**Sustainable governance – setting direction and inspiring change in a city development corporation**

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# Sustainable governance – setting direction and inspiring change in a city development corporation

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## Introduction

In the spring of 2013 a decision was taken on corporate level at Förvaltnings AB Framtiden (Framtiden), a group of seven companies managing 70600 apartments[1], fully owned by the City of Gothenburg, with the common vision to "build the sustainable society for the future". The decision concerned the development of a sustainability framework for the group, and the work has gained recognition among the top politicians in Gothenburg as well as industry representatives. There is an ongoing process where a documented sustainability guide is influencing corporate governance.

The central ideas of Corporate Governance evolve over time, and today CSR/Sustainability has become a major concern in many companies (Tricker, 2012). Porter and Cramer (2006) show that seeking "shared value" and synergies among stakeholders can be a strategic advantage. The Global Corporate Sustainability Report (2013) states that "the case for responsible business practices is strengthening, with a growing number of companies taking action… Turning a blind eye to

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[1] The largest municipality owned public housing corporation in Sweden

sustainability issues is a ticking time bomb, and hiding missteps – no matter how deep down the supply chain – is no longer an option".

The purpose of this paper is to explore the process at Framtiden leading to a situation today where corporate governance is changing into a more conscious sustainability focus. The paper discusses central mechanisms that can influence the long term ability to govern the corporation in a sustainable way.

The work at Framtiden is conducted as part of an action research approach aiming at developing the the corporation, as well as creating knowledge. It is a matter of applying both first hand understanding via own experiences and second hand understanding facilitated by theories forming an analytical framework (Gummesson, 1991). One guiding idea is that theories in use will stimulate the productive learning and outcome of this research process (Schön, 1983).

## Analytical framework

The analytical framework is founded on theories and experiences that can help in clarifying the interaction between ideas and behavior in organizations. We use the framework to organize and make sense of data and experiences from Framtiden in order to understand mechanisms influencing long term success (Weick, 1979, 1995). In line with Czarniawska and Joerges (1996) this is partly a matter of understanding the travels of ideas within and among organizations.

A central theme in the framework is based on Nonaka (1994) explaining how productive learning takes place through dialogue between tacit and explicit knowledge. While individuals develop knowledge, organizations play a critical role in shaping conditions for a process of knowledge creation. This knowledge guide action and influence our capability.

Figure 1 (developed from Marmgren, Clancy, Alänge 2013) visualize a structure that guides our analysis. A central idea is to use it as a reflective tool rather than focusing on it. In focus are the patterns (Book, 2006) in the organization and the knowledge produced as we use it in action. One key aspect is the nature of learning within the organization which can be stimulated by conscious development of learning alliances between key persons (Frischer et al. 2000).
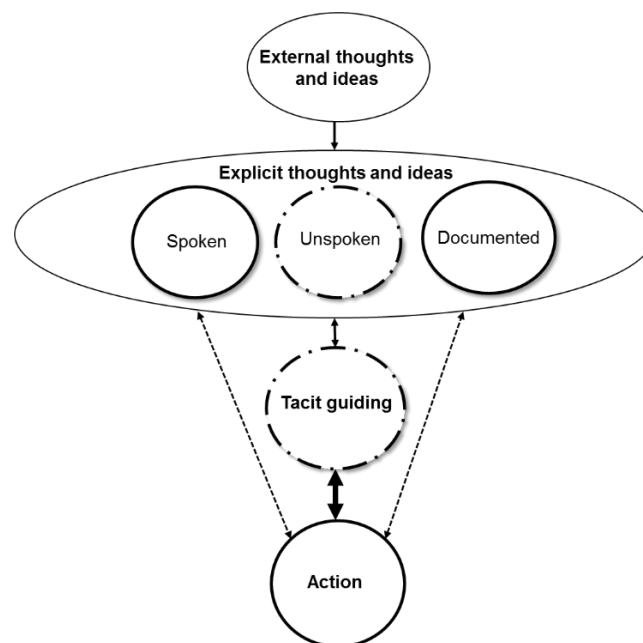


