

Theme Paper

ADDRESSING ENVIRONMENTAL CHALLENGES AND OPPORTUNITIES

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Directors and boards have to weigh a variety of contending factors when formulating visions and values and discussing and deciding corporate goals, objectives and policies, including those relating to environmental challenges and opportunities. Choices have to be made and there may be difficult trade-offs to consider at times of competitive pressure, uncertainty and insecurity.

Boards do not exist in a vacuum. They are required to obey the law. In coming to decisions board members are expected to put the interests of the company before their own and in some jurisdictions company law requires that they take the interests of various stakeholders into account.

The allegiance of stakeholders cannot be taken for granted. If relationships with them are to last they must be mutually beneficial. Particular attention needs to be paid to the evolving interests of customers. In competitive markets there will also be the aspirations, strategies and activities of competitors to be taken into account.

Effective direction is all about achieving an appropriate and sustainable balance between contending interests. Sometimes this requires that one does enough to benefit particular stakeholders, but not at the cost of then having insufficient resources to address the interests of other groups.

While directors and policy makers should put the interests of others before their own when taking decisions, many of them may be personally affected by environmental problems. In the UK, for example, the City of London and Westminster are among the areas worst affected by life-shortening particulates from diesel engines (Leake, 2013).

CRITICAL QUESTIONS FOR POLICY MAKERS AND BOARDS

Deciding between short, medium and long-term interests and inter-generational issues are particularly problematic. How does one weigh and take account of the interests of future generations who cannot today 'vote with their feet' and take their business, talent, allegiance or investment elsewhere?

Political decision makers in democracies sometimes postpone decisions such as replacing costly infrastructures, reducing harmful emissions or repaying debt in order to reduce their impacts on current voters. This postponement increases the scale of adjustment that will need to be made by future generations and the financial burdens that this will impose upon them.

In relation to energy policy, delays in formulating a strategy and commissioning new power stations can also significantly increase the costs upon businesses. 'Green energy' can be expensive. The wrong decisions can put a country's industries at a competitive disadvantage in world markets.

UK Cabinet Office minister Francis Maude (2013) has called for civil servants to be less risk averse and more willing to question and challenge, including having more robust debates in private with ministers on policy issues. Going with the flow and obsequiousness can prevent suggested policies from being thought through.

Will corporate decision makers display greater leadership? Journalists and activists may call for action now to address current, imminent and future challenges but this can pose dilemmas for directors and boards in competitive markets. If 'doing the right thing' involves higher costs compared with those of competitors from countries where there is less pressure to change will customers stay loyal and pay the extra amounts?

Will talented people accept pay differentials in order to fund higher costs for more energy from renewal sources? Will investors hold shares providing a lower rate of return from a company that has higher operating costs as a result of its 'enlightened' policy towards sustainability and the environment?

THE IMPORTANCE OF TIMING

Commentators and activists can easily say that challenges should be viewed as opportunities, but innovation, changing operating, procurement and sourcing policies, and introducing new offerings, practices and technologies can involve up-front investment, risk and uncertainty. Acting more responsibly and sustainably is neither cost nor risk free.

Timing can be critical. A proportion of new approaches and environmental initiatives will fail. Some innovations may result in cost penalties and unintended and harmful consequences. Early adopters may encounter teething problems that harm relationships with key customers.

The pace of technological change in many areas is relentless. Move too soon and one may become locked into a technology that turns out to be more costly than those adopted by later entrants at a time when further development has occurred. Ultimately stakeholders will only benefit if attempts by companies to turn environmental and other challenges into opportunities are themselves affordable and sustainable.

This brings us back to the role and work of the company director and questions of how best to handle these and other issues at an individual company and collaborative level, and nationally and internationally. In each of these arenas a board can have a view of what is in the best interests of a company and its stakeholders.

Ignoring what is happening in the marketplace and in the national and international context can be risky and irresponsible. A board should be alert to external proposals that might impact upon its operations and activities - including perhaps putting it at a competitive disadvantage - and seek to influence any action that is taken.

