ACCA

Tenets of good corporate governance

Think Ahead

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About this report

This report sets out key issues for companies to think about when considering their long term business model and strategy. It examines the interrelation between businesses and the context in which they operate, encouraging them to embrace good practice that facilitates long term growth.

Foreword

The focus of the corporate governance debate is shifting.

Discussion around leadership and oversight is rightly moving from an emphasis on compliance with processes and procedures to the effect of applying them.

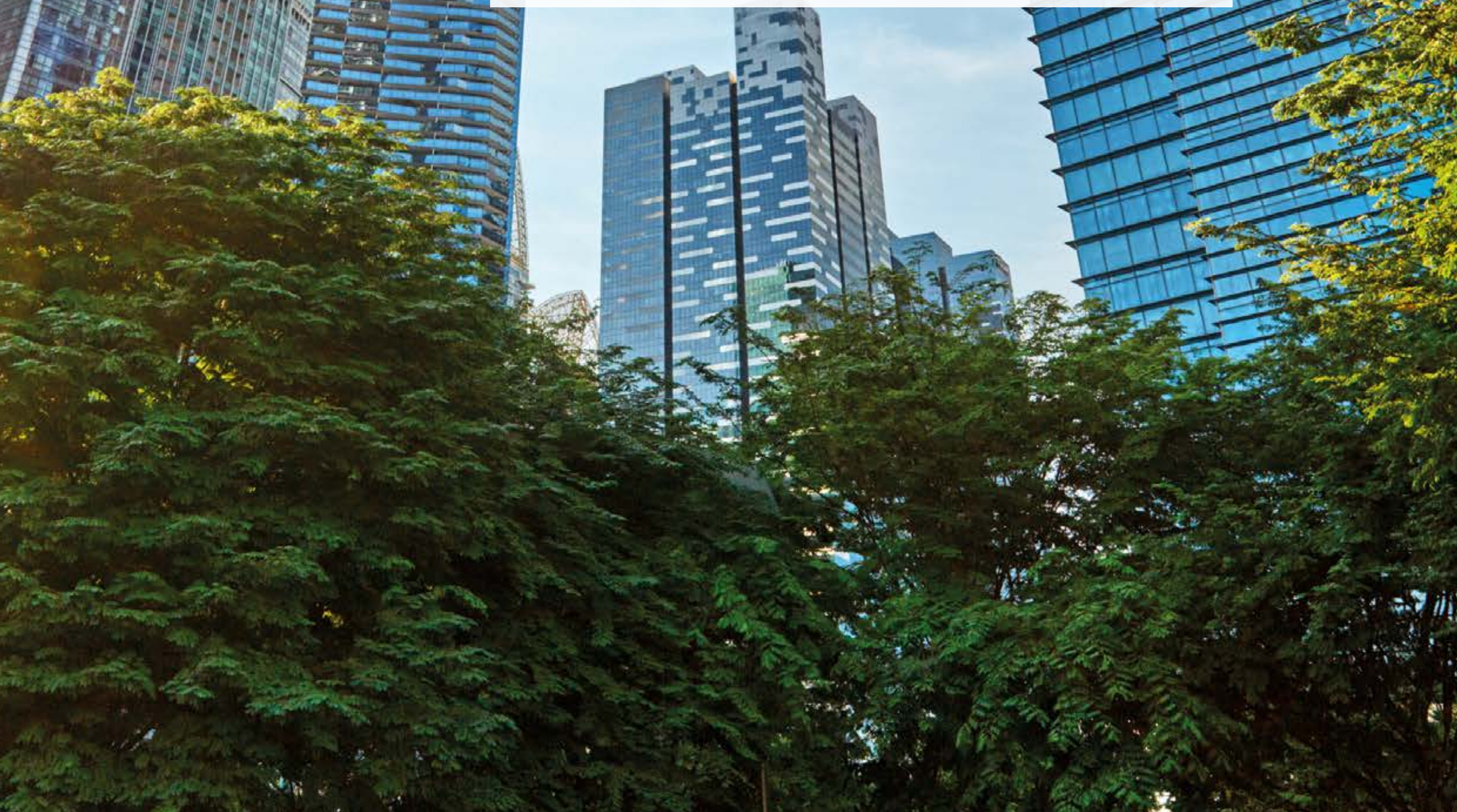
How can, and should, corporate governance contribute to the long-term success of businesses is a question leaders in all organisations need to ask themselves. At the same time, those steering organisations need to look beyond the confines of their entity to the impact it has on the world around them.

