SUSTAINABLE LONG-TERM VALUE CREATION: NEW FINANCE FOCUS FOR BOARDS OF DIRECTORS

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Abstract

The major research question of this paper is how boards of directors' practices and performance can facilitate the new finance focus on sustainable, long-term value creation. This new finance focus presents opportunities to strengthen corporate performance which enhances the gatekeeper role of boards of directors in helping both shareholders and stakeholders. The following topics are discussed and analyzed in this paper: potential examples, strategic analysis, sustainability analysis, and the circular economy. We discovered several guiding principles based on previous literature, regulatory proposals, and industry practices. Effective boards of directors need to be engaged in sustainable strategy formation and make sure long-term sustainable value creation continues to develop and does not erode. They need to have relevant industry knowledge, diverse expertise, and a proclivity for thinking independently in both good times and bad times, such as the coronavirus pandemic. They also need to develop a clear understanding of sustainable business strategies and how long-term value is created and driven through innovation and the deployment of resources. In addition, we find that boards can assess and monitor ways to measure and manage long-term value creators and drivers and encourage their companies to become involved in the circular economy with its $4.5 trillion investment opportunities. Future research could use case studies and board interviews to investigate boards of directors’ practices and performance, concerning how boards have helped develop strategies and procedures to facilitate this new finance focus on long-term sustainable value creation.

Keywords: New Finance, Circular Economy, Sustainability, Board Practices, Corporate Governance

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1. INTRODUCTION

One of America’s top activist investors, Jeff Ubben, said that he is leaving ValueAct, the $16 billion hedge fund that he founded, to start a new hedge fund, Inclusive Capital Partners, which is focused on environmental and social impact investments. Assets tied to socially responsible investments are generally estimated at $30 trillion worldwide with $12 trillion in the U.S. Ubben thinks that traditional corporate finance is played out and that corporate America thinks too much about the short term, a trend activist investing helped drive. Traditional activist investing focused on firms making the short-term numbers to keep stock prices up, forcing CEO changes, increasing shareholder payouts, and encouraging sales and acquisitions of companies (Sorkin, 2020a).
Ubben commented that such traditional activist investing will not accomplish much anymore and said, “Finance is, like, done. Everybody has bought everybody else with low-cost debt. Everybody has maximized their margins. They have bought all their shares back. There is nothing there. Every industry has about three players”. Ubben’s new finance focus is impact-focused activist investing with the focus on older corporate names, which he thinks can drive bigger profits than traditional activism. He said, “The legacy companies are valued like they are going out of business and they have the workforce, they have the geographies and intellectual property, and all of that. I think we are going to have to fire our shareholders. We are going to have to find new shareholders, shareholders that want to be focused on the long term. We need to find courageous CEOs and boards” (Sorkin, 2020a).

Ubben’s impact-focused investing should not be confused with a different definition of new finance which involves innovation in technology. One view by Sir John Hargrave, editor of the Bitcoin Market Journal, defines, “new finance as the re-imagining of the role of capital markets, and blockchain-enabled assets. The easiest way to think about new finance vs. old finance is like the difference between new media vs. old media” (Hargrave, 2017). Another British organization, NewFinance, was founded in 2011 in London as a finance and technology business network and now has over 15,000 professionals actively involved in advancing financial services through innovations in technology (NewFinance, 2020).

Ubben’s new long term finance focus has been echoed by Laurence Fink, Chief Executive Officer (CEO) of BlackRock, the world’s largest passive investor, which has $7.4 trillion assets under management with offices in 30 countries and clients in over 100 countries. In January 2020, he sent his annual letter to all chief executives of the world’s largest public companies. He announced that BlackRock would make investment decisions with environmental sustainability as a core goal and that BlackRock would begin to exit certain investments that present a high sustainability-related risk, such as those in coal producers. His intent is to encourage every company, not just energy firms, to rethink their carbon footprints. He wrote, “Awareness is rapidly changing, and I believe we are on the edge of a fundamental reshaping of finance. The evidence on climate risk is compelling investors to reassess core assumptions about modern finance” (Fink, 2020).

