Board Leadership for Environment Management and Climate Change

* Prof. Colin Coulson-Thomas

Human existence, welfare and social progress depend upon the Earth's environment and our interaction with it. Yet corporate activities are polluting this environment, degrading bio-systems, reducing biodiversity, over-exploiting natural capital, contributing to global warming, accelerating climate change and damaging the life prospects of future generations. In addressing these shared challenges we are in a race against time.

> A board's perspective and vision should embrace supply chains, an organisation's network of relationships and collaborations with a wider range of interests, including local communities.

In some cases, we may be at a tipping point. Irreversible damage might already have occurred, denying options for our successors. Should responsibility be accepted or claims for damages resisted? Is human activity the issue, or just its negative impacts? Can the latter be isolated and effectively addressed? With the 22nd WCEM on environment management and climate change approaching, what should directors and boards be considering?

Negative Impacts of Human Activity

The consequences of corporate practices and priorities are adversely impacting the natural world. Various categories of natural capital are being run down at an alarming rate. While this degradation is rarely measured, activities that cause it still contribute to what is regarded as output and profit. Our collective aspirations, priorities, consumption and lifestyles are unsustainable. They are compromising the future of our own species and resulting in the loss of many others. Yet there are also many ways of working with nature, such as to restore peat wetlands and areas of sea grass to absorb carbon.

There is an urgent need for action and imagination to tackle, prevent and reverse multiple negative externalities, change our purposes and practices, switch to simpler, healthier and more fulfilling lifestyles and achieve UN Sustainable Development Goals (SDGs). The inter-related challenges we face present unprecedented opportunities for innovation, transition and transformation. Stakeholder engagement and involvement can assist re-purposing, exploration of new possibilities and the agreement of revised priorities.

There is also a diminishing window of opportunity to address certain shared existential challenges. Responsible board and corporate leadership must be urgent as well as strategic. Collaboration, public-private cooperation and the co-creation of more sustainable models of operation, lifestyles and goals are needed, in addition to individual and corporate action, if shared challenges facing mankind are to be effectively addressed.

Widening Directorial Perspectives

A board's perspective and vision should embrace supply chains, an organisation's network of relationships and collaborations with a wider range of interests, including local communities. They should also encompass the natural world and its bio-systems. The strategic direction a board provides should help, further and support whatever re-purposing, re-thinking, reprioritisation, re-shaping, re-invention and re-deployment is required for a company to survive and thrive in the face of environmental and climate change challenges.

The evolution of humanity and human civilisations has been shaped by our relationship with the natural world and the availability of its resources. However, awareness and concern about the biodiversity risk highlighted by the Dasgupta Review does not reflect its potentially catastrophic impacts on financial and infrastructure asset values, the economy and the planet. Human activity is transforming natural capital into outputs that do not renew and much of which ends up as waste which is difficult to recycle and environmentally damaging.

Are enough boards reading the road ahead and considering whether and how they will be able to continue to operate in future scenarios, such as a low or zero carbon economy or higher temperatures and with possible related requirements and regulations? Might some directors be failing in their duties and responsibilities relating to the future success of a company and the interests of its stakeholders? The challenge for concerned independent directors is sometimes how to focus distracted board colleagues on environmental and climate risks.

Environment and Climate Change Risks

Are the various categories of environmental and climate change risks that include liability, physical and reputational risks as well as the risks of transition, for example to a lower carbon business model, understood? Should liability risk reflect a growing willingness of concerned parties to initiate legal actions for reasons such as damage done or inadequate action? As the possibility of being sued and the severity of risks increase, might insurance against some of them prove increasingly expensive and problematic?

Financial risks can include the write down of assets that relate to activities which damage the environment or contribute to climate change. Might balance sheet valuations be challenged by a company's auditors and creditors? Could this affect solvency and raise questions about whether an entity is a going concern, especially if large crawl out costs could arise?

Climate change risks are already materialising. Increasingly, they are likely to impact companies, their customers and suppliers, local communities and the context in which businesses operate. Their crystallization includes wild-fires, record temperatures, coastal inundation and erosion, supply chain disruption and both flooding and water shortages. If effective action is not taken quickly, the consequences of these events could be catastrophic for some people, organisations and communities. Boardroom discussions and resulting decisions need to reflect their increasing severity and resilience requirements.

Environment and Climate Change Action

Does the focus of some boards need to switch from responding to events and developments to also taking proactive steps to reduce and/or prevent climate and environmental risks? Are their strategies essentially negative and about trying to reduce negative impacts rather than bring about beneficial changes? Are too many of them at expression of concern and understanding problems stages, rather than addressing them?

Is sufficient attention given to the struggles for support that might arise when a number of companies and other organisations in multiple locations are simultaneously affected when certain climate risks materialise? Like problems, could commitments to action also be shared? Should a board consider joining the UN Global Compact, with a company's CEO making a commitment to operationalise ten responsible business principles, report annually on progress and support wider and sustainable development goals?

