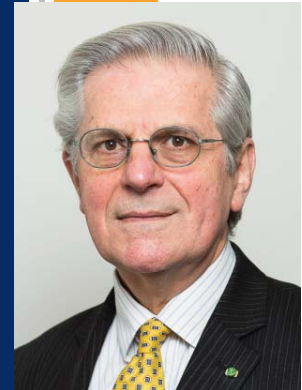


Economic Recovery, Climate Change and the Environment

*Prof. Colin Coulson-Thomas



In recent weeks companies have been preparing their entries for the Golden Peacock Environment Award. While reflecting on their achievements, IOD members in urban areas may have registered that the air they breathe is less harmful than before the onslaught of Covid-19. In the absence of traffic noise, they might have been tempted to open a window. Some people have mentioned hearing bird song, or being able to see buildings or trees that had previously been concealed from view by the fog of pollution. Lockdown has benefitted the environment and wildlife. Activities that prior to the pandemic used to erode and/or waste natural capital, increase pollution, or produce greenhouse gases have all for a period been reduced. Can such environmental and atmospheric improvements be banked for the longer term? Amidst the clamour for economic recovery will they be pursued or forgotten?

As economies emerge from lockdown, will corporate activities quickly revert to pre-pandemic practices that damage the environment, reduce biodiversity and contribute to climate change? Is rapidly restoring pre-pandemic economic growth rates with a previous development model either desirable or sustainable? How many directors have used their confinement to reflect on how to transition to cleaner technologies, phase out the use of fossil fuels or increase productivity so as to deliver greater value from less natural capital? Will directors and boards act or intervene to ensure that any resumption of global economic growth is environment friendly, responsible and sustainable? Given the collective effort to tackle Covid-19, will future growth also be more inclusive, allowing people who were previously excluded to share its benefits? Will these include more green jobs?

The challenge for boards is to initiate corporate activities and support collaborative efforts to confront Covid-19, while both rebuilding economies and tackling climate change, at a time when the expectations, requirements and priorities of stakeholders, Governments, regulators and the wider public may have changed and the nature of the 'new normal' that emerges is uncertain. How engaged are directors with stakeholders? Are they monitoring how their aspirations, preferences and priorities have changed and are evolving? Are they exploring alternatives, emerging needs and new options? Is a return to previous business models, patterns of work, hectic lifestyles and headlong growth desirable and/or advisable? What steps should be taken now to secure the know-how required to transition to new

ways of operating at a time when other enterprises may be thinking along similar lines?

Renaissance and Transformation

Lockdown has given many people an opportunity to reflect on what is most important to them and reassess their past lives and future prospects. The speed with which atmospheric improvements occurred has increased awareness of the consequences of collective action and new possibilities. The damaging impact of past human activity upon the environment has been relentless. Coral reefs visible from space and built up over millennia have seemed destined for extinction unless carbon dioxide emissions are reduced and then reversed. Is there still time to change direction? Are boards ready to spark a renaissance and transition to simpler, healthier and more fulfilling lifestyles by repurposing companies and embracing social and environmental aims and considerations as well as economic and financial ones?

Different aspects of past corporate activities, conduct and operations varied in the extent to which they were sustainable. They also differed in the extent to which certain stakeholders, and in some cases many people, might wish them to be sustained. Reaction against operations that damage the environment, reduce biodiversity, consume scarce natural capital and/or contribute to global warming appears to have grown, especially among younger people concerned about their futures. Green growth while simultaneously achieving other inter-related objectives may require a more holistic approach, a revised corporate purpose and altered practices and priorities. How might interested parties be best engaged and consulted? Is there an opportunity to secure new alliances and wider support?

How should 'green growth' be defined? Can it be achieved by market-based strategies and what form should these take? Is Government and regulatory intervention needed? Is a fundamental shift of behaviours required for a renaissance to occur? Are too many people essentially selfish and greedy? Will they be willing to give up old habits and environmentally damaging activities such as non-essential air travel? Are ESG investors too few in number and powerless to prevent damaging externalities being ignored? How might more of mankind live in greater harmony with nature? What can we learn from ancient wisdom and the practices of past generations? How do we move our environmental strategies from compliance with dated and inadequate

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requirements to creative solutions to current challenges and more responsible business practices and models?