Similarly, in Fink’s January 2018 letter to these chief executives, he urged them to start accounting for the societal impact of their companies and to focus upon economic growth that is sustainable and inclusive for most people. There should be a purpose beyond profits (Fink, 2018). In Fink’s January 2019 letter to these chief executives, he elaborated linkages between purpose and profit by advocating for practices that will drive sustainable, long-term growth, and profitability. The purpose is a company’s fundamental reason for being and not the sole pursuit of profits but the animating force for achieving them. When a company truly understands its purpose, it functions on the focus and strategic discipline that drives long-term profitability and unifies management, employees, and communities (Fink, 2019). Thus, there should be an expanded social and sustainable focus, including climate change risk, for the long-term intrinsic value of corporations with implications for the evolution of corporate governance towards that end (Grove & Lockhart, 2019).

Such a long-term value focus of purpose beyond profits has already had impacts on boards of directors and corporate governance. In his 2020 CEO letter, Fink stated, “As I have written in past letters, a company cannot achieve long-term profits without embracing purpose and considering the needs of a broad range of stakeholders. Ultimately, the purpose is the engine of long-term profitability. We believe that when a company is not effectively addressing a material issue, its directors should be held accountable”. Last year, BlackRock voted against or withheld votes from 4,800 directors at 2,700 different companies (Sorkin, 2020b). Fink stated, “We will be increasingly disposed to vote against management and boards of directors when companies are not making sufficient progress on sustainability-related disclosure and the business practices and plans underlying them. Companies must be deliberate and committed to embracing purpose and serving all stakeholders - your shareholders, customers, employees, and the communities where you operate. In doing so, your company will enjoy greater long-term prosperity, as will investors, workers, and society as a whole” (Fink, 2020). These recent Fink letters are consistent with Ubben’s new finance focus on impact investing.

This new finance focus is also consistent with the emerging focus on all stakeholders of a corporation, not just shareholders. In August 2019, the Business Roundtable (BR), representing the most powerful CEOs in the United States, issued a 300-word Statement on the Purpose of a Corporation. This Statement included signatures by 183 of the 192 current CEO members of the BR. Since 1978, BR has periodically issued Principles of Corporate Governance. Since 1997, each version of the document has endorsed principles of shareholder primacy, i.e., that corporations exist principally to serve shareholders. This new Statement supersedes previous statements and outlines a modern standard for corporate responsibility. It proclaims, “BR members share a fundamental commitment to all our stakeholders and commit to doing well by our customers, employees, suppliers, and local communities. Each of our stakeholders is essential and we commit to deliver value to all of them, for the future success of our companies, our communities, and our country (Business Roundtable, 2019). Such a new focus on the Purpose of a Corporation and the responsibility of a public company will increase the responsibilities of boards of directors and strengthen corporate governance. Boards of directors can improve corporate governance with a long-term focus for all stakeholders, not just their traditional shareholders, as envisioned and consistent with the BR’s Purpose of the Corporation, as well as the activist investor, Jeff Ubben’s new finance, and the passive investor, Larry Fink’s environmental sustainability.

All the views above suggest that the new finance focus has risen to be a strategic imperative for companies around the world. The main research question of this paper is how boards of directors’
practices and performance can facilitate the new finance focus on sustainable, long-term value creation.

The structure of this paper is as follows. Section 2 reviews the relevant literature. Section 3 studies the potential new finance examples. Section 4 provides strategic analysis for the new finance focus. Section 5 conducts the sustainability analysis for the new finance focus. Section 6 explores the circular economy for the new finance focus. Section 7 summarizes and concludes the paper.

