FEATURE ARTICLE

Critical Decisions and Existential Choices for **Future Strategic Direction**

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The future of boards and business and that of the economic, social and natural contexts within which they and corporate stakeholders operate are inter-related. Critical board decisions this decade will determine the prospects of mankind, the natural world on which we depend and our increasingly fragile planet. The priorities of directors and the strategic direction they set will decide whether future generations will celebrate them as heroes or curse their lack of foresight. Recent business practices and contemporary lifestyles have damaged the environment, reduced biodiversity and destabilised ecosystems. Human activities contribute to global warming and climate change and facilitate the spread of respiratory diseases.

Boards have a choice. They can opt for 'business as usual', 'making hay while the sun shines' and reacting to events, or they can take the initiative and proactively initiate the identification and assessment of externalities, reviews of the impact and longer-term consequences of corporate activities, and the development of actions, initiatives and opportunities to reduce and reverse the harm that is being done. Doing all this calls for more than fine words in an annual report. It requires tougher choices than following the herd in a way that is not too disruptive. Sometimes it is the bigger steps that achieve the more beneficial returns.

Understanding Business Impacts

Other species do not vote. Forests being destroyed by acid rain and bleaching coral reefs do not join protest marches. They decline and die. Some of the damage that is occurring, such as degrading soil, may not be visible to the untrained eye. Many directors need to become more aware of the impact business activities are having on the natural world. They should make the effort to understand what is happening and actively explore ways of preventing further damage. They could listen to different voices and spend less time with golf partners and more time with innovators and visiting some of the projects underway to reverse negative impacts.

The costs and benefits of the current rate at which ecosystems are being degraded and natural capital is being used up are unequally shared. A disproportionately high proportion of the benefit is being enjoyed by consumers in more developed and rapidly developing countries which are also often causing the most harm. The least benefit and greatest costs are likely to be felt by communities in poorer countries whose lives are more directly related to the natural world and who are more dependent upon it. Environmental , eco and climate instability that leads to mass migrations could be quickly followed by economic and social insecurity.

Reassessing Human Impact Risks

The likely and potential consequences of challenges and threats that directly and indirectly result from human activities and lifestyles dwarf many of the items that have traditionally appeared on corporate risk registers. In some cases, they will affect many if not most corporate activities. Addressing them will require collaboration across functions and organisations. Existential risks are also often inter-related. For example, the greater mobility of people, travel and tourism damages the environment. Encroachment upon nature and closer proximity to other species increases exposure to new

diseases, which in turn may thrive on human mobility and interaction. Consequences of climate change, such as flooding in some areas and water shortages in others, could also increase human migration.

Externalities such as the longer-term and collective impacts of corporate activities upon the communities and societies in which businesses operate are not taken account of in many board decisions. For example, where rising sea levels caused by global warming threaten coastal towns and cities, the people living in them may be displaced. Much of the wealth that has been invested in them and their abandoned infrastructure might be lost or destroyed. Current expenditure on tackling the root causes of some inter-related challenges could help to prevent the much greater and ever-increasing cost of future adverse impacts. If no action is taken, the pigeons that come back to roost could be metaphorical and rapacious eagles.

Where boards themselves do not show responsible leadership and take voluntary action to scale back and close down damaging activities, Governments may be forced to intervene. There is then a risk that imposed restrictions might lead to disruption and stranded asset costs that could be much higher than the expense of a managed transition to sustainable operation. More attention should be devoted to market alternatives to blanket prohibitions, such as the wider use of carbon pricing to encourage the reduced use of fossil fuels in a way that imposes the highest cost upon those whose activities cause the greatest harm.

Identifying Opportunities

Environmental and sustainability concerns and the rapidly growing negative impacts of climate change have cr<p, risk mitigation, beneficial change and value creation. There are many arenas in which further opportunities will arrive as eco-systems need to be protected and restored, sustainable development goals are pursued, infrastructure changes made and cities, towns and villages are reimagined and redesigned to suit new patterns of living and working and simpler, healthier and more fulfilling lifestyles.

The extent of creativity and buy-in demanded and the wide range of contributions required to conceive, achieve and scale-up desirable and feasible outcomes suggests that people across functions and organisations will need to collaborate. The differing timescales required to deliver, to adapt and to embed changes and secure global impacts may also require the engagement and involvement of multiple generations. The repurposing, reprioritisation and collaboration that boards undertake now will help to shape the future.

Engaging Stakeholders

Stakeholders may need to be engaged and involved in discussions of corporate purpose and priorities. The process could start by providing further information, such as colour coded environmental warnings within product and activity descriptions covering areas such as fossil fuel and natural capital usage or greenhouse gas emissions. Health warnings are already required in many jurisdictions in areas such as food labelling, but responsible boards could go further and develop less damaging options and proactively help customers to choose them.

Becoming a director creates an opportunity to make a difference. Determined action to reduce the emission of pollutants, the use of fossil fuels and the production of greenhouse gasses can galvanise the concerned people of an organisation and give them a new sense of meaning and purpose. 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.

Setting Corporate Objectives

Boards and businesses do not operate in a vacuum. Corporate objectives could be aligned with UN sustainable development goals (SDGs) and the 2015 Paris Agreement target of “net zero” greenhouse gas (GHG) emissions by 2050. Such menus of areas in which a company might possibly contribute could be a basis for discussion with stakeholders about the prioritisation of the activities which would make the best use of corporate capabilities.