This short report therefore approaches corporate governance by looking at its larger purpose and desired outcomes. It focuses on big picture topics of global relevance including what we mean by good corporate governance in today's world and what specific measures might help in achieving the intended outcomes.

Through this, our report raises critical questions about the long-term vision of companies and the contribution they make to society. ACCA, as the global body of professional accountants, exists to deliver public value and we are only living up to this aim if we help the business community to see itself in a multi-stakeholder, global context.

We hope that it helps advance the debate on what good and ethical leadership looks like – and, more importantly, accelerate practices that benefit organisations, people and the planet.

Helen Brand OBE
Chief executive



> Good corporate governance is a means by which organisations may achieve their own purpose in the long term. It is not a box-ticking exercise.

Introduction

Corporate governance is a term broadly used to describe the way in which companies are directed and controlled. But it's a nebulous concept: there is no one 'way' because companies are diverse and constantly evolving. There is no established ideal model that can be targeted, reached or surpassed.

There is some agreement, however, about the purpose of corporate governance. It is broadly accepted that an organisation should be governed with a view to its long-term prosperity, which is interconnected with that of the society within which it operates. This purpose is embedded in company law, governance codes around the world, and in the OECD Principles of Corporate Governance.

Good corporate governance is not a box-ticking exercise. It is instead a means by which organisations, within the broad purpose outlined above, may achieve their own purpose. For the most part, corporate governance codes and rules are based on the successful experiences of organisations.

However, the examination of ongoing and emerging debate on corporate governance does indicate that its purpose may not be as simple or singular. There appear to be conditions that people expect companies to meet in achieving their long-term prosperity – a concept that this report explores.

In this short report, we discuss themes and issues that commonly recur across the debate on corporate governance and identify five emerging tenets. The themes and issues we discuss are:

1. the relationship between companies and society
2. diversity and balance in organisations
3. enabling an effective board
4. executive remuneration
5. gatekeepers of corporate governance

The public debate around these issues, both individually and taken together, indicate that the long-term prosperity of society relies on businesses and vice versa. Our examination indicates the extent to which good corporate governance can enable this positive relationship. We hope that this discussion of the guiding tenets of good corporate governance assists policymakers, business leaders, professional accountants and any other interested parties in understanding the emerging best practice in this area.

> Current corporate governance issues, both individually and taken together, demonstrate that the long-term prosperity of society relies on businesses and vice versa.

This report is a result of many inputs that ACCA has received and discussions on corporate governance in which it has taken part. ACCA's research projects, not restricted to corporate governance, have also informed the report. ACCA would like, particularly, to thank a number of experts who spoke to us specifically for this report and who considered its conclusions. We have acknowledged them below.