2. LITERATURE REVIEW

The relevance of the new finance focus on impact investing was emphasized in a research study on responsible innovation. It stated the grand challenges that humanity faces - poverty, inequality, hunger, conflict, climate change, deforestation, pandemic, among others - hinder the progress of sustainable development. These issues can be addressed only by fundamental changes in behavior, as well as in the modes and processes of production and of business more generally. Thus, new finance with its focus on impact investing depends on responsible innovation and sustainable development supplemented by the potential of various models of corporate governance (Scherer & Voegtlin, 2020). Impact investing is also part of corporate social responsibility (CSR). A review of empirical studies found that both independence and gender diversity were positively linked with CSR reporting which was differentiated between internal CSR reporting measures and external CSR disclosure ratings (Velte, 2019). Another study found a positive and significant effect of CSR on firm performance profitability and that larger and older firms had a positive effect on such financial performance (Basuony, Elseidi, & Mohamed, 2014). These positive results for larger and older firms fit well with Ubben’s strategy that legacy companies have excellent potential for value-impact investing.

The new finance focus on impact investing can also inspire the investigation of businesses that have embraced and focused on sustainability as the cornerstone in their search for development and long-term growth. The connection between sustainability performance and financial performance has been clearly shown by academic research and is becoming more established in mainstream financial analysis and reporting (Pilot, 2017). 2011 was the first year that a majority of S&P 500 companies publicly disclosed their sustainability performance per the Governance & Accountability Institute (G&A Institute). These companies had higher financial returns than their non-reporting competitors (Stevens, 2012). This G&A Institute report found that 53% of the S&P 500 companies issued sustainability reports in 2011 versus only 19% in 2010. A recent G&A Institute report found that 82% of the S&P 500 companies issued sustainability reports in 2016, more than quadruple the number in 2010 (Verschoor, 2017). Concerning the relevance of sustainability for new finance impact investing, researchers have studied the effects of green information system impacts and found beneficial sustainability results (Cherki El Idriissi & Corbett, 2016; Wang, Brooks, & Sarker, 2015). Another study found sustainability benefits with the following value outcomes: social, environmental, and economic value benefits as well as strategic value benefits. These benefits were used to position the organization for greater efficiency and effectiveness (Simmonds, 2015). Another study found that companies that disclose social investment information had superior financial performance when compared with companies that did not disclose such information (Emmanuel, Carvalhal da Silva, & Avila, 2012).

Another study used the Global Reporting Initiative (GRI) to analyze the accounting disclosures of social responsibility for Saudi registered companies. It found that these companies used GRI requirements to design their social responsibility and sustainable development reports as standalone reports separate from their annual reports (Atef, 2016). Corporate social responsibility was analyzed for the capacity of people, processes, and other resources to meet the expected social obligations to all stakeholders, using a study of 231 units in Australian banks. Behavioral characteristics were rated for meeting corporate social responsibility criteria. Valuable information was obtained for different organizational structure for achieving good corporate governance (Manzoni & Islam, 2015).

An empirical study of 133 companies listed in the S&P Composite 1500 Index investigated the impact of greenhouse gas (GHG) emissions, Dow Jones Sustainability Index (DJSI), and anti-bribery policy on the extent of CSR disclosure, measured by the environmental, social and governance (ESG) disclosure score calculated by Bloomberg. The study found that the company’s size, GHG emissions, DJSI, and anti-bribery policy were significantly positively associated with the extent of CSR disclosure (Sariannidis, Konteos, & Giannarakis, 2015). Another empirical study of 40 French public companies found that mandatory French CSR reporting led to companies communicating their corporate profile, strategy, and management broadly. While companies reported their environmental dimension most frequently, they disclosed only marginally the economic and social dimensions of CSR (Kühn, Stiglbauer, & Fifka, 2018). A meta-analysis of more than 135 CSR studies over the last 25 years found a strong correlation between CSR that goes beyond just storytelling and financial performance (Braendle & Mozghovyi, 2013). With different standards of CSR, such as company, industry, multi-stakeholder, and independence, a study categorized and evaluated those CSR standards and suggested a combination of different standards, replenished with firm-specific codes of conduct (Stiglbauer & Eulerich, 2012).

