Board Corporate Responsibility Policies and Priorities

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Corporate boards vary greatly in the extent to which they could be said to be effective and responsible, create positive value for a company's stakeholders and wider society, impact upon the environment and contribute to addressing contemporary challenges. Much will depend upon their priorities and perspectives, and especially to whom they feel responsible and for what. Within a board there may be differing views to reconcile, concerning emphasis and timing, how corporate capabilities should be best utilised and where a company might have the most beneficial impact. They may range from the defensive to the proactive.

Some directors may advocate a focus upon a prime duty to promote a company's own interests. They may suggest that social and environmental issues are primarily the responsibility of the appropriate departments of local, state and national Governments. They might stress the importance of compliance with laws and the avoidance of harm and negative impacts that could damage a corporate reputation or lead to compensation claims and legal actions. A cautious board, not wanting a company to be at competitive disadvantage, may monitor what others do, consider stakeholder and public expectations, and do 'just enough'.

There may be other directors who argue that a minimalist approach could damage the future prospects of a company, by failing to recognise that these are related to the viability and sustainability of the economic, social and environmental context in which it operates. Doing more and recognising wider responsibilities might enable a company to differentiate itself, enhance a corporate reputation, identify new areas of opportunity, appeal to ESG investors and better recruit talented young people who worry about their future. It may also enable a company to complement the

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activities of public bodies and collaborate in collective initiatives to address challenges and develop more sustainable alternatives.

Perspectives and Approaches Causing Negative Impacts

Within many countries and sectors there are significant differences in the degree to which companies and those who lead them could be regarded as responsible. Boards sometimes destroy value, miss opportunities and limit prospects. They frustrate ambitions, inhibit innovation and stifle enterprise. They are overly cautious, risk averse, negative and defensive. Many board perspectives are narrow and their visions are limited. They lack diversity and are short-term oriented. Sometimes they are self-interested and unimaginative. Contemporary boards are often uninspiring for younger generations concerned about their futures.

Because of the perspectives, strategies and priorities of their boards, many companies are a pale shadow of what they could be in relation to requirements, possibilities and opportunities. Their organisations are bureaucratic, unresponsive and inflexible. They are neither agile nor resilient. The operation and activities of many companies are not sustainable. If their negative impacts are to be reduced, they should be scaled back and discontinued rather than accelerated or grown. They are damaging the environment, reducing biodiversity, burning up scarce natural capital and contributing to global warming and climate change.

Many negative externalities of corporate operations and activities are irresponsible. Their consequences impose increasing burdens and risks on people around the world, threatening our individual and collective futures. International economic, financial, and geopolitical eco-systems are fragile. There is little time to change direction before tipping points are reached and global warming become unstoppable. The pre-COP 27 United Nations Environment Programme (UNEP) gap report suggests Governments are not doing enough to achieve net-zero by 2050. Corporate boards often have greater freedom to act than public bodies. While listening to stakeholders, they do not have electorates. Will they now step up and do more?

Exercising Corporate Responsibility

There are many ways in which boards can display their corporate, social and environmental responsibility, whether through impacts of corporate operations, which could be direct or indirect, or the potential consequences of changes to existing activities, or the introduction of new ones likely to benefit those who might be reached by them. They could systematically identify, assess and address negative externalities of current or proposed corporate operations, activities, projects or investments. Ways in which they might be addressed, changes implemented and new initiatives introduced should also be responsible.

Social or environmental activists who are conscious of the harm and/or damage resulting from current corporate operations, activities and offerings may well call for them to be discontinued. They may be supported by ESG investors. Some might advocate immediate cessation, but in addition to their broader social responsibilities directors also have obligations to those involved with the operations, activities and offerings being criticised or condemned, or dependent upon them. There may be stakeholder groups such as employees or particular communities that will need time to adjust and require transition help and support.

Many traditional management mantras such as the importance of focus and concentration on core competences can encourage emphasis upon existing activities, customers and strengths, rather than the exploration and development of new ones. When associated with excessive caution and risk aversion, they can narrow outlooks and vision, limit executive ambition, deter the consideration of alternative paths and further possibilities, and lead to short-termism. Directors may need to open up and widen horizons and perspectives, encourage longer-term thinking, and ensure that responsible innovation occurs.