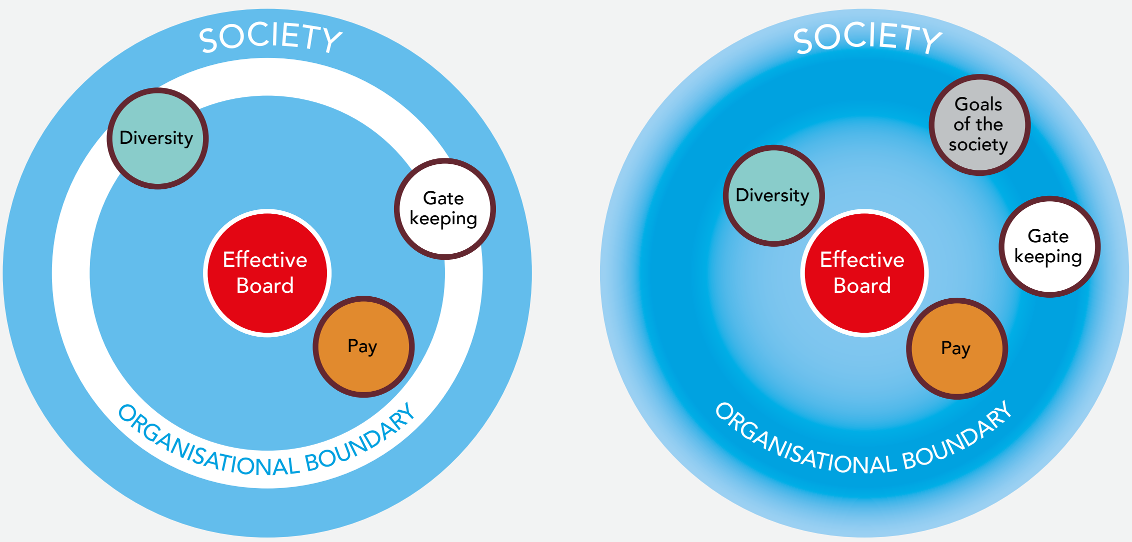
Finally, while this report refers to 'companies' and 'businesses', it should be clear that the relevance of the discussion goes beyond these to a broad range of organisations, including not-for-profit and public sector bodies.

ACCA would like to thank following experts for contributing their insights:

Paul W Chan, Malaysian Alliance of Corporate Directors; **Dr Stephen Davis**, Harvard Law School; **Dr Ashraf Gamaleldin**, Hawkamah: The Institute for Corporate Governance; **Sean O'Hare**, Boardroom Dialogue; **Sophie L'Hélias**, Leaderxxchange; **Chris Hodge**, Governance Perspectives; **Richard Howitt**, IIRC; **Dr Victoria Hurth**, University of Plymouth; **Mervyn King**, Integrated Reporting Council; **Yukako Kinoshita**, Hitachi Ltd; **Dr Richard LeBlanc**, York University; **John Lelliott**, Natural Capital Coalition; **Peter Montagnon**, Institute of Business Ethics; **Marcello Palazzi**, B Lab; **Martin Rich**, Future-Fit Foundation; **Turid Elisabeth Solvang**, FutureBoards; **Robbie Stamp**, BIOSS; **Dr Daniel Summerfield**, USS Investment Management; **Dr Winnie Kiryabwire**, Makerere University School of Law and **Marc Tüngler**, Deutsche Schutzvereinigung für Wertpapierbesitz e. V.

and the *ACCA Global Forum on Governance, Risk and Performance* for reviewing the report.

Understanding the context of corporate governance debate



Past

Present

1. The relationship between companies and society

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Aligning the vision of a company with that of society will help that company to prosper in the long term. Aiming to be part and fulfilling the needs of a society will help a company to navigate its challenges and uncertainties and create value from opportunities.

Are the prosperity of businesses and that of society linked?

Businesses do not exist in isolation from society and society is affected by the decisions and conduct of businesses.

Take, for example, the global financial crisis of 2007–8: many would argue that certain business decisions and behaviour had an adverse impact on many people's lives. In this context, corporate governance is often debated in a negative light. It is often discussed alongside other global economic and societal factors that contributed towards the onset of a deep recession, which many believe has exacerbated social inequality in the general population for many years.

On the other hand, where society is dynamic and flourishing, there are greater opportunities for business to prosper and, in return, to create value over the long term. For example, opportunities for many businesses have increased with rapid technological advances, open information flows and global mobility, connecting businesses, societies and the people within them.

What people expect from business has changed. Beyond being financially sustainable and accountable to their investors, businesses are also expected to consider the well-being of their stakeholders including employees and business partners, society and the environment. The public expects businesses to go beyond legal requirements. These legal requirements are also evolving as the public presses policymakers to address broader welfare issues.

Businesses benefit from meeting this wider public expectation. They must have a positive short-, medium- and long-term impact on society if they are to maintain the trust of their stakeholders and of society as a whole. This will help them stay compliant with regulatory requirements and manage long-term risk as these are often closely connected with society's interests.