In summary, recent research has shown the benefits of innovation, sustainability, and social responsibility for the new finance focus on impact investing, but no recent research has directly studied this emerging topic of board of directors practices and performance, concerning a new finance approach to impact investing. One recent study did find that good corporate governance, specifically board independence, board diversity, CEO characteristics, remuneration, and oversight, led to better firm performance (Khan, Nijhof, Diepeveen, & Melis, 2018). Another recent study found that social and environmental improvements made by companies contributed to corporate
financial performance, and good corporate governance contributed to such financial performance and reduced risk (Haryono, Iskandar, Paminto, & Ulfa, 2016). Thus, there is potential for a good board of directors practices and performance to facilitate the new finance focus on impact investing in terms of social responsibility and financial performance.

3. POTENTIAL NEW FINANCE EXAMPLES

In August 2019, the U.S. Securities and Exchange Commission (SEC) announced a reporting rule amendment to Regulation S-K to modernize the description of the business, legal proceedings, and risk factor disclosures. Regulation S-K was created in 1977 to foster uniform and integrated disclosures in registration statements required for all public companies registered on U.S. stock exchanges. It was expanded in 1982 to be the central repository for non-financial statement disclosure requirements (Hinman, 2019). The SEC chairman, Jay Clayton, said, “The world economy and our markets have changed dramatically in the more than 30 years since the adoption of our rules for business disclosures by public companies. Today’s proposal reflects these significant changes, as well as the reality that there will be changes in the future. I applaud the staff for their efforts to modernize and improve our disclosure framework, including recognizing that intangible assets, and in particular human capital, often are a significantly more important driver of value in today’s global economy. The proposals reflect a thoughtful mix of prescriptive and principles-based requirements that should result in improved disclosures and the elimination of unnecessary costs and burdens” (SEC, 2019).

The main criticism of modernizing Regulation S-K is its focus on principle-based disclosures rather than rules-based disclosures (Hinman, 2019; Lee, 2020). One of the five current SEC commissioners, Allison Herren Lee, criticized this new amendment, “The proposal is most notable for what it does not do: make any attempt to address investors’ need for standardized disclosure on climate change. The science is largely undisputed and the effects increasingly visible and dire. The looming economic threat to markets worldwide is more and more apparent. In terms of SEC action, investors are overwhelmingly telling us, through comment letters and petitions for rulemaking, that they need consistent, reliable, and comparable disclosures of the risks and opportunities related to sustainability measures, particularly climate risk. Investors have been clear that this information is material to their decision-making process and such disclosures provide a lens through which investors can assess the perspective of the stewards of their investment capital” (Lee, 2020).

Founded in 2011, the Sustainability Accounting Standards Board (SASB) is a nonprofit organization that develops voluntary sustainability accounting standards (“Sustainability Accounting Standards Board”, n.d.). While the Financial Accounting Standards Board (FASB) has for the last forty years developed the accounting standards currently used in the financial statements in the United States, other social and environmental measures are now understood to be of relevance. The SASB has developed 79 industry-specific disclosure standards and metrics in 11 economic sectors for environmental, social, and governance topics that facilitate communication between companies and investors about financially material, decision-useful information. The general principle is, in Peter Drucker’s phrase, “what gets measured gets managed”. The Chairman of the Board is Robert Steel, the CEO of Perella Weinberg Partners, a private investment banking and asset management firm, and the Vice-Chair of the Board is Mary Schapiro, the former Chair of the Securities and Exchange Commission. As of early 2020, 127 corporations have reported with SASB standards, of which over one third are based outside the United States. Many of these 127 companies are very well-known. In alphabetical order, examples include Apache, BlackRock, Bloomberg, Clorox, Delta, Estee Lauder, General Mills, GAP, GM, Goldman Sachs, Ford, Hewlett Packard, Halliburton, Intel, Intuit, Kellogg’s, Lowe’s, Macy’s, Marriott, Medtronic, Merck, Moody’s, Morgan Stanley, Motorola, Netflix, Philip Morris, Suncor Energy, Target, Thomson Reuters, Visa, and Wells Fargo (SASB, 2020).