In conditions of uncertainty, situations can rapidly change. As events unfold, traditional strategic planning can be inflexible. Intelligent steering may be more appropriate. Strategic direction should cover what needs to be done at each stage of a journey to achieve a desired transition or transformation to more inclusive and sustainable models of operating and living.

The label 'strategic' is sometimes attached to activities in order to make them seem more important and justify the involvement of directors and senior management. Strategic direction for the environment and climate change relates to the whole of a company and its activities. It concerns a core purpose and can make a material and noticeable difference. Board leadership is vital and engagement with senior management and key stakeholders is desirable.

Reviewing Corporate Purpose

Environment and climate change strategy should be consistent with, supportive of and aligned to the purpose of an organisation and its values and goals. These should be reviewed to ensure they are socially and environmentally responsible and take account of the likely availability of natural capital and the requirements of bio-systems and future generations.

A company and its directors, stakeholders and people should operate honestly, fairly and responsibly. Could a commitment to protect and restore the environment, re-establish and enhance bio-systems, increase biodiversity, re-wild, re-cycle and build natural capital, reduce and reverse global warming, mitigate and moderate climate change, and increase and widen the life chances of future generations unite them behind a shared cause?

Many companies and boards are perceived as failing in their responsibilities relating to the environment and climate change. In the Netherlands in a landmark case a court ruling has required the board of Shell to be more ambitious in cutting CO2 emissions. Will more legal cases be brought against companies for taking inadequate action? Successful actions may encourage others to bring further cases and/or widen their scope. Some companies have been damaging the environment and contributing to climate change for a long time.

Questioning Objectives and Engaging Stakeholders

The Paris Agreement aims to limit global warming since pre-industrial levels to well below 2°C. Should the objective be to keep increases in temperature below the 1.5°C which the parties agreed to take steps towards? The IPCC Special Report has concluded it is possible. Could net zero be achieved earlier? Is a 'net' target sufficiently ambitious? Should activities like tree planting be regarded as necessary rather than compensations for emissions?

Directors should have the courage to question and challenge assumptions, activities and practices that lead to undesirable impacts and negative externalities. Boards should discuss their responsibilities towards the environment, eco-systems and the natural world and consider the implications for corporate purpose, vision, values, goals, objectives and culture. Assessments of the consequences of a company's activities should take account of those of supply chain partners and the use of its offerings over their life-cycles.

Boards should engage with key stakeholders to secure support for the re-purposing, reviewing of priorities, targets, changes of direction, innovation, internalisation of externalities and transition and transformation required to pursue activities such as recycling and re-use, and the restoration, re-wilding and de-carbonisation needed to address pressing challenges and improve the prospects of future generations.

Responsible Applications of Technology

Digital and 3D printing technologies can enable models of operation and distribution and support ways of working that are less environmentally damaging. However, is too much faith sometimes put in their potential contribution and that of innovation and 'clean technologies' that consume prodigious amounts of scarce natural capital, when the rights to so much of the planet's supply of rare earth minerals is increasingly controlled by China?

In themselves, technologies are neutral. It is the uses to which they are put, by whom and for what purpose that determines their energy and support requirements and the extent to which their applications are helpful or harmful. Applications of technologies themselves use scarce natural capital that will be needed by future generations. Are simpler, healthier, more fulfilling and less resource intensive lifestyles also required?

Should socially and environmentally responsible boards discontinue applications of technology to increase activity, output, productivity and growth that result in harmful emissions and negative externalities, and replace them with uses of technology to enable and support remedial and restorative activities and more sustainable and inclusive consumption, lifestyles and models of operation? They should ensure that people are made aware of the environmental and other consequences of their purchase, consumption and lifestyle decisions.

Confronting Obstacles to Change

Good intentions can encounter greed, selfishness and laziness, entrenched lobbies and vested interests in the status quo. Some people persist in trying to 'make hay while the sun shines'. They continue damaging and un-sustainable activities and lifestyles for as long as possible before they are banned or more courts award damages for a failure to move quickly enough to responsibly innovate, change direction and reduce and reverse the harm being done.

Should companies do more to encourage environmentally responsible consumption, whether through support tools, briefings or educational activities? Might people benefit from training and support and scientific advice relating to the environment and climate change? This could stress the need for action while there is still time to limit global warming and avert environmental, bio-system, natural capital, social and climatic catastrophes.

Activity, project and programme elements of environment and climate change strategy should complement other corporate initiatives and be appropriate and proportionate in relation to the situation, circumstances and corporate capabilities. They should be practical and deliverable, and relevant to and supportive of what needs to be done to address and reverse shared social and environmental challenges and achieve SDGs. Their scale and scope should have a discernible impact that makes a material difference within the required timescale.

Securing Wider Involvement and Support

Governance arrangements and board decisions should reflect the reality of a company's role within eco-systems, take account of impacts on them and ensure any use of natural capital is sustainable. Directors should encourage the development of alternatives. Rather than impose standardisation, they might encourage parallel developments to create multiple options and widen choice. Could corporate services become more engaged with entrepreneurial spirits and be more supportive of their efforts? Head office staff who have been a cost might have the potential to become business partners and creators of new income streams.