If a business makes a deliberate effort to be a part of the society it operates within, it will increase its chance of surviving and, better still, thriving. This should be relevant for any businesses, irrespective of the place where they operate, or business type or size. Furthermore, they are more likely to attract investment which, for the most part, look for businesses that will create value on a sustainable basis and attract the best employees.

Businesses are addressing the task

Businesses need to consider carefully what value they create and how. This includes understanding the risks and opportunities associated with their activities, based on the assessment of their internal and external stakeholders and environment. They must question how the business aligns with society as the latter evolves[1] – for example, how it changes through technological developments, environmental concerns and shifting demographics. A business that is alive to these factors will be better at building a business model that flexes and adapts, ultimately leading to greater success in the years or even decades ahead. Organisations should not wait for material issues to disrupt their business model but address them directly. This differentiates robust businesses from the rest.

1 For more discussion on this, see ACCA's report *The Sustainable development goals: redefining, context and opportunity*, 2017.

What does this mean for an SME?

The link between a business and its society is particularly relevant for SMEs, as they are close to the community on a day-to-day basis and whose existence, in many cases, is dependent on this close relationship.

There is no single model that all companies can use to align with the long-term direction of society[2]. Businesses need to approach this as a formal part of the strategic planning process with methodologies, frameworks and constant review processes that are appropriate to the company. A business must refresh its value propositions when necessary, measure its progress using robust key performance indicators (KPIs), and instil a corporate culture that aligns all levels of the organisation with a shared vision[3].

The process of preparing strategic and other narrative reports is important[4]. It can be helpful in promoting and measuring this alignment, driving leadership to take a long-term view and think about their business model within the company's wider environment, including resources, technology and stakeholders, among others[5].

Challenges and possible ways forward

Some companies may merely comply with the minimum standards set by law and regulation. However, those with a long-term vision will go above and beyond these. Such companies will then raise the acceptable minimum standard to a higher level over time. A business that relies on existing law and regulation alone to define its business model may find this challenging as public expectations of the conduct of businesses will continue to grow, leading to eventual changes in the future legal framework.

This long-term approach is neither a 'good to have' luxury nor a corporate social responsibility (CSR) 'tick-box': it's a necessity for any business that hopes to prosper in a rapidly changing society. Envisaging the future is not an easy task, but it's a necessary one and one to which business leadership should fully commit themselves[6].

Given that the role of leadership is fundamental, some might argue that leaders' tenure is often too short for steering their companies towards a sustainable business model. Nonetheless, by changing organisational culture, leaders can embed values that embody their vision. This gives a clear sense of context within which daily decisions and strategy can be made against in a more agile way. In a successful company, everyone in the organisation should be sufficiently empowered to take charge of identifying and responding to risk and opportunity within their remit, and have a clearly defined sense of accountability.

Taking risks brings with it the potential for losses, but can also offer the opportunity for returns, and even seemingly adverse events such as regulatory change or political uncertainty can create opportunities that may be exploited. The role of leaders in determining the business's approach to risk is paramount. For more, see ACCA's report *Risk and the strategic role of leadership*, 2018.

2 Some businesses are exploring new models of value creation. ACCA's report *Business models of the future: emerging value creation*, 2017 examines some of these examples.

3 For practical ways to embed an organisation's vision in its corporate culture, see ACCA's *Culture-Governance tool*, 2016.

4 See *Insights into integrated reporting 2.0: Walking the talk*, 2018.

5 The role of transparency in governance is an important topic. We are interested in unlocking how governance and reporting interact, for example.

6 Notwithstanding the difficulties, the future is upon all of us and this does not exclude the accountancy profession. ACCA has conducted a series of research and these are all available under the initiative entitled *Professional accountants - the future*, 2016.

2. Diversity and balance

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Diversity debate has multiple facets

The benefit of having diverse viewpoints on a board or within an organisation is well recognised today. Diverse viewpoints allow businesses to consider a broader range of scenarios, and to take into account the viewpoints of a greater number of stakeholders. This enables more robust decision-making and more strategic discussion, leading to better performance in the long run. A board that is made up of people who have already known each other for a long time, or think too similarly, will be limited in its discussion and conclusions.