**Figure 1: A structure facilitating productive learning, focusing explicit and tacit guiding knowledge and its relation to action producing results for stakeholders.**

Tacit guiding is the generally subconscious "patterns" or "tracks" in our brains that actually guide actions in a specific situation whether it is riding a bike, operating a production line or running a complex project. Tacit guiding knowledge cannot be directly observed but inferred by looking at action or approached by interviewing[2]. This is in line with system 1 patterns of thinking (more intuitive) as described by Kahneman (2011) whereas the system 2 type of thinking (more conscious) takes place as part of explicit thoughts and ideas.

Sustainability as a concept can create good conditions for innovation and drive success on several levels (Nidumolu et al., 2009). Different and often contradictory thoughts and ideas can create tension among individuals and stimulate ideas and innovation (Fonseca, 2002). This however, is dependent on the conditions for innovation. Contradictory thoughts can also lead to conflict, power struggles and problematic patterns. The ability to understand organizational patterns in the specific context and adapt external ideas to make them more compatible is central (Book, 2006, Marmgren, Clancy, Alänge, 2013), as is the process of implementation (Lewin, 1948).

## Setting Direction for Sustainable Governance

To explore the process att Framtiden we describe three parts: the starting point for the work, the sustainability ideas brought into the organization and the situation now.

### Starting point

Framtiden is engaged in work intuitively associated with sustainability. It is within their purpose, as a municipally owned company, to do good and contribute to society. Employees are proud of the contributions to society in the daily work. A vision also exists to "build the sustainable society for the future", but there is a lack of guidance on how to actually fulfill this vision. This can be problematic in a municipality owned company like Framtiden which has a complex situation in the governance structure. The board of directors on all levels of the corporation consist of politicians with varying agendas based on different political ideas and budgets. The positive side of having politicians in the board is that, in line with the vision, the good society and cultural values are in focus instead of a narrower financial perspective.

A problem exists in a situation where employees are afraid to make mistakes. Some perceive a negative stress related to expected achievements and measurements of leadership. A risk prevails that this inhibits innovation and productive stakeholder dialogue. This is due to the fact that media and other stakeholders have observed problems in several municipality owned companies. Serious criticism are brought forward in media, and problems in Gothenburg gain much more attention than the success stories that are also part of reality.

In the beginning of 2013, at the starting point of the sustainability initiative, there were questions regarding the interpretation of CSR and sustainability in the context of Framtiden. The documented vision, owner directives for the mother and daughter companies, documented business plans and the city budget were not aligned in a clear and explicit direction for sustainable governance. A balanced scorecard logic existed but it did not guide behavior and action in a clear and intuitive way, given the purpose of the organization. Furthermore a reporting culture, with clear directives to report in different systems did not lead to feedback guiding action.

One company within the group had used GRI3 for Sustainability Reporting, and this had also been praised, but the contents of this report did not gain any momentum. In fact, the sense was that this was still another report following certain demands. The structure did not produce creative tensions driving innovation and improvement. Instead, it summarized what was already going on, within an external structure that was not natural to the company.

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[2] This requires going beyond the first response to go in depth with the interviewee

## Sustainability ideas inspiring change

A central idea was to build a strong sense of what sustainability means in practice The ambition was to build momentum around a sustainability idea that could stimulate the organization´s development with the focus on core issues. A threat against this ambition was that the corporate initiative would be seen as still another top-down reporting initiative creating conformity oriented ways of organizing. Another threat would be that this idea would challenge assumptions among professionals with an auditing and inspection focus.

It was considered essential to build from what already existed within the organization and not implement a predefined management model. External models and theories could serve as inspiration but not as the central guiding mechanism. The intention was instead to create a sustainability guide that Framtiden would be proud of. Something they felt ownership of. Referring to Book (2006) we wanted to understand underlying patterns and adapt the work accordingly. Central theoretical standpoints can still be used, but with respect for patterns that may influence the effects of the work. Another key was to use attractive visualization that could call attention and stimulate communication of the sustainability ideas being developed.