Implications for Corporate Boards

Renaissance, transition and transformation needs to begin in the boardroom. Beyond re-purposing, what changes of strategy and new strategies are required to conserve rather than destroy, secure an ecological balance and use natural resources more responsibly and sustainably? What elements need to be brought together to achieve a more holistic and integrated approach to building a more sustainable, inclusive and safer future? What needs to stop in order to progress? What steps could be taken to rescue, revive, restore and/or recreate aspects of the environment and biodiversity that have been lost, and how might they be funded and implemented? Where is innovation and creative entrepreneurship most required? Must we move in a different direction? Are the changes needed sufficiently radical and urgent to require transformational leadership, rather than incremental improvement?

Should and will more boards now acknowledge responsibilities to a wider range of stakeholders? Will enough of them act to incorporate environmental and social as well as economic considerations into their business development strategies, to achieve more responsible, inclusive, efficient and sustainable growth? Are there additional steps that might speed up the transition to a lower carbon future and the accomplishment of UN sustainable development goals (SDGs)? What changes to board and leadership policies, practices and priorities are needed to achieve the corporate, collective and collaborative action that is required to recover from the global pandemic, combat climate change and achieve SDGs?

Responding to Climate Change

How and to what extent has coping with Covid-19 and its consequences distracted directors from the continuing challenges of climate change and the environment? Given uncertainty over the likely nature, duration, extent and speed of recovery from the pandemic, have some strategies and plans been abandoned or put on hold? During lockdown, have directors been reviewing and assessing various developments that might help them to address climate change? Is the adaptation and innovation required to cope with it still seen as an arena of opportunity? What changes to current corporate governance arrangements are required to simultaneously handle multiple ambiguities and issues and deliver a recovery that achieves climate security and SDGs? How might and should stakeholders be engaged to secure the support required for agreeing and adopting the changes needed?

Against the background of a possible resurgence of Covid-19 and its longer term impact, are the uncertainties and risks of a climate crisis being effectively managed? How is this manifest in terms of changes of action, intention and aspiration? Do boards sometimes just focus upon particular aspects of environmental changes and assume there will be time to adjust? Given the multiple consequences that climate change can and could have, is it being treated with the seriousness that the risk of the world becoming uninhabitable deserves? What steps are being taken to increase corporate resilience to climate and other challenges, including extreme weather events and food, water and energy security? Are there technologies and changes of approach, or different business and/or operating models that would increase resilience? What is being done to help customers and other stakeholders to become more resilient?

In a post-pandemic era, boards may feel under greater pressure to both

resume and expand production in order to speed up and increase the extent of a hoped for recovery. Will directors succumb to appeals to boost output irrespective of previous environmental concerns, or will they act to reduce the impact of a resurgence of economic activity upon global warming and the climate crisis? Where will climate change rank in 'new normal' corporate priorities? What steps could and should boards take to increase or enhance corporate contributions to the achievement of voluntary national 2015 Paris Agreement obligations? Are there approaches to energy and/or waste management that might help to tackle climate change? Should board decision-making criteria be reviewed? For example, how might waste disposal decisions take account of the full life-cycle and long-term costs of waste storage and decay?

Monitoring External and Environmental Developments

Issue monitoring and management processes can track climate, environmental and other risks and trends, assess their impacts on corporate operations, customers, suppliers and other stakeholders, and determine the responses that are required at local, business unit and corporate levels. Are directors monitoring trends and discontinuities in the nature and rate of change or just assuming that present trends will continue? Are the possibility and impacts of extreme weather events and physical hazards taken into account? Are crisis management, emergency and disaster recovery plans in place? Have they been recently tested? Have boards considered the socio-economic impacts of climate change and events upon the people of organisations, value chains and the communities and the societies in which they operate?