Another important dimension of any discussion about diversity is balance. While companies may actively seek to increase the diversity of viewpoints discussed, leaders also need to consider if the outcome of selecting a diverse board membership is indeed balanced: society is made up of different people, and therefore an organisation should consist of a broad range of people, at all levels. In practice, in many organisations today this balance disappears as a more limited range of employees ascend the organisational hierarchy.

A consideration of balance, or the lack thereof, serves as a stark reminder of the barriers and obstacles that exist within companies as well as within society. If we agree on the premise that people should be given equal opportunities, we should then identify the barriers and obstacles that impede a balanced composition seen at all levels of our businesses. Companies must recruit from a diverse pool of people at all levels, and this should apply as much to those who sit in the boardroom.

Diversity and balance are two different issues and we should consider them separately as they call for different approaches.

Taking actions to address different issues

In addressing diversity issues, a company may adopt a number of methods, such as the use of a skills matrix and criteria, tailored to fit a company's business model and strategy. Business leaders could approach this by examining the company's objectives, its business model and its stakeholders and then developing tailored diversity criteria and a mechanism for introducing diverse viewpoints. Such mechanisms could include (but are not limited to) recruitment of non-executive directors, the facilitation of additional stakeholder voices as guests in board meetings, or other means such as direct meeting stakeholders.

The board succession criteria sometimes emphasise board and executive experience rather than other factors such as knowledge, skills and professional training. Some expertise, such as in digital technology or communications, may not sufficiently replenished if board succession overemphasises experience. This is because

One benefit of diversity is to increase the board's collective intelligence. This is not an abstract point – aforementioned ACCA's report *Risk and the role of strategic leadership* has highlighted specific benefits. A high level of diversity in a board's risk-management skills, knowledge, experience, education and training helps to develop a collective consciousness that allows board members to identify changes in risk exposures and to respond appropriately.

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the knowledge in these areas can rapidly become obsolete, so yesterday's experience is not necessarily useful today. Companies need to review their selection criteria and skills matrix regularly.

The issue of balance should be looked at separately. Take the example of gender balance: if half of the boardroom – or indeed the executive team – is not made up of women, when women are equally well educated and motivated for work, companies ought to consider whether the problem lies in recruitment processes or the management of their career progression.

Getting the diversity and balance in the boardroom right can be a powerful tool for leadership in achieving organisational effectiveness and facilitating healthy corporate culture. If a boardroom looks unbalanced, even if it does show some diversity, this should trigger questions as to why this is so. Leaders should ask themselves how closely they reflect the profile of people the company has recruited, but also how their employee profile compares with that of the suitably qualified people in their society. Are there barriers that have distorted the outcome? Leaders acting on these points will send a powerful message to all levels of the organisation.

Challenges and possible ways forward

There is much debate over the use of quotas and measurable targets. Both have led to major changes in practice: companies have changed their recruitment criteria; some have introduced board evaluations to ensure that their composition is diverse and that every board member is contributing her or his unique attributes, including knowledge, skills and experience.

Some of the obstacles to achieving balance are admittedly beyond the remit of any single organisation. Nonetheless, the recognition of such obstacles is the first step towards addressing them. A company that takes initiatives to demonstrate its intention of doing this will send a strong signal to its stakeholders, not only to present and future employees. It will also bring the issue to the attention of others who are equally interested in resolving the issue together.

3. Enabling an effective boardroom

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Getting the composition right is insufficient for an effective board process

While it is important to have a diverse and balanced board, this alone does not guarantee board effectiveness. Each board member should have specialist skills, but she or he has to be capable of using that specialist knowledge in the wider strategic context of the organisation. The board should be able to 'scan the horizon' strategically: identifying what is happening in the world and deciding how to respond; recognising what the company should do to achieve its objectives; and determining how it can create value sustainably.