Addressing Climate Change

The 13th UNEP Emissions Gap Report 2022 concludes that the carbon cutting plans of Governments since COP 26 have been "woefully inadequate" and that there is "no credible pathway" to keeping global temperature rises below 1.5°C. It calls for the rapid transformation of societies against the background of a closing window of opportunity to avert disaster. If Governments are not doing enough, could businesses with the greater freedom of action to change direction and pace that many of them have do more? Is this an especially important question for directors and boards in India where the latest UNEP report envisages a steep upward trajectory in carbon emissions?

Addressing climate change is an acid test of the corporate responsibility of boards. Avoidance, denial and distraction strategies could be employed to contain adaptation, compensation, mitigation, transition and transformation costs. In an attempt to avoid legal and financial liability some nervous directors and those who advise them may seek to limit the areas for which a board might agree to accept responsibility. However, in response to further experience of extreme weather events and accumulating evidence of the dangers of a challenge such as climate change, more responsible boards may be considering, initiating or implementing adaptation, mitigation, transition and/or transformation journeys.

Responsible boards engage and collaborate in collective responses to challenges and existential threats such as climate change. Alert boards may also see resilience as an arena replete with business prospects. Their perspectives and search for opportunities to contribute could embrace the resilience of infrastructures, lifestyles, public services, communities, cities, societies and eco-systems and extend to the regeneration of natural capital. At each stage of transition and transformation journeys, and periodically during them, boards may need to review their responsibilities to whom and for what, whether because of the result of direct impacts or indirect consequences of corporate activities.

Perspectives and Approaches of Responsible Boards

Some boards are endeavouring to be responsible in relation to their companies, their stakeholders, the environment and the communities and societies in which they operate. These more responsible boards are concerned about sustainability and they think longer-term. They are leaders rather than laggards. They may already be decarbonising, reducing harmful corporate emissions and the use of fossil fuels, and aiming for net-zero before rather than after 2050. They are not inhibited or hiding behind prison bars that only exist in their own imaginations. They are positive, courageous, diverse, & open to possibilities.

Responsible boards recognise that many corporate operations and activities are unsustainable, as are aspects of contemporary lifestyles to which people around the world, and especially in many developing countries, aspire and are encouraged to seek by business and political leaders. They see climate adaptation and mitigation and the need for more resilient infrastructures and more sustainable lifestyles as an unprecedented business opportunity. They inspire people and support enterprise, entrepreneurship and collaborative responses to common challenges and existential threats.

Effective and responsible boards work for the best long-term interests of a company and its stakeholders. The latter should include the environment and communities and societies impacted by a company's activities, and also future generations. They encourage thinking, questioning, creativity and innovation. They review and reset purpose and priorities, goals and objectives and strategies for achieving them. They embrace new models of business, sustainable technologies and more flexible and responsive forms of organisation. They initiate transition and transformation journeys to more sustainable operations and lifestyles.

Leading Transition and Transformation Journeys

Boards that put a higher priority on broader responsibilities, climate adaptation and mitigation, collective responses to challenges such as global warming and undertaking and supporting transition and transformation journeys to more sustainable operations and stakeholder lifestyles may find they need to change their approaches, attitudes and practices. For example, as already mentioned, transition and transformation journeys may throw up new and different challenges, opportunities, risks and uncertainties along the way.

More frequent board involvement and perhaps continual monitoring may be required if strategic consequences arise en route. Perspectives might need to embrace networks of collaborations that blur traditional organisational boundaries. More joint and collective activities may be required. Boards might struggle to keep corporate policies up to date and relevant in the face of a greater variety of more frequently changing requirements. Coordination may need to be achieved through the alignment provided by a common purpose and goals and objectives that are shared by board, management and stakeholders.

Some directors may feel insecure as companies venture into unknown areas beyond traditional strengths and become more dependent upon the contributions of external parties. They may be faced with a greater variety of different ways of operating and organising. Certain board members may be, or become, uncomfortable with a loss of control as teams need greater discretion to work, operate and organise in whatever ways best enable their contributions. New ways may also need to be found for boards to obtain the assurance they feel is appropriate and responsible.

