

# Aligning governance interests for the long haul

**As many as 93 percent of CEOs surveyed say sustainability is essential to their company's future success.**

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By [Pascual Berrone](#)

When the Norwegian aluminum and petrochemical company, Norsk Hydro, came under pressure from the first wave of environmental protest movements in the 1960s and '70s, it realized that something would have to give. Its response was to modernize its plants, manufacture more environmentally friendly product mixes and reduce pollution through strict control measures.

What is particularly striking about the Hydro case is that the company was operating in industries notorious for their damaging social and environmental impact. What's more, it embarked on this transformation in the face of stiff resistance from an internal corporate culture that had traditionally taken a hostile stance toward environmental issues.

Crucially, the company was not afraid to make radical changes to its governance structures in order to build a more sustainable business model. And, lest we forget, all this was achieved against the social and economic backdrop of the 1980s, a decade whose zeitgeist is best captured by the catchphrase of the movie Wall Street: "Greed is good."

Today, Hydro is barely recognizable from its former self. Having divested its oil, gas and agrochemical operations, the company now focuses on manufacturing aluminum and developing renewable energy. The company has produced a social responsibility directive, as well as a code of conduct to ensure that all people acting on behalf of Hydro perform their activities in an ethical way.

There is much that companies today can learn from Hydro's example. Perhaps, most importantly, it reveals the importance of overcoming an intransigent corporate culture and putting in place governance structures that support the organization's social and environmental goals.

In this article, I will draw on recent research that I have conducted, to present ways in which companies can, like Hydro, adapt their corporate governance models to build a more sustainable future, both for themselves and for the communities and natural environment that they support and on which they depend.

I will also show how improving one's social and environmental performance depends less on regulatory compliance than it does on aligning the interests of the firm's owners with the composition of its board of directors and its approach to executive and CEO compensation.

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