A company's board shares the same goal as the executive team, but their roles are different. Their common goal is the long-term prosperity of the organisation. But the board monitors long-term progress and gives stakeholders confidence, while taking actions to steer the organisation; in contrast, executives are engaged in day-to-day achievement of more immediate goals, while managing available resources.

The board's role is not to sift through all the company's information, although this may be necessary under certain circumstances. The board's value is in understanding the bigger picture in which the company operates, and considering how the business can align itself with its environment and continue to create value. Board members should focus on aspects such as the conditions that exist within and beyond an organisation; the ways in which decisions and judgements are made; the company's vulnerabilities and risks; its ethical framework and culture among other things.

The board is also responsible for ensuring that the company evaluates its multiple interests. When a company prioritises a single interest and invests in it heavily, the overall cost to the company may become disproportionate as it ignores other interests. It ought to remain mindful of risks and opportunities that a range of stakeholders present.

Practical steps enabling an effective board process

The role of the chair is vital: the chair facilitates discussion and debate, and enables each individual board member to challenge and question. The chair has a substantial impact on the social and psychological dynamics in the boardroom.

The rest of the board take their tone from both the chair and, where available, the senior independent director. These two need to build trust among the board members, but also need to be trusted by those members.

As more companies try to address board composition issues, we need to highlight the role of the chair, too. Rigorous board discussion does not happen naturally, even within a diverse and balanced board. It has to be facilitated: and the chair should enable diverse views to be voiced and heard by encouraging, listening and validating individual board members' opinions, even where their views are different from others or superficially basic. The chair needs to ensure that other board members follow her or his lead, and the senior independent director plays an important role in supporting this process.

Executives should be able to seek views from the board when needed, rather than being obliged to prepare a definitive proposal or response in advance for every interaction.

There is a benefit to board members in maintaining a degree of flexibility and allowing room for uncertainty about different viewpoints and positions on board agenda items. This facilitates a robust discussion and promotes openness to new conclusions. Without this mind set, members may merely hold on to a prepared position, reducing the benefit of having a board meeting.

This openness and willingness to engage in robust discussion should extend to the board's relationship with executives. Executives should be able to seek views from the board when needed, rather than being obliged to prepare a definitive proposal or response in advance for every interaction. If executives can be open with the board from the outset and seek support where needed, there will be less risk of a surprise outcome because of enhanced transparency.

Challenges and possible ways forward

There will almost always be an imbalance of information between the non-executive and executive members of the board, as the latter have more information owing to their day-to-day involvement with the business. But an 'arm's-length' view of the business can be beneficial for board members in carrying out their oversight role, allowing them to keep sight of the context and bigger picture. While there can be risks in the board's lack of detailed knowledge, if the board and executives build a successful relationship, the negative impact of information asymmetry is more likely to be mitigated.

It can be a challenge if a boardroom is dominated by a strong personality, whether it be the chair, the CEO or one of the executive directors. Such a person may silence challenges too easily, obstructing a full discussion. If such a threat is coming from an executive director, an effective chair can guide the board.

It can, however, be a different challenge if the threat comes from the chair. Many chairs are previous CEOs and are used to corralling a team around the execution of a strategy. Therefore, it's important for incoming chairs, in particular, to understand the very different skills required, given the nature of the relationship within the board and between the board and the executive. In addition, a senior independent director can be useful – both as an independent reviewer of the chair's performance, and in counterbalancing an overbearing chair, if necessary. It is important that there is an effective, but not too close, relationship between the chair and the senior independent director.

4. Executive remuneration

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Why doesn't the pay debate go away?

One of the issues is the mismatch between pay and performance. Executive pay has risen steadily over years, generally surpassing the rate of inflation where many employees have seen stagnant or failing wages in real terms. The global financial crisis resulted in some restraint on executive pay for a period, but this seems to have lost some of its drive over the following decade.

There has been a series of policy interventions around the world meant to address this issue. For example, some countries have significantly enhanced shareholder rights, strengthening investors' ability to express their views on executive pay. The outcome of shareholder voting is publicised widely.