Reconciling Contending Pressures

There may be directors who play a realism and/or practicality card, by suggesting that because a company's own activities constitute such a minute proportion of total negative impacts, whatever they do would make little difference to a shared international challenge such as global warming. They might argue that a board should focus on what it can directly impact and, as mentioned above, not disadvantage a company's employees, customers and investors when other companies and immediate competitors seem to be continuing as before.

A counter argument is that if societal transformation is urgently required and if humankind and other lifeforms are to survive, most people and organisations have to transition to more sustainable and less damaging ways of operating and living. A company's own employees, customers, investors and other stakeholders will be among those requiring help and support. This and the scale of the adjustment, adaptation and innovation required are such that they represent a massive opportunity, even for a small business with limited resources.

Responsible boards acknowledge common interests in addressing shared challenges and existential threats in order to ensure our collective survival. They take little for granted. As tipping points approach, and with multiple cliff edges ahead, they do not assume there will be sufficient 'rare earths' and other natural capital for some areas of technology or innovation to save us. They also recognise that social and lifestyle innovation is required if we are to achieve a shared goal of survival, and that simpler, less resource demanding and healthier lifestyles can be desirable and fulfilling as well as necessary.

Confronting Realities and Embracing Opportunities

Humanity's prospect of survival in the face of the existential threat of global warming and climate change, and within an international order that respects the territorial integrity of sovereign states, has diminished. Governments like companies vary in their perspectives, priorities and policies. Expediency and short-term considerations can triumph over principles and longer-term collective interests and environmental concerns. While some Governments seem prepared to phase out all fossil fuels and incur the costs of supporting resistance to an illegal, unjustified and brutal invasion others are not. COP 27 highlighted the dangers facing us and other life forms. While a 'loss and damage' fund may address the consequences of global warming for some countries, certain major economies appear reluctant to contribute.

The progress of COP 26 towards addressing the causes of global warming has not been maintained by the recent COP 27 in Egypt. We remain in the graphic terms used by the Secretary General of the United Nations on a “highway to hell”. Increasingly, fossil fuel suppliers and companies that have been major emitters of greenhouse gases since we have become aware of their consequences may face loss and damage claims. As legal entities companies as well as their directors can and may be held responsible. As awareness grows of the negative consequences of corporate activities, responsibility for them may become harder to avoid. Directors need to confront legal as well as environmental realities.

As tipping points approach, the sooner social and environmental responsibility laggard boards change direction and adopt the approaches of leaders the better for defensive and proactive reasons, to avoid boycotts and other actions and seize opportunities. Directors can exercise independent judgement and boards can use their freedom to act to champion, enable and support transition to more sustainable growth, lifestyles, communities and societies. While the duties and responsibilities of directors may yet become more burdensome, opportunities available to boards to have a positive impact and make a difference have grown to unprecedented levels. Those who do not act responsibly may be reviled by our children and grandchildren, while those who do act responsibly could be revered and celebrated.

Rising to the Occasion

For some boards the choice may seem to be between being a small part of a problem caused by global human activity and being a modest element of a local solution. However, local and community initiatives are needed, and when their contributions are aggregated even smaller companies can make a difference. They can collaborate and contribute to a collective response to climate change. They can engage their customers, stakeholders and networks to work with them and develop or co-create more sustainable operations and lifestyles. In many countries, more support for entrepreneurs & small businesses is now available. It has never been easier for new possibilities to be scaled up, quickly rolled out and rapidly adopted.

Responsible directors recognise that they cannot leave it to Governments or to others to do what is required for us to survive and thrive. They can be advocates, educators and ambassadors of alternative and more sustainable ways of working and living. Multiple speakers and award winners at I**OD's London Global Convention on Corporate Governance and Sustainability** put the case for acting responsibly and sustainably. Increasingly, more laggard boards must know what has to be done. They need the courage to emulate leaders, initiate conversations, exercise responsible leadership and act. The **forthcoming International Conference on Corporate Social Responsibility** provides an opportunity for directors to discuss policies and priorities that assist and contribute to necessary societal transformation. ■

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