Currently, there are only voluntary disclosures for human resources, climate change, and sustainability measures. Outlets for these disclosures include the Task Force on Climate-Related Financial Disclosures which is supported by over 930 organizations representing a market capitalization of over $1 trillion. The United Nations Principles for Responsible Investment has more than 2,000 signatories from over 60 countries representing $80 trillion of assets, and the Global Reporting Initiative has over 23,000 reports recorded in its database (Lee, 2020).

The United Nations General Assembly adopted a 2030 Agenda for Sustainable Development report, which listed 17 Sustainable Development Goals (SDGs) with 169 targets to be achieved by 2030 (Thomson, 2015). These SDGs are as follows:

1. No poverty;
2. Zero hunger;
3. Good health and well-being;
4. Quality education;
5. Gender equality;
6. Clean water and sanitation;
7. Affordable and clean energy;
8. Decent work and economic growth;
9. Industry, innovation, and infrastructure;
10. Reduced inequalities;
11. Sustainable cities and communities;
12. Responsible consumption and production;
13. Climate action;
14. Life below water;
15. Life on land;
16. Peace, justice, and strong institutions;
17. Partnerships for the goals.

The 17 SDGs recognize the key role that business organizations can play in achieving these goals. By focusing upon a selection of SDGs that businesses can impact, the goals of driving long-term growth, creating value, and accelerating business expansion may be enhanced. Numerous businesses have emphasized sustainability as the cornerstone for their development and long-term

*The Agenda for Sustainable Development Goals (SDGs) was set in 2015 by the United Nations General Assembly and intended to be achieved by the year 2030. A preamble of this agenda is “a plan of action for people, planet and prosperity” (United Nation, 2015). The 17 SDGs are interlinked and designed to be a “blueprint to achieve a better and more sustainable future for all” (United Nation, 2015).*
growth. In 2017, a UBS Investment Strategy Guide introduced new sustainable themes for “investing in a better world” with related business opportunities to provide new goods and services (Grove & Clouse, 2018). All these themes are in line with the new finance focus on impact investing.

4. STRATEGIC ANALYSIS FOR NEW FINANCE FOCUS

The new finance focuses on long-term impact investing demands innovative strategic thinking and analysis which the board of directors can facilitate. Boards can help create long term value by advising and mentoring the strategic analysis process, such as (Frigo & Krumwiede, 2020):

1) Helping to develop innovation and growth strategies.
2) Reviewing and refining strategies to create long-term sustainable value.
3) Analyzing where the company and business units are in the competitive life cycle.
4) Communicating the strategy fully within the company and with the board of directors.
5) Focusing on long term information for investor relations presentations.
6) Evaluating sustainable merger and business acquisition opportunities and risks.
7) Assessing strategic risks, especially with the long-term finance focus.

Emerging factors affecting strategic analysis include sustainability and the rapidity of change. Integrating sustainability objectives into strategic initiatives facilitates the alignment of strategy with long-term value creation. The speed of change can cause disruptive forces that adversely impact a company but provide great opportunities for creating value. Companies need to understand, manage, and align their long-term value drivers to achieve sustainable value creation, especially with the constantly changing business environment. Investors need to understand a company’s long-term value-creating strategy (Frigo & Krumwiede, 2020).

