The Board's Transformative Role in Climate and Sustainability

**Ashwini Prakash & Veena Pandey*

The socio-economic effect of climate change on our day to day lives and business has become evidently visible now. As the planet buckles under a swelling population and corporations leaving an increasing carbon footprint, climate change has left an indelible mark that is now visible in our daily lives. Long gone are the days when the issue was only a concern of fringe scientists; global economists, too – indeed, representatives of all strata of society – are turning an urgent focus to addressing the issue. At the corporate level, senior leadership and board members must take immediate action and rethink corporate strategies related to sustainability.

"The executive search firm has witnessed a surge in clients seeking leadership candidates with experience in sustainability practices. Corporations are not only focusing on shareholder value but also strategizing to establish themselves as a responsible company keeping sustainability efforts at the forefront".

~ Ashwini Prakash
Managing Partner, Stanton Chase India

Sustainability and climate change are an intertwined topic that explicitly revolves around the environmental, social, and governance facets of our communities. Before we can understand their true impact, we must understand the terms: Climate change is the change in average conditions – such as temperature and rainfall – in a region over a long period of time, whereas sustainability is the integration of social, environmental, and economic aspects to create a thriving and supportable community without compromising the ability of future generations to meet their needs. Sustainable practices emphasize resource conservation and utilizing available resources with utmost responsibility.

The Impact of Climate Change on the Indian and Global Economy

Climate change poses a direct threat to the economy not just in India, but around the world. It disrupts economies and affects lives, take a toll on people, communities, and countries. According to the Fourth National Climate Assessment published in the United States, warmer temperatures, extreme weather, and rising sea levels will not only damage property and critical infrastructure but will impact human health and productivity. More than that, it will also negatively affect industries like agriculture, forestry, fisheries, and tourism. Power generation will become less reliable while demand for energy rises. Water supplies will become taxed in ways that are difficult to predict. Businesses in nearly every industry will be impacted thanks to disruptions in trade and global supply chains.

This is especially true for India, which has experienced more severe droughts than normal along with downward shifts in the average rainfall in recent years. While the Indian agricultural sector posted growth of 3.4% between April and June 2020, it will not remain immune to effects of climate change. Experts agree that any adverse impact of climate change on the agricultural sector will have a big role in the Indian central bank's decision to fix the policy rate, which itself is one of the most important tools for enabling economic growth.

Melting glaciers and global warming pose greater risks to multiple sectors and have a cascading effect on dependent industries. This, in essence, is why climate change has become a major topic of concern for organizations both in India and around the world.

Paris Agreement on Climate Change

Climate change is a global challenge and affects the lives of people across borders. Human activities create an increased level of emissions. To tackle the issue, countries came together and adopted the Paris Agreement. On November 4, 2016, a total of 55 countries responsible for 55% of total global greenhouse gas emissions signed an agreement on climate change action stipulating that countries work to limit the rise in global temperatures to below 2 degrees Celsius, and given the grave risks, to strive for 1.5 degrees Celsius. As of June 2020, 195 signatories and 189 countries had joined the Paris Agreement, which sends a powerful signal to markets that now is the time to invest in the low emissions economy.

A strong climate agreement backed by action on the ground will help us achieve the Sustainable Develo - pment Goals to end poverty and build stronger economies and safer, healthier, and more liveable societies everywhere. Twelve of the 17 Sustainable Development Goals directly involve acting on climate change, in addition to climate change comprising its own goal.

Though the global initiatives are taken and reformed, reinforcement lies with the senior leaders in an organization in any country. Corporates are keen to come clean and get certified on various parameters like Pollution, carbon footprint, greenhouse gases & adaptation to climate.

