



Governance 4.0

This editorial is based on [“Envisioning Governance 4.0 For a World that must not Fail its Kids”](#) which was published in Livemint on 20/01/2022. It talks about the evolution in the model of governance.

For Prelims: Davos Summit, World Economic Forum, Fourth Industrial Revolution

For Mains: Need for a new approach in public and corporate governance.

In the upcoming year, the [covid pandemic](#) and the myriad crises it spawned may start to recede but a bunch of other challenges ranging from the **failure of climate action to the erosion of social cohesion** do not seem to go anywhere.

Addressing these challenges will **need leaders to adopt a different and a more inclusive governance model**. However, in recent times, the faith of the people in their leaders seems to be fading away.

A good governance model is an invisible support for the economy and social order. It is time now that the world shifts from its previous, unsuitable models of governance to **Governance 4.0**, proposed in the [Davos Summit of World Economic Forum](#), which focuses on rather long term strategic thinking with more inclusivity.

Governance and Models

- **About:** [‘Governance’](#) is the process of decision-making and the process by which decisions are (or are not) implemented. It can be used in several contexts such as corporate governance, international governance, national governance or local governance.
- **Models of Governance:**
 - Governance 1.0: In the Governance 1.0 period after [World War II](#), both public and corporate governance were **marked by the rule of a “strong leader”**.
 - This type of leadership **worked well in a society where the cost of information was high**, hierarchical management functioned relatively smoothly, and **tech and economic advances benefited almost everyone**.
 - **Governance 2.0:** This model **emerged at the end of the 1960s** and affirmed the **primacy of material wealth**, and coincided with the rise of [“shareholder capitalism”](#) and **progressive global financialization**.
 - Managers accountable only to shareholders reigned supreme and had global reach. While the [global financial crisis of 2008](#) **dealt this model a blow**, its narrow vision persisted.
 - **Governance 3.0:** **Crisis management dominates decision-making**, with leaders focusing on operational issues and showing a **relative disregard for possible unintended consequences**.

- The covid shock ushered in Governance 3.0 and the **trial-and-error approach** of this model has led to haphazard management of the pandemic and its fallout.
- **Consequences of Poor Governance:** Poor or weak governance is a **driver of disaster risk**, and is linked to many other risk drivers such as **poverty and inequality**, and **poorly planned urban development**.
 - Bad governance often **results in the suffering of the most vulnerable**, the poor, the weak, women, children and environment.
- **Need for a New Governance Model:**
 - Global governance has an unresolved problem: both the **institutions and the leaders are no longer fit for their purpose**.
 - As the **Fourth Industrial Revolution** and **climate change continue to disrupt the current lives**, public and corporate governance needs to change.
 - A new governance model is crucial for the world that keeps the focus on the primacy of society and nature instead of **prioritizing the business and finance world**.

Approaches in Governance 4.0

- **Long-Term Strategic Planning:** Governance 4.0 must **replace the current short-term management** with long-term strategic thinking.
 - A focus on problems such as the **pandemic, socioeconomic crises and people's mental health** must be complemented with **action to tackle climate change, reverse biodiversity loss** and environment damage caused by human activity, and address related challenges such as **involuntary migration**.
- **Businesses to Take Responsibilities:** The new model shall **replace the tunnel vision and top-down approach** of the past. In the complex and interconnected world full of discontinuities, the roles of each stakeholder in society must change.
 - **Businesses shall no longer ignore their social and ecological impacts**, and also the governments must be held responsible for assuring that the businesses take accountability.
- **Evolving Priorities:** The emphasis on a narrow conception of economics and **short-term financial interests must cease**. Instead, the **primacy of society and nature** must be at the core of any new governance system.
 - Finance and business are vitally important but they must serve society and nature, not the other way around.
- **New Leaders:** Many leaders are keen to pioneer a new age of governance including **business executives advocating environmental, social and governance metrics**, and some political leaders.
 - Such **leaders should be welcomed who act outside of their narrow interest** as trailblazers and argue for specific action to fight climate change and address social injustice.
 - The best gauges of responsible and responsive governance today measure the extent to which leaders embrace and consent to stakeholder responsibility over shareholder responsibility.
 - Although the measurement of stakeholder accountability is still in its infancy, the development of consistent metrics will enable us to judge whether leaders are **taking a broader view of their role and responsibility**.

Drishti Mains Question

“The world has changed and public and corporate governance must change with it. The post pandemic expects a new model of governance that is not only inclusive of environmental health but also focuses on long term planning for overcoming different socio-economic crises”. Comment.