The main goal of strategy analysis is to develop a close alignment between strategy, strategy execution, and financial performance (Frigo & Krumwiede, 2020; Hoque, 2001). Boards of directors can assess and mentor such strategic analysis with the following tasks which enhance the new finance focus:

1) Develop a clear understanding of how value is created through innovation and related resource allocations.
2) Use business acumen to help the company understand the importance of strategic analysis, innovation, and execution.
3) Develop a deep understanding of the real value drivers from innovation in the business and help align resources accordingly.
4) Understand what really creates long-term value and how it is measured, possibly with a balanced scorecard and/or a key performance indicator approach.
5) Encourage the company to become more agile by leveraging real-time predictive analysis to spot trends and opportunities.

Boards of directors can assess and mentor the strategic frameworks and tools used by and available to their companies, especially in these changing times with a new finance focus. Three prominent categories are: 1) environmental scan and competitive analysis (Porter’s Five Forces, STEEP analysis, scenario planning, and strategic risk management; 2) internal/external strategic analysis (SWOT analysis, value chain analysis, strategy maps, gap analysis, Good to Great’s Hedgehog concept, and return driven strategy; and 3) innovation, change, and market disruption (Blue Ocean strategy, creating shared value, disruptive innovation, and reverse innovation) (Frigo & Krumwiede, 2020).

Concerning the new finance focus, sustainability strategies and performance are evolving into top priorities for many companies, their boards of directors, and investors as a pathway for creating greater long-term value. The SASB has defined sustainability accounting as the measurement, management, and reporting of corporate activities that maintain or enhance the ability of the company to create value over the long term. Management and boards of directors can use the following checklist to apply SASB metrics for managing risk, performance, and sustainability strategy (Frigo & Whittington, 2020):

1) Become familiar with the SASB metrics in your industry.
2) Review how other companies are integrating SASB metrics in their external disclosures.
3) Develop an action plan to publish disclosures in line with industry-specific SASB guidelines.
4) Consider how sustainability metrics can be developed at your company in terms of driving sustainability strategies and long-term value creation.
5) Consider how sustainability metrics can be integrated into enterprise risk management at your company.
6) Develop the capabilities and expertise related to SASB metrics, risk performance, and sustainability strategy.
7) Develop an action plan for your company to integrate sustainability metrics as part of the value proposition of your company.
8) Consider how your company can develop leading and lagging indicators on sustainability performance.

Such a checklist can help meet the call for improved reporting and disclosure of sustainability initiatives as stated in the 2020 annual letter to CEOs by BlackRock CEO Larry Fink. This letter stated, “BlackRock believes that the Sustainability Accounting Standards Board (SASB) provides a clear set of standards for reporting sustainability information across a wide range of issues. This year BlackRock is asking the companies that it invests in to publish a disclosure in line with industry-specific SASB guidelines by year-end (Frigo & Whittington, 2020). Such disclosures regarding sustainability strategies, risk management, and performance have the ultimate goal of creating greater long-term value for all stakeholders in line with the new finance focus.

Sustainability issues can impact key business areas, primarily revenues, operating costs, the cost of capital, and the value of assets and liabilities, all of which can impact both short-term and long-term value. Such concerns are relevant to
shareholders, stakeholders, activist investors, and passive investors, especially for the long-term perspective or focus of new finance. Sustainability issues can impact revenues through the effect on the demand for a company’s products or services. Sustainability issues can also affect operating costs, typically related to operational efficiency or the operating cost structure of a company. Sustainability issues can impact a company’s cost of capital in the areas of corporate governance, license to operate, and general risk. Sustainability issues can become risks to the value of a company’s assets or liabilities from factors that may impair the value of assets or create a risk of contingent liabilities (Frigo & Whittington, 2020).