A central idea providing inspiration was that a sustainability oriented organization "take responsibility and strive for long-term success by creating value for and with stakeholders[3], and balancing their needs in the short and long term". Another central idea was that sustainability is driven by learning through successive understanding of the organization understood as a system. This system is formed by several sub systems, which relate to external levels of interrelated systems. The systems view can also be used on a higher system lever, addressing global development as done in Brundtland (1987) pointing at several systems that need to function in order to reach a sustainable society. Finally, three central questions, in line with ISO 26000, was proposed to guide the work:

1. Who are our stakeholders?
2. What focus areas should be prioritized to satisfy the needs of our stakeholders?
3. Which principles[4] should guide?

## Now

Today there is a shared view of sustainability in Framtiden on corporate level, among board of directors and among CEOs in the daughter companies. A sustainability guide exists that can guide coordinated thought and action. The ideas in the guide facilitated the work on the first sustainability report developed on corporate level. The sustainability report is used for communicating, internally and to external stakeholders, what sustainability is at Framtiden, how they work, the results they have achieved and their aspirations. Central in the guide and report are eight defined focus areas (prioritized areas) that define the type of results to strive for. In each area a number of aspects have been identified to clarify the meaning in practice. These areas are related to needs that the identified prioritized stakeholder groups have.

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[3] The nature and future generations are considered stakeholders
[4] These principles has so far been tacit guiding through the work on the eight focus areas, but the plan is to define them thoroughly, bringing the tacit into explicit knowledge.
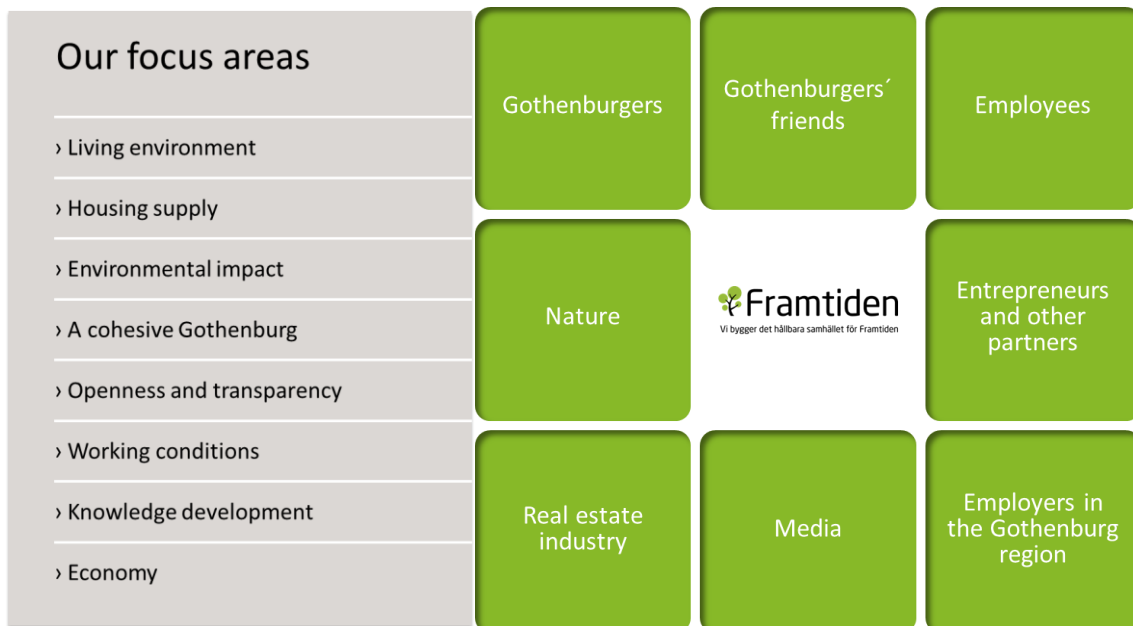
**Figure 2: Prioritized focus areas and stakeholder groups**

New ideas regarding sustainable governance at Framtiden have been developed. These ideas are now also enacted in meetings and when writing key documents like the business plans. At a larger system level they have started to spread inside and outside the group, both through spoken communication and actions. Two key tools in communication are the sustainability report and sustainability guide.