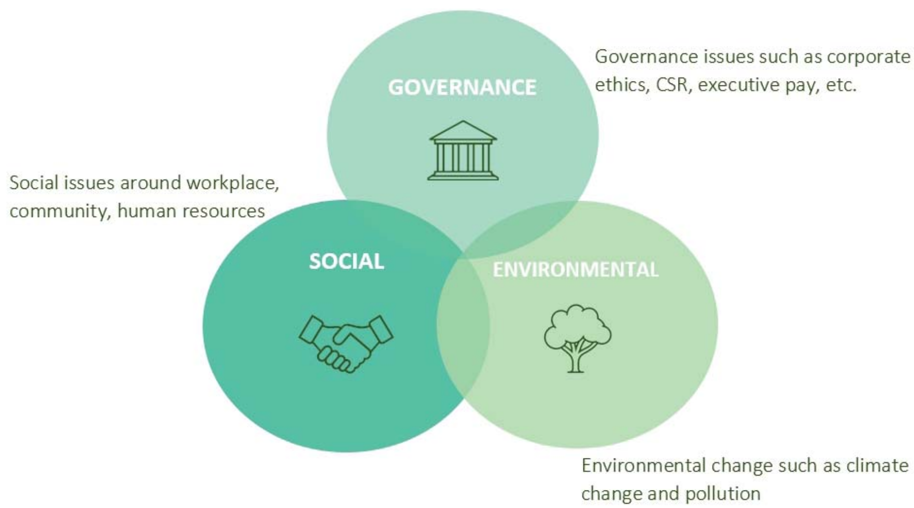
M. R. Prasanna, Corporate Laws Consultant, said – "I don't think the Paris Agreement has been factored into any boardroom agenda yet. But Environment, Health, and Safety does concern the Boards and I am sure the Boards will, to the extent the responsibility devolves, factor in revised parameters."

Boards ramp up Sustainability Efforts

Investors have always been interested in governance as it reflects the company's values on which it thrives. Corporate governance is a set of directives, guidelines, policies, and procedures on which a company is governed. The board of directors are responsible for framing these guidelines with all stakeholders i.e., shareholders, employees, customers, suppliers, etc. as the main focus. But now the investor's focus has shifted to companies who are reimagining the idea of prioritizing environmental and social aspects by dropping the archaic notion that corporations primarily serve their shareholders and exist to maximize operating profits. Now investors investigate companies on various factors like efficient use of energy, waste management, resource conservation, hazardous waste management. etc., before putting their money into a business.

Why do Environmental, Social, and Governance (ESG) Criteria Matter?

Environmental, social, and governance (ESG) criteria are a set of



standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

While corporations are conceptualizing multifaceted strategies to face the challenges created by climate change, all-round corporate sustainability is the necessary launching point. Corporate sustainability is gaining popularity among investors who seek not only economic profit but also a positive social and environmental outcome. Corporate sustainability is understood as companies' ability to positively influence environmental, social, and economic development through their governance practices and market presence. This is also why ESG funding in India is becoming so crucial. Also commonly referred to as sustainable investing, funds following this ethical model surpassed $1 trillion in assets by August 2020 globally. In India, areas like clean energy, healthcare, and education have been the primary focus of these funds to this point and hopefully all of these efforts will better position the country to ward off the negative impact of climate change over the coming decades.

ESG practices help build a sustainable business model. Over the past few years, sustainability has become a central part not only of corporate competitiveness but also a company's ability to operate. Previously, these efforts included a focus on topics like environmental disasters, labour relations, safety incidents, and others, but sustainability affects all sectors and challenges even the most progressive companies with the most thoughtful leaders.

Even poor labour practices and a lack of talent management can directly contribute to lost work, fines, penalties, and high turnover. But an investment in talent can drive lower costs, a rise in productivity, and a better ability to attract top talent during a time when businesses desperately need it.

Large investors are seeking a greater level of transparency than ever before regarding how companies are addressing environmental and social issues. This includes dramatic changes to stakeholder expectations as well as adjustments in business strategy, risk assessment, and measurement and disclosure practices. Investors require companies to more thoroughly report on how sustainability drives and protects value. They want the credible communication of performance and ongoing management and to see that the board is actively engaged in integrating this level of ESG as the beating heart of an organization.

Mysore Prasanna said investors are increasingly looking at environmental due diligence as a validating process and the Paris Agreement will most likely have a greater influence on such decisions going forward particularly with Sovereign Funds and State-Owned Enterprises. Family offices will perhaps take the lead as opposed to a large fund with a host of Limited Partners where consensus on such matters is not easy to reach.

Those organizations who understand the essence and significance of corporate sustainability will be able to weather any uncertainty. Those who do not will find themselves surpassed by their savvier and more aware competitors.