Companies have also responded to public criticism of executive pay structures by increasing the proportion of performance-related pay by tying executive reward to their delivery of strategic goals.

The second issue is the increasing sense of inequality. The general public observes a widening gap between the pay of executives and average employees. This is partly because average employee pay has stagnated, but also due to pay cuts for employees in key public sectors that provide basic services to the public, such as nurses, police and fire fighters.

Many commentators also challenge whether or not we have sufficient investment in basic public services such as education, infrastructure and health which are seen to hit the poor the hardest. In turn, a 'fat cat' view of executives has emerged, particularly in light of recurring corporate failures.

Different issues need different solutions

Disclosure requirements do appear to have made some differences. In addition to shareholder engagement, as public awareness of the remuneration issue has increased, there have been attempts to introduce more comprehensive disclosures to highlight where and why pay has increased (or not increased) across a company's executives and other employees.

The introduction of greater disclosure requirements has highlighted the challenge of communicating pay policy. The pay structure for executives and for average employees will be different to an extent owing to the nature of their tasks, but the organisation needs to explain how and why they differ, and the board needs to consider whether their explanation makes sense and seems fair to all their stakeholders.

Employees' perceptions of the fairness of pay policy across the company are important. These perceptions are closely related to their understanding of their company's approach both to rewarding performance and to accountability: key components of a healthy corporate culture. Leaders need to ask themselves if the ideas behind the respective pay structures are logical and reasonable.

Companies, and particularly their remuneration committees, must regularly look at the way executive pay is structured and see if it aligns with the company's overall purpose, value and mission, and organisational culture, particularly if executives' pay structure is very different from that for the rest of the organisation.

Arguably, voting by shareholders could focus more specifically on accountability rather than on pay and the pay policy per se. For example, some argue for a shareholder vote on the remuneration committee chair as it may be able to send a clearer message on investors' behalf in terms of their view on engagement and disclosures.

ACCA developed the *Culture-Governance Tool*, aimed to explain and help companies develop an action plan for culture change. The Tool, developed based on ACCA's work on culture, features a number of key culture indicators, including pay policy and reward restructure.

There should be a continued effort to ensure that pay structures accurately reflect performance and that contribution is rewarded. KPIs, both financial and non-financial, may be used strategically.

The benefits of adopting such an approach may be at best incremental in the eyes of investors. However, for employees, unless the pay structure of the entire organisation is aligned with the company's value and mission and reflects the company's overall approach to risk and reward, there remains a risk that employee perception negatively impacts the corporate culture of the organisation.

A second issue is that of a general sense of increasing inequality. While this is reflected in the executive pay debate, it relates to a social and public policy problem and requires effort beyond individual companies or their investors.

The issues of executive remuneration and the perception about inequality in society must be identified and approached independently if we want to resolve them as they need to be understood separately and require different interventions. Even so, there are actions that each company may take to help address the issues and tackle them within its organisational boundary as a part of addressing the corporate culture issue.

Challenges and possible ways forward

Some argue that pay disclosure requirements have already become too bulky and complex, and such disclosures fail to present a coherent narrative.

Consequently, the above discrete issues are sometimes conflated by readers and discussed in a confused manner. There is certainly room for companies to improve the manner in which they approach disclosure as a whole, to tell a story that is understandable to all readers.

Although investors frequently discuss remuneration issues when engaging with companies, they are often criticised for green-lighting pay proposals when voting on remuneration policies. Ultimately, investor stewardship is about facilitating companies to achieve long-term prosperity. Matching pay with performance is a part of this, but may not necessarily be the most important part of the engagement.

Investors have a wide range of matters to focus on: from the board composition, strategy and business model, risk and opportunity and other matters related to organisations' long-term prosperity. Institutional investors, such as pension funds and insurance companies, may exercise stewardship to ensure that the assets they manage on behalf of the ultimate beneficiaries, such as policyholders, produce sufficient return on investment – but they are not solely responsible for making companies contribute positively to society, or for issues of public policy.

This second issue is complex, and will be difficult to resolve. Nonetheless, the first step is to highlight its existence and explore options for ways ahead. Improving equality and the quality of life for all members of a society requires society as a whole to engage, not just the policymakers, business and investors.