Where damaging existing activities have to cease, key stakeholders could be involved in the prioritisation of innovation proposals and transition initiatives. Responsible and pro-active boards might be surprised by the support they receive in some quarters. Taking the initiative can lead to first mover advantage and reputational benefit. When change or transition seems inevitable, those likely to be the first to be directly and adversely affected might appreciate being treated with respect and given an honest account of realities and consequences.

Openness, Transparency and Reporting

Rather than being surprised by events, many investors and other stakeholders prefer fair and balanced reporting of damaging activities that need to be reduced or discontinued. Uncertainty can be more debilitating than the knowledge that a local plant or mine has to be shut down and of the reason why. Coming clean might improve a reputation, where concealment and deceit would destroy it.

Hitherto, many directors have mainly operated within the confines of boardrooms, where their discussions have been confidential, leading to collective decisions. The nature and timescale of the required transition to more sustainable lifestyles and business and operating models, and the engagement needed with stakeholders, may demand greater openness and more dialogue, as directors explain, justify, listen and learn to build trust and gain support.

When reporting, should more boards consider the recomme - ndations of the task forces for climate and nature related financial disclosures (TCFD and TNFD)? On the other hand, could a wider range of ESG related disclosure and reporting requirements and more regulation affect investment and lending appetites and constrain the raising of capital? Are risks and problems being reported rather than addressed by effective and collaborative action?

Reviewing Measures of Performance

Are measures of performance, business cases and justifications for action taking account of negative impacts and externalities such as costs imposed on others, or the loss of natural capital or biodiversity? Some challenges facing mankind result from decision makers only taking costs and benefits that directly affect them into account. Indirect and external costs and benefits experienced by others and affecting the environment are often ignored. Externalities that are difficult to compute are often disregarded. Are opportunities or wider benefits also sometimes overlooked?

Should directors insist that accounts and measures of output and performance take account of externalities and activity outside of the money economy? Are the human, social and environmental impacts of current approaches to growth and development being overlooked? A challenge for economists, Governments, regulators and concerned citizens is to find ways of internalising externalities when individual and corporate decisions are made. A consensus on market mechanisms such as carbon pricing is yet to be achieved.

In many countries ownership, whether by leading families, institutions or other companies and interests is often highly concentrated. Relatively few people may benefit from irresponsible activities, while a great many more may suffer their costs, many of which are externalities that are not taken into account when board and corporate decisions are made. Should more use be made of particular consequences of corporate activities, such as impacts upon global warming or SDGs be used when assessing board performance?

Redefining Business and Economic Success

Do boards also need to redefine success and how they measure it? Environmentally damaging activities still contribute to traditional measures of output such as Gross National Product (GNP). Striving for economic growth may increase the harm that is done. For example, in some countries Governments still incentivise companies to explore for and extract fossil fuels or reduce barriers to such activities in order to attract new entrants or additional investments. Compliance with their aspirations could contribute to climate change.

The natural world is largely treated as a free good. It is increasingly plundered. As resources become scarcer and the survival of species is threatened, the value of what remains ought to increase. Should depletion of natural assets and depreciation of natural capital be deducted from estimates of wealth creation? Intangibles that improve the quality of life are also often overlooked. Transferring elderly relatives from the care of loving families to commercial residential homes increases output, although their joy of living might be much reduced.

Success could be defined in relation to adequacy and sufficiency of action while it is still possible to halt and reverse particularly dangerous situations and/or trends. Urgency and speed are important. Recovery opportunities are being lost. Reports could include assessments of impacts in relation to what is required to stabilise and improve, and when these are likely to occur in relation to available time before it will be too late.

Giving People Meaning and Purpose

Could adressing social and environmental concerns, aspirations and expectations be a source of competitive advantage and a long-term success factor for more boards? How could directors be more effective in ensuring that strategies for longer-term sustainable value creation are developed, adopted and implemented? Will boards be able to provide the collective responses and collaborative action required to address climate change? Lord Stern believes that the pursuit of a zero-carbon economy will generate strong and inclusive growth that could result in a more acceptable climate and assist the delivery of the UN SDGs.

Business and consumption activities are burning through the world's stock of natural capital. They are converting it into harmful emissions that endanger health and ever larger quantities of waste. Turning precious resources that are likely be needed by future generations into forms that will be less useful to them is being counted as a contribution to output, growth and GNP. Would ascribing prices to elements of natural capital highlight the destruction of value that many directors are responsible for?

Many people like to serve a cause greater than their own self-interests and to feel they are on the right side of history and benefitting future generations. Stern and Dasgupta reviews suggest transformations required to address climate change and the loss of biodiversity are possible. Determined action to reduce the emission of pollutants, the use of fossil fuels and the production of greenhouse gasses, rewild to increase biodiversity and/or achieve UN SDGs could galvanise concerned stakeholders and give them a new sense of meaning and purpose.

**Prof. Colin Coulson-Thomas* *holds a portfolio of leadership roles and is IOD India's Director-General, UK and Europe. He has advised directors and boards in over 40 countries.* ■