What Board Can Do Differently?

Overall, it is fair to say that the board will be dealing with both opportunities and challenges when it comes to tackling issues related to sustainability and corporate governance in the near future. Poor environmental performance in areas like energy, waste and emissions can easily leave a company vulnerable to fines, lawsuits, and regulatory exposure, for example. All of this will contribute to increased operating costs, thus leaving a company less competitive. An investment in these sound environmental practices, however, will reduce costs by improving areas like resource and waste management, all while providing better insight into the physical and financial exposure to Climate Change.

Changing Trends: Now corporates are looking at sustainability practices as more integral to the organisation's growth and not merely as part of CSR activity.

Prasanna said sustainability is typically associated with CSR initiatives but in his opinion, CSR is a matter of 'continuity' rather than sustainability in its real sense. Sustainability engages the attention of the Boards from a larger concern over 'Business Sustainability" in all its dimensions. It could be investing, acquiring, or growing organically or inorganically. Measuring sustainability is more an internal matter of the Board than external.

Sustainability should be a top agenda in boardroom: As we speak to our clients on the topic, they often say, companies in India do not discuss ESG and other efforts as much as they should do. The board of directors should take it upon themselves to drive the vision and create an awareness amongst the top leaders to funnel the information down across all levels. The initiatives taken by companies towards sustainability in creating a healthy, safe, and secure environment, works as a brand indicator and establishes them as responsible corporations.

Develop responsible talent: Any initiative is driven by each and every employee in the organization across each level. Sustainability should be planned and enforced at the micro levels in a way that it is a part of the organization's DNA. Boards should emphasize on hiring leaders who are passionate about promoting sustainability at their workplace and in their respective business functions /departments. Organization should look for building talent landscape where sustainability is inbuilt in them and different departments should cooperate to run it together. Corporates need to improve sustainability competence on the board through both new appointments and training to start building an ecosystem from the top. Another way would be to include a new component in executive compensation linking it to sustainability performance.

Why Act Now?

Even setting aside the fact that climate change impacts all of us, acting in a more responsible fashion is absolutely the right thing to do. The sustainable practices emphasize on resource conservation and utilizing the available resources with utmost responsibility. Any company that ignores the physical and economic impact of sustainability will do so at their own risk. Experts agree that sustainability factors not only influence financial returns but also present an incredible opportunity to drive long-term value, as well. We can promote economic growth, eradicate extreme poverty, and improve people's health and well-being by acting today.

Boards need to take a hard look at how often sustainability risks are discussed and establish a standing agenda item on sustainability. Who on the board has sustainability confidence and makes it a priority when nominating future members? Boards must have a clear message on how their long-term strategy considers sustainability risks and opportunities by establishing a disclosure strategy that aligns sustainability to business value.

Once the overall value of sustainability has been established, a business case for the importance of its disclosure cannot help but reveal itself. This will put boards in a better position to consider a broader array of stakeholders for whom they are responsible for driving value. Directors have an incredible opportunity to use clear communication and transparency to help promote more effective engagement with investors.

Conclusion

It is not wrong to say that sustainability impacts our future and helps us find a silver lining in the process because consumers all over the world have made it clear that this is a priority. Not paying attention to changing consumer and commercial expectations definitely threatens a company's ability to operate, but an investment in these positive environmental and social attributes of products and services can drive market penetration and competitiveness.

Boards are in a unique position to unite sustainability with their corporate purpose and strategy. Few organizations are content to take a "wait and see" approach to sustainability reporting, but this is dangerous: Not only does it mean a company will likely fail to get the acknowledgement that it deserves for its existing ESG efforts, but someone else will likely be in control of the narrative surrounding a company's story to that end.

The board of directors is tasked with working for the benefit of the organization, and revamping sustainability initiatives provides an edge over competitors. Taking climate action now makes economic sense for boards that will help them grab investors' attention. The boards understand the gravity of the issue and realise “the more we delay, the more we pay.” ■

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Established in 1990, Stanton Chase is one of the leading global executive search firms. They advocate diversity and inclusion at the workplace, is a proud member of the 30% Club and has established itself as a leader in promoting gender-diversity on boards.