5. SUSTAINABILITY ANALYSIS FOR NEW FINANCE FOCUS

The new finance focus challenges companies to create long term value for their shareholders, stakeholders, activist investors, and passive investors. It requires companies to increase the pace in moving from “business as usual” to aligning their purpose to value-generating strategies which will also strengthen their long-term competitiveness. Companies’ goals need to be linked to the 17 SDGs the United Nations set to achieve by 2030, previously listed in this paper. Related internal factors are supply chain, ecosystem innovation, education on sustainability issues, and consumer preferences. Related external factors are socioeconomic context, investors’ decisions, national and international policies, and mechanisms of external evaluation. A company’s purpose needs to be aligned with a company’s sustainable and value-creating strategies. Boards of directors can assess and monitor such efforts to ensure that (Busco, Frigo, Riccaboni, Rossi, & Sofra, 2020):

1) The corporate purpose is reflected in the strategy and objectives of the company.
2) Performance measures capture the whole value creation process and are aligned to a sustainable supply chain.
3) Incentives foster a long-term value for all stakeholders of the business organization.
4) Business practices are used to enable holistic thinking which fosters a purpose-driven mindset.

Fostering this different approach enables a shift from focusing on just short-term business outcomes to focusing on how those outcomes lead the company to have an overall positive impact on long term value creation. The light must be shed on the impact that these processes have upon all stakeholders, beyond just investors. The holistic approach can enable change to occur for a smooth transition to sustainable long-term value creation in the new finance focus. Companies need to avoid the trap of short-termism and gain a clear focus and commitment to creating long term sustainable value in accordance with the new finance focus. Unfortunately, in a global survey, 61% of executives and directors said they would cut discretionary spending to avoid risking quarterly earnings miss. 47% said they would delay starting a new project in such a situation, even if doing so led to a potential sacrifice in value creation (Busco et al., 2020). Addressing persistent short-termism should be an urgent issue for companies, boards, and investors, especially with the new finance focus on creating long-term value.

Mckinsey & Company found that from 2001 to 2014, the long-term companies identified in its Corporate Horizon Index increased their revenue by 47% and their economic profit by 63% more than others in their industry groups. Also, their revenue growth was less volatile over this period. During the 2008-2009 financial crisis, these same companies not only had smaller revenue and earnings declines but also continued to increase investments in research and development (R&D) while others cut back. From 2007 to 2014, their R&D spending grew at an annualized rate of 8.3% versus only 3.7% for the other companies. In general, long-term companies have a clearer sense of purpose of why they are here and where they are going (Frigo, 2018).

6. CIRCULAR ECONOMY FOR NEW FINANCE FOCUS

The term “circular economy” was originated in a report entitled “Towards A Circular Economy: Economic and Business Rationale for an Accelerated Transition” commissioned by the Ellen MacArthur Foundation (Ellen MacArthur Foundation, 2013). In 2018, the World Economic Forum, an international non-governmental organization (NGO), launched the Platform for Accelerating the Circular Economy (PACE), which sought to promote circular economy innovations around the world. Based on the discussion in the 2019 World Economic Forum, a circular economy is an industrial system that is restorative or regenerative by intention and design. It replaces the end-of-life concept with restoration, shifts towards the use of renewable energy, eliminates the use of toxic chemicals, and aims for the elimination of waste through the superior design of materials, products, systems, and business models. Nothing that is made in a circular economy becomes waste, moving away from our current linear, “take-make-dispose” economy. A circular economy is focused on designing out waste and pollution, keeping products and materials in use, and regenerating natural systems, so that we do not exhaust the resources of our planet. Changing the way we make and use products can contribute to addressing 45% of global greenhouse gas emissions, thus making a critical contribution to mitigating the impending climate crisis. A circular economy’s potential for innovation, job creation, and economic development is huge. Estimates indicate a $4.5 trillion-dollar economic opportunity that ties nicely to impact-focused investments advocated by the new finance focus (Iishi & van Houten, 2020). Per the World Economic Forum, a circular economy is focused on designing out waste and pollution, keeping products and materials in use, and regenerating natural systems, so that we do not exhaust the resources of our planet. Over 100 billion tons of resources flow into the economy each year with the majority eventually lost as waste.
or emissions, causing lasting damage to the environment, and leaving us vulnerable to the ever-worsening effects of the climate crisis. As we move towards recovering from COVID-19, we must create a more resilient system that ensures the health and safety of all people. The only way to do this is by reimagining our relationship with the natural world. We need to entwine social, environmental, and economic progress and decouple economic growth from unsustainable consumption while driving concrete and collective actions that speed up the adoption of the circular economy and realize systematic change (Ishii & van Houten, 2020).