5. Gatekeepers of corporate governance

The ‘gatekeeping’ of corporate governance involves more than just companies and their owners: the wider public and policymakers also play a role.

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Who are those really responsible for corporate governance?

Examinations of failures in governance often highlight the role of the external gatekeepers of corporate governance, particularly investors and their stewardship responsibilities. In recent years, shareholder rights have been increased, which has also introduced a corresponding expectation that shareholders will exercise these rights and facilitate better corporate governance.

Investors’ role also came under scrutiny during and after the crisis, sometimes blamed for focusing too much on short-term returns. This focus meant that for many investors, issues of corporate social responsibility were not prioritised. They now face a difficult challenge. As more pension funds mature, investors will be forced to place more importance on meeting the pension promise and addressing long-term goals.

But it’s not just investors who can hold companies accountable for acting responsibly and securing sustainable, long-term value. Around the world a vast number of people have their money in pension funds, insurance and savings: many of them duly expect companies to act and manage their activities responsibly and expect investors to also respect this mandate.

Stakeholders have a role to play, but the impact is not necessarily equal

As previously discussed in Section 1, *The relationship between companies and society*, a successful company must align its purpose with where the society is heading to in order to achieve long-term prosperity. This may take time, and a fast-changing world will demand that companies adjust to new societal expectations ever more frequently.

A company is best equipped to manage its risk and opportunities when its employees agree, or better still, are committed to realising its purpose. This enables the entire organisation to be alert to changes in the surroundings and respond appropriately, enhancing the chance of its survival. This is why a pervasive, positive organisational culture is not just helpful, but essential.

Communication, both internally and externally, can be a powerful tool for demonstrating stewardship and enhancing credibility. Internally, it can facilitate a culture that is consistent with the organisation’s purpose and value by aligning it with the way the organisation is run. Externally, providing a clear narrative on a company’s governance arrangements helps stakeholders understand how the company is run and facilitates better engagement.

Some argue that law should be used to hold directors to account for their fiduciary duties. Legal enforcement would cost time and resource, but they would also argue that without examples of people in leadership positions taking their accountability seriously, stewardship will not improve.

In reality, enforcement of directors’ duties is not straightforward. Some of the challenges include: the onus on the plaintiff; the ambiguity of concepts such as ‘good faith’ and ‘duty of care’, or even ‘fiduciary duties’, which do not have a set of objective criteria; and potentially adverse impact on share price if the company is publicly traded.

Despite these challenges, it may be worth exploring both incentives and disincentives for companies to create an effective regulatory environment.

Whatever the outcome, public debate about legislative means will have an impact by raising awareness.

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More investors are training asset managers in socially responsible investment, or arranging for them to work in tandem with corporate responsibility experts. Equally, companies are responding to requests from investors to explain their long-term vision by bringing in senior management and the board chair for direct engagement with them.

Furthermore, rather than focusing on AGMs, engagement between companies and investors continues throughout the year, including when an investment mandate is drafted and agreed with a company. This requires investors to have a robust grasp of their ultimate beneficiaries' expectations, which should guide investor stewardship.

Challenges and possible ways forward

Many company law and corporate governance codes have implicitly or explicitly included the concept of a '(social) licence to operate': the idea that a business gains the legitimacy it needs to exist and operate from the consent of those who are affected by it. This would imply that a company operating at odds with its society would be rejected and ultimately fail.

This has not always been the case in practice, however. Arguably the concept lacks the clarity required for enforcement or penalty, and many companies do remain unpunished or stay profitable despite unsustainable activities, at least in the short term.

While this is a fair challenge, the indeterminate nature of the concept of what makes a company's existence and its operation legitimate is not in itself a weakness. Like many other concepts related to corporate governance, the standard will keep evolving: 'social licence' included. In order to keep this idea alive and defining boundaries on how companies operate, it is important that the public engages with the topic. This should not harm trust in business: it should help highlighting the better practice that some companies already strive to achieve and oblige the rest to meet the same standard.

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