Dynamic Corporate Governance and Sustainability

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Recent complex changes of the organizational environment urge the boards of directors of energy corporations to step up quickly in crises (e.g., COVID-19) and foster innovation, to seize new strategic opportunities (e.g., environmental, social, and governance (ESG) investments). ESG projects could face serious challenges in the fast-changing organizational environment generated by unpredictable and impactful factors like COVID-19. The success of ESG projects might depend on proper board-level answers to resource-based constraints and opportunities generated by a dynamically changing environment. This dynamic board behavior could involve board intervention, regarding, for example, innovation, inter-organizational networks, and organizational changes.

Keywords: corporate governance ; innovation ; organizational change ; inter-organizational networks ; ESG ; Sustainability

1. Corporate Governance and Sustainability Research in the Energy Sector and Beyond

In the sustainability-oriented corporate governance literature, numerous publications address sustainability as part of the CSR performance of an organization and discuss the financial consequences of various CG practices and CSR reporting [1][2][3][4]. By analyzing the results of different kind of studies, one can see the complexity that boards have to handle. For example, [5] showed that corporate sustainability reporting might mislead investors, while [6] found CSR reporting to be positively related to the market value of a firm and/or brand value [7]. These results suggest that boards might face ethical challenges when they aspire to increase CSR and financial performance. Furthermore, the complexity may be increased by the applied incentives, which influence board decisions. For example, [8] argued that the probability and quality of disclosure could be affected by (long-term) incentives for executive directors.

Other topics also reinforce that board decisions are crucial regarding strategic outcomes. For example, [9] argued the need for considering stakeholder trust for sustainability. While the debate over the financial outcomes of CSR, in general, and in the energy sector, has obtained remarkable attention [10][11], recently, ESG related questions are coming under researchers' focus. For example, [1] analyzed the relationship between the ESG score and firm value in their empirical study focusing on India; while, [12] recently analyzed the role of ESG (environmental, social, and governance) initiatives and institutional development in driving innovative performance, which also drew attention to the strategic significance of the topic. Nevertheless, in-depth analysis of CG and sustainable transitions with strategic management aspects within the energy sector has been less represented in recent publications.

This trend is in line with research directions within other industry sectors. Studies are mainly based on stakeholder theory and agency theory, which are adequate for analyzing CG structures and mechanisms and their relationship with sustainability, but there is a need for further theoretical and methodological approaches, in order to highlight specific problems or perspectives regarding CG and sustainability [13]. Despite this, there have only been a few publications that offer new paths for sustainability-oriented CG research and actions. One example is [14], who argued that new CG guidelines are needed to support organizational innovation aimed at sustainability. In another recent study, Ref. [15] suggested that energy companies could increase sustainability through the social capital of board members.

Nevertheless, an emerging theoretical approach, dynamic corporate governance (CG) could offer a novel theoretical viewpoint, by integrating CG and strategic management theories, besides the already dominant financial and reporting aspects.

2. The Background of Dynamic Corporate Governance

CG research has received increasing attention since the 1970s [16], traditionally focusing on principal-agent theory [17][18], while stakeholder theory has influenced CG research since the 2000s [19][20]. Other significant approaches of recent decades include stewardship theory [21], transaction costs [22][23], resource-dependency theory [24], and managerial and

class hegemony [25]. CG research has also integrated more topics from strategic management, which are highly relevant in this research. Novel studies have started to focus on dynamic responsiveness, including leadership, environmental adaptation, internal mechanisms, coordination, collaboration, and external social process [26]. This approach is closely related to the resource-based view of the firm [27], following [28], who first suggested in 2003 that researching the “dynamic implications for board capital requirements, and, therefore, for board composition” (p. 394) is a promising direction. Recently, [29] has gone even further, in discussing risk management at a CG level, based on the dynamic capabilities framework [30], which is one of the most influential resource-based theories.

In connection with this, there is a broad consensus in strategic management literature regarding the significance of adaptive capabilities in a fast-changing environment, in order to sustain competitiveness. While companies need to efficiently exploit their current business areas and explore new ones and innovate to ensure long-term effectiveness, many organizations follow only exploitative routines [31][32][33], which is also found in the energy sector [34][35]. Based on the resource-based theory of the firm, however, a sustainable competitive advantage can be built on organizational resources that are rare, valuable, inimitable, imperfectly replaceable, and embedded into organizational operations [27]. One of the influential ideas of the resource-based view is that the relationship between the environment and the organization is not unilateral, but organizational performance (e.g., innovation) can shape the environmental conditions (e.g., competition) [36]. In this sense, some theorists emphasize the role of tacit knowledge integration [37], while the dynamic capabilities framework suggests that companies need to sense new opportunities, seize them by developing new business models, structures and processes, and transform the organization [30]. Ref. [36] mentioned the role of CG concerning transformation, as the board of directors should align managerial incentives with strategic goals, minimize agency costs, and be financially and strategically responsible when they decide on board composition, strategic directions, and profits (investing into the future). These considerations are supported by empirical data as well. For example, the CG structure, the resource-allocation process, and the incentive scheme for the management affects the organizational capability for adaptation [38]. Consequently, not only the strategy, the structure, the behavior, and the control of the day-to-day operations and the management should dynamically change in line with the changing context and strategy, but the CG system as well [39].

Regarding CG theories, this approach is closely connected to the resource-dependency theory. According to this, the main task of the directors is to reduce environmental uncertainty, by connecting the organization to external resources, suppliers, customers, policymakers, and other social groups. Moreover, the goal is to reduce the power of others on the organization and increase its own power on others [24]. This theory is often applied in case of board composition, i.e., those directors are preferred who can ensure connections to critical resources, information, or legitimation. These critical resources, however, might change with time, so a dynamic approach is required [40].

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