The World Economic Forum’s Platform for Accelerating the Circular Economy has recommended four actions for building the circular economy:

1. Focus recovery stimulus on green and circular investment. As economic stimulus packages are introduced to support recovery from COVID-19, such as the 750-billion-euro package proposed by the EU, there is a huge opportunity to deepen our commitment and promote a circular economy as part of a green recovery. The priorities will be investing in renewable energy, protecting biodiversity, and transforming agriculture.

2. Create a policy framework for a circular economy. We need to see an ambitious and broad range of policies introduced to shift our relationship with natural resources and incentivize a movement towards a circular economy. For example, there should be subsidies for the re-use of materials, taxes on waste, enforced recycling, and carbon pricing. An ever-growing number of global businesses support a green recovery with their pledges to follow SDGs via the UN Global Compact.

3. Pioneer the adoption of circular business models. Many companies are already shifting away from one-off transactions towards ongoing relationships with their customers. Some companies are starting to take products back at the end of their economic life which has the benefits of keeping scarce resources in use for as long as possible and reducing reliance on the availability of raw materials. When carbon pricing and border adjustment tariffs, as included in the European Green Deal, are introduced, the companies that are innovating and adjusting their sustainable business models will have a clear business advantage.

4. Innovate to stimulate circularity. There are many opportunities for innovation in changing our relationship with our ecosystem. For example, COVID-19 has seen a sudden and dramatic shift towards home working, remote healthcare, and digital virus-tracking. Using such lessons learned, companies can invest in and adopt new competitive technologies to reduce energy consumption, to harvest and re-use materials, scale the availability of green energy sources, expand lifecycles of products, and reduce waste.

The World Economic Forum concluded, “As we move towards recovery from COVID-19, we must embrace the future and not postpone the inevitable by hanging on to the past. We must reject waste and adopt circularity. To build a circular economy, it will take deep collaboration between business, government, and civil society but the rewards will be well worth it: a stronger ecosystem that will be resilient for the decades to come and a world where people and nature can live together in harmony” (Ishii & van Houten, 2020).

7. CONCLUSION

The major research question of this paper is how boards of directors’ practices and performance can facilitate the new finance focus on sustainable, long-term value creation. The following topics were discussed and analyzed in this paper for this new finance focus: potential examples, strategic analysis, sustainability analysis, and the circular economy. Effective boards of directors need to be engaged in sustainable strategy formation and make sure long-term sustainable value creation continues to develop and does not erode. Effective board members need to have relevant industry knowledge, diverse expertise, and a proclivity for thinking independently in both good and bad times, such as the coronavirus pandemic. They need to develop a clear understanding of the sustainable business strategy and how long-term value is created and driven through innovation and the deployment of resources.

To advise their companies with choices involving new finance opportunities, boards of directors should pay attention to new finance trends, their impact on company performance, and opportunities to enhance future company performance. Boards could use this new finance focus, which is consistent with the United Nation’s Sustainable Development Goals, to monitor business operations and help identify business opportunities. Boards can assess and monitor ways to measure and manage long-term value creators and drivers and encourage their companies to become involved in the circular economy with its $4.5 trillion investment opportunities. This emerging new finance area presents opportunities to strengthen corporate performance which enhances the gatekeeper role of boards of directors in helping both shareholders and stakeholders. Our paper is limited to the fundamental development of new finance focus and related corporate governance challenges. Future research could use case studies and board interviews to investigate the board of directors’ practices and performance, concerning how boards have helped develop strategies and procedures to facilitate this new finance focus on long-term sustainable value creation.

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