There is plenty of scope for setting objectives in areas such as recycling, recovery, repair and reuse and reinvention, rebalancing and reforestation. Those who like target and trend lines to slope upwards could seek increases in biodiversity or carbon capture. Task forces and working parties that bring people from different parts of an organisation and its network together could be set up to look for and scope new ways of addressing pressing issues. Companies could work with public bodies and cities to develop mechanisms to rebalance the supply of natural capital and our demand for it.

Corporate and shared objectives could focus on areas of particular vulnerability in the natural world. For example, greater biodiversity increases its and our resilience. Aspirations, visions and goals could be aligned with changing stakeholder objectives, such as those of ESG investors who want to put more emphasis within their portfolios on natural capital as an asset class and activities to safeguard it, or insurers who individually and collectively might wish to support innovations and activities that could reduce their exposure to climate change related risks.

Redefining Business and Economic Success

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. Intangibles that contribute to the quality of life are often overlooked. The natural world is largely treated as a free good. As it is increasingly plundered, the value of what remains ought to be increasing. This is especially true as resources become scarcer and the survival of species is threatened. Should the depletion of natural assets be accounted for as deductions from estimates of wealth creation?

Governance, financial and public and private sector risk management processes and practices need to address climate, environmental, eco-system and natural asset related risks and their avoidance and mitigation. 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.

Changing Direction

Delay can increase the damage, erosion of reputation and crawl out costs caused by corporate activities. A governance practice such as a calendar of meetings may need to change if director time is to be front-ended. 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 dialogue rather than prepared comments from a spokesperson. More directors may have to explain, justify, listen and learn in order to build trust and gain support.

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. Ascribing prices to elements of natural capital would highlight the destruction of value that many directors are responsible for.

Some boards may need to become more engaged with Government-business relations. The motivation for self-serving ones may be to slow change and protect existing operations. Hitherto, some Government subsidies and support, and their aspirations for higher growth, are increasing the exploitation of the natural world and compounding the threats we face. Weak Governments may be reluctant to adopt policies to slow damaging growth and development that might be opposed by vocal elements among their supporters and/or electorates. More responsible boards may need to put the case for a change of direction.

Securing Required Resources

New mechanisms may be required beyond the concerns of ESG investors to switch funding and resources from damaging activities to restorative and rebalancing ones. Historically massive investments will be required to protect people and property from the impacts of climate change and these costs are likely to increase at an exponential rate. Rather than pour money into a bottomless pit, it would make more sense to use it for preventative purposes such as carbon capture and reforestation, and virtuous cycles of activity that stimulate and restore nature's potential ability to re-establish balance in eco-systems.

Those whose homes are at risk of flooding or being burned down, or who are living in urban areas and cities facing water shortages, or who share their concerns ought to represent potential sources of funding for action to stop global warming. Where natural ecosystems do not recognise national borders, international collaboration may be required. The proceeds of agreed pricing mechanisms could be devoted to achieving the biggest restorative impact.

The earlier efforts are made to secure the funding and support required to enable responsible transitions, the better. The scale of adjustment required is likely to trigger resistance from multiple vested interests, as people endeavour to protect what they have and continue certain activities for as long as they can. The inter-related nature of contemporary challenges and their particular characteristics are likely to call for reviews and enquiries. For example, while individual car ownership and use might be difficult to justify in natural resource terms, the greater use of public transport might increase the transmission of respiratory viruses.

Effecting Required Transitions

As awareness grows of the increasing threat of further breakdown of eco - systems that support life as a result of human activity, Governments and populations may become more worried. Attention, investment, subsidies and support might switch to companies perceived as making a positive contribution to addressing environ - mental, biodiversity and climate change issues. Those making matters worse may face public protest, sanctions, stiffer penalties, higher taxation and further restrictions. Major beneficiaries will be the boards and companies with the experience, capabilities and break - throughs to move quickly and make the biggest difference.

Once arenas of opportunity have been identified to develop ways of operating and lifestyles that can recreate a habitable planet for humans and other species, the people and partners of organisations could be asked to suggest projects to pursue and to help prioritise them.

During transition to a more sustainable business model and less environ - mentally damaging operations a board may confront ethical issues. For example, should assets relating to activities being discontinued be scrapped, or should they be sold to another operator? The latter option might achieve a higher financial return, but at the expense of their reuse continuing to pollute or contributing to global warming. Sale to a foreign operator, perhaps in a jurisdiction with less rigorous environmental controls, might export a problem. .

Monitoring Outcomes

Few shareholders read annual reports and accounts. Many do not even request them. Significant effort is devoted to producing information that recipients have little interest in and which does not relate to growing environmental and sustainability concerns. Much of the content of some reports cover activities that harm the natural world. Thoughtful ESG investors might like to see as assessment of the supply and demand of a critical natural resource upon which key corporate activities depend, for how many years it is likely to remain available and what is being done to replenish the supply or secure alternatives.

Natural capital is a collective or shared asset. Its existence and that of eco-systems benefits all human beings, for example through its production of oxygen, but its exploitation by some people can limit its availability for others and future generations. Monitoring could track the extent to which a company is a net exploiter of natural capital and running down an existing stock or replenishing it. Measuring externalities could allow an assessment to be made of how its use impacts upon others and enable comparisons of costs and benefits.

The future of boards, business and humanity will depend upon us, the community of company directors. Inaction and inadequate responses that lead to a negative spiral of descent will give rise to ever more strident criticism, legislative impositions, customer boycotts and more direct action by some stakeholders. Individually, directors may face growing abuse. Boards might lose control as receivers or liquidators are appointed. A better future may still be possible if boards make responsible critical decisions and sustainable existential choices. ■

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