Do boards track innovations, developments and opportunities relating to climate change and its mitigation? Could more be done to stimulate creativity, encourage innovation and support entrepreneurship? Are solutions to climate change, achieving SDGs and pandemic related challenges being actively explored? Are alternative business and operating models being considered? Are customers, suppliers and other stakeholders involved in related consultations? How likely is it that measures in the pipeline and the adaptation, mitigation and development options being assessed will enable the required transition to a low carbon economy? What additional steps, interventions and/or collaborations are required?

Environmental Governance for Economic Recovery

The UN Environment Programme advises national Governments to periodically review their policies and governance arrangements relating to the environment and ensure they adopt a comprehensive and systematic approach. From a corporate perspective, what factors would most help or hinder the achievement of an environmentally sustainable future? How do they compare with those emanating from 'helps' and 'hinders' analyses relating to other company objectives? What corporate activities and initiatives would directors like to see more or less of, and what is missing? How might customers, investors and other stakeholders respond to these questions? Are they engaged, consulted or involved over changes of governance, purpose, objectives, strategies and policies concerned with environmental sustainability?

Are there particular approaches, strategies or business and/or excellence models that are more or less environmentally friendly than others? Which of them need to be changed, dropped or replaced? Are their internal and external environmental impacts and/or consequences assessed, tracked and reported to senior management? Might a slowdown in economic and/or population growth reduce the possible severity of some social and environmental

issues? Are more sustainable development alternatives investigated and adopted? As and when they and innovations and breakthroughs occur, are solutions actively developed to environmental and green growth issues? Can they be quickly scaled up? What, if any, environmental governance and/or management changes are needed to achieve this?

How likely is it that the environmental governance changes required to achieve sustainable 'green growth' will occur? If Government and regulatory intervention is required to achieve this outcome, what form should it take? What changes to current market mechanisms might provoke more action and provide solutions for strategic, operational and environmental challenges? What do we already know about what could be done in terms of policies and business development models? Might the required knowledge, finance and technology already be largely available? What needs to change in terms of market measures, incentives, collaboration and/or signals for sustainable 'green growth' to be delivered? Do corporate reward and bonus policies encourage responsible or irresponsible conduct? How might, could or should necessary changes be justified, initiated, funded and introduced?

Engaging and Involving Stakeholders

Economic growth has drawbacks as well as advantages, particularly if environmental and global warming impacts are taken into account. During lockdown, how many stakeholders have had an opportunity to reassess what is important to them, their priorities and certain trade-offs that they have made, such as between quantity of consumer goods and quality of life? Can more sometimes be less? How many people can our planet support? Do we need a social transformation or revolution in behaviour to moderate consumerism and/or reduce birth rates in certain countries? How can this be achieved in a democracy? Are some environmentally beneficial trends already occurring? Could they be encouraged? How long lasting will the impact of the Covid-19 pandemic

be? Do we need a first principles rethink and re-evaluation of the purpose and priorities of companies and how and for whose benefit they are governed? How might this be undertaken and who should be involved?

What sacrifices and/or contributions might different categories of stakeholder be prepared to make to enable more sustainable and 'green growth' to occur? Have companies identified likely supporters and opponents of such a goal? Are ways of encouraging the former, countering the latter and new mechanisms for engaging stakeholders being explored? How might necessary changes be funded? Directors should be listening leaders who monitor and respond to stakeholder concerns. What proportion of customers might pay a premium for greener and more sustainably produced offerings? Might Environmental, Social and Governance (ESG) investors provide the finance that could be required? Would there be an appetite and market demand for further mutual funds that meet specific ESG criteria?

Directors need to be alert to potential allies, backers and collaborators in the fight against Covid-19 and climate change. They may also need to involve them and/or consult certain stakeholders when considering a change of purpose, direction or priorities. The redesign of leisure facilities, public transportation and urban, working, learning and living environments to allow safe activities and social distancing in a world with Covid-19 are among the opportunities for boards to consider. Given the uncertainty over the future evolution of the pandemic and public measures, the prospects for a vaccine and its availability, and the timescales for a return on coronavirus related investments, the independent judgements of individual directors and the collective wisdom of boards have never been more important.

* **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. ■



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