A central part of the strategy is to integrate sustainability into the tacit guiding knowledge that each person is carrying as they are fulfilling their role in the organization. So far, the integration into tacit knowledge has mostly taken place on a governance level, but it is inspiring the daughter companies and other stakeholders' communication. In fact one daughter company found their own way of addressing sustainability as a consequence of the work at the corporate level. The sustainability guide helped the daughter company more clearly define their role within the groups sustainability oriented mission.

The sustainability report and guide have so far gained positive recognition. A lot of work remains however, and the sustainability report clarifies that this is a learning journey. One important test is coming now when stakeholders are raising issues and questions. What is happening in action as a consequence of communication relating to the transparent sustainability work? A group of stakeholders – senior citizens – symbolize this moment of truth as they communicate certain issues and questions in a letter to Framtiden. They used the sustainability report to communicate regarding living options for senior citizens. Hence, the report has in this case facilitated stakeholder communication.

## Discussion

What are the central mechanisms influencing the long term ability to reach a natural and intuitive way of governing and driving a corporation in a sustainable way? Certainly we had some ideas going into the work at Framtiden. One central part of the sustainability initiative has been to build guiding ideas and document these, in an inspiring way, so that they can stimulate dialogue and further development. As explicit thoughts and ideas are related to what is going on in action, creative tension can drive innovation, development and emergence of tacit knowledge. At Framtiden we are forming guiding

ideas anchored in the core operations to gain ownership, rather than directing attention to external influences. Naturally, external influences are important over time and also during internal learning processes. Consultants have brought in ideas presented in "ideas inspiring change".

A question is how the explicit ideas concerning sustainability are integrated in action relating to stakeholder needs.The situation where senior citizens take contact is an opportunity for learning, what the sustainability ideas mean in action on corporate level. Many such situations will occur and their consequences in action will naturally influence the learning journey ahead.

So far, it is reasonable to believe that a few key persons having taken part in the work have integrated the guiding ideas into the tacit guiding knowledge influencing behavior and action directly. Other persons are relating to the ideas, but not as part of their natural way of thinking. In line with Lewin (1948), it takes more conscious actions to stimulate group processes and development of shared ideas.

The transparency regarding the way of thinking that is promoted from corporate level has been greatly improved. In fact, regarding sustainability, the only guiding idea was related to the generic model of the triple bottom line: Economic, Environmental and Social dimensions of development and results. In practice, this structure of thought did not lead to an integration of sustainability. It resulted in efforts to package what existed in an external and generic structure. This raise questions regarding the more normative suggested ways of addressing challenges of sustainability.

Today, as a consequence of the history, outside scrutiny and feedback may easily be taken as criticism not leading to honest reflections that can guide actions to improve. Instead of a situation where stakeholders mobilize together and act on shared interests, we have a situation influenced by mistrust. One example is the scrutiny of stakeholders like media or representatives of those living in apartments. It seems like the consequence is negative tension instead of creative tension driving innovation (Fonseca, 2002).

To stimulate a climate of creative tension that can drive innovation and development should be central. In the operations such tension seems to exist between stakeholders and employees with a common interest to satisfy certain needs or desires. The question is how work on corporate level can benefit from similar creative tension to promote a long term development of a sustainable governance. The intuitive answer could be to further clarify the processes and roles of the persons working on corporate level to promote a sense of urgency relating to concrete needs that require action. The risk is that a perception of success and lack of action strikes back and creates problems in line with Keating et al. (1999) discussing improvement paradoxes from reality. It seems like the progress at Framtiden continuously will lead to concrete action and learning however. The future will tell us more about this.

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