized manner. Such standards may cover: strategy; capital allocation decisions on group-wide steering and control; allocation of capital and resources to opportunities; asset and liability management; treasury; funding and capital management; financial and risk management; governance, compliance, legal and regulatory affairs; and functional matters including human resources, talent management, reputation and brand. The group's governance principles and standards ensure a consistent, harmonized and tailored approach across the group. Its corporate governance complies with local rules and regulations that apply where it does business. Overall, a group's governance framework ensures sustainability, fosters transparency and facilitates a quality assessment of the group's organisation and business.

7 Avramakis, E., Anchen, J., Raverkar, A.K., Digital ecosystems, 5.

8 Cunningham, J.A., Menter, M., Wirsching, K. (27 November 2017). Entrepreneurial ecosystem governance: a principal investigator-centered governance framework. Small Business Economics, 545-562 («Cunningham, J.A., Menter, M., Wirsching, K., Small Business Economics»).

9 Avramakis, E., Anchen, J., Raverkar, A.K., Digital ecosystems, 5.

10 Jacobides, M.G., Harvard Business Review, 8.

11 Schmeiss, J., Hoelzle, K., Tech, R.P.G. (2019). Designing Governance Mechanisms in Platform Ecosystems: Addressing the Paradox of Openness Through Blockchain Technology. California Management Review 2019, Vol. 62(1) 121-143, in particular 123.

The type of ecosystem referred to in this paper is described by Avramakis et al. as follows: «Ecosystems are networks of businesses and consumers (online and offline) that support each other with their respective capabilities to deliver greater economic value than would be possible through autonomous operation.»[3] Ecosystems offer a one-stop shop solution for services in one area or several different areas.[4] Business ecosystems («ecosystem») are referred to in the sense of a managing company («sponsor») offering products and services provided by several «partners» or «participants», which generally cover several fields for customers («user»). Jacobides found that «in an increasing number of contexts, the firm is no longer an independent strategic actor. Its success depends on collaboration with other firms in an ecosystem spanning multiple sectors».[5] The value that an ecosystem can create depends on the partners participating in it. Partners frequently provide their services on a shared platform based on shared principles in order to ensure product and service cross-compatibility.

The first step of this analysis explores the different natures of ecosystems and groups. In the second step, the challenges and unique features of an ecosystem are listed. This assessment assists us in defining what an appropriate governance framework for an ecosystem might look like. The purpose and cornerstones of a group's model governance framework and the related governance principles will be outlined. Lastly, how a group's governance set-up and principles fit into the ecosystem's purpose is analysed.

3. Characteristics of an ecosystem versus a group

To identify the nature of an ecosystem, several questions are asked and answered. For example, what does it take for an ecosystem to be able to take off in the first place? What does it take to avoid losing market share after a successful start and what does it take for an ecosystem to secure a sustainable position after a successful start? Research has identified three critical stages that define an ecosystem's lifecycle.[6] An ecosystem must first seize the opportunity to gain a large share of the target market. To be successful, it must gain this share quickly. For the ecosystem to acquire a large segment of the market, it needs to simultaneously attract partners, users and more participants who may in turn offer additional products and services to attract more customers. In its early stages an ecosystem needs to invest in its growth, processes and platform. It must therefore be well capitalised and defer profitability to a later phase of its development. In order to survive an ecosystem in its second stage is forced to evolve and to face competition. It needs to broaden its scope, growing either by responding to further customer demands or by moving into additional markets. Lastly, in the third stage, a successful and sustainable ecosystem must become a leader in its respective market. It needs to flexibly adapt its strategy to its cycles and developments accordingly. Compared to the evolving and highly dynamic nature of an ecosystem, the group, as defined herein, is traditionally settled and has become a successful market player. It adapts its strategy only if required by market or economic developments.

3 Avramakis, E., Anchen, J., Raverkar, A.K. (January 2019). Digital ecosystems: extending the boundaries of value creation in insurance. Swiss Re Institute, 1 («Avramakis, E., Anchen, J., Raverkar, A.K., Digital ecosystems»).

4 Avramakis, E., Anchen, J., Raverkar, A.K., Digital ecosystems, 2.

5 Jacobides, M.G., Harvard Business Review, 6.

6 Reeves, M., Lotan, H., Legrand, J., Jacobides, M.G. (2019). How Business Ecosystems Rise (and Often Fall). MIT Sloan Management Review. https://sloanreview.mit.edu/article/how-business-ecosystems-rise-and-often-fall/