FOCUSING ON THE DISCRETE AND MANAGEABLE

A combination of challenges may seem so intimidating that corporate boards and public decision makers appear incapacitated by their magnitude, rather like a rabbit frozen in the glare of the headlights of an approaching car. Sometimes breaking what may at first sight seem insurmountable into a series of specific issues can make it easier to resolve them. A particular problem can invite a discrete solution, while general appeals for moderation and restraint go unheeded.

It was as recently as 1985 when an article in *Nature* by Joe Farman and his British Antarctic Survey colleagues first alerted many people to the emergence of a hole in the ozone layer (Farman, et al, 1985). Caused by man-made chlorofluorocarbons (CFCs) released from products found in many homes, the depletion of this protective barrier threatened to increase the risk of skin cancer and other damage caused by ultraviolet rays. A particular problem had an identifiable cause.

Following a period of denial and early industrial opposition collective action was forthcoming. Less than two and half years after the *Nature* article, 24 countries signed the Montreal protocol to phase out CFCs and other chemicals that posed a danger to the ozone layer. The agreement has subsequently been ratified by all UN member countries and the hope is that the ozone shield will be re-established.

Rather than fret about what is insuperable and what they cannot influence, corporate, public and voluntary body, and political decision makers, should focus upon what they can achieve individually and collectively. In order to make progress this may require breaking general problems down into discrete and manageable elements.

Lord Butler (1971) entitled his political memoirs "The Art of the Possible" and the term could be applied to what is needed to address environmental challenges and opportunities. Concrete action in particular areas can demonstrate progress, build confidence and help to establish an appetite for further initiatives.

DETERMINING CORPORATE STRATEGIES

It is for a board to determine what is possible and desirable for an individual company when formulating corporate and sustainability strategy. To do this its members will first need to identify and understand relevant and significant trends and developments in the external business, market, economic, social, technological and political environment. These should be prioritised in terms of their significance and likelihood of their impacts, which should then be considered along with corporate responses.

Impacts could be short or longer-term, mild or intense, at a local level or more widespread and mitigating action to confront challenges or steps to capitalise upon opportunities could vary from local to corporate and may or may not require wider collaboration. Examples of impacts could range from resource constraints and shortages as a result of unsustainable activities to the results of climate change.

There will be steps that individual managers and business units could take and other responses that would benefit from working with customers, suppliers, business partners or other organisations with compatible interests. Some

responses could be operational such as a drive for efficiency and the more effective use of resources. Others could be more strategic, such as identifying specific business opportunities.

In some cases Government action might be sought. While a company could seek to reduce harmful emissions and comply with environmental standards, new laws and regulations - and more consistent and active enforcement - might help to create a level playing field vis-à-vis competitors. Enabling action could include steps to reduce obstacles and barriers to change, while the case for incentives could also be put.

The companies that are most successful at identifying business opportunities are those whose directors and staff do not just look at the impacts of external developments upon themselves. They also consider likely impacts upon their customers, and what they can do to help their customers to cope with environmental challenges and/or exploit any opportunities that might arise (Coulson-Thomas, 2007).

GOVERNMENT ACTION

In discussion of political action and inaction the roles and responsibilities of senior civil servants who advise and support them is sometimes overlooked. Public sector leadership can present particular challenges and, as with corporate leadership, Sir Leigh Lewis a former Permanent Secretary has identified courage as one of the qualities that is required (Lewis, 2013). One sometimes needs the courage to make a start and take the individual steps necessary for a demanding journey.

Government largesse and action can impact upon sustainability in a number of ways. One's first through often turns to legislation and regulation, and measures in these areas should encourage and enable innovation and environmentally desirable activities as well as seeking to prevent harmful ones. Financial initiatives can similarly include incentives as well as penalties.

Enacting measures is one thing, enforcing them is another and this does not always happen due to a variety of factors, including on occasion favouritism. In some countries bribes are paid to avoid penalties and obtain favours. Such practices can be a barrier to innovation and growth. Where honesty and integrity is the norm wrongdoers may avoid sanction because a relevant Government department or agency lacks the resources to identify and pursue them. There has been the suggestion that this may have happened in respect of insolvency proceedings (Wild, 2013).

People sometimes underestimate the impact a Government can have as a customer. Public procurement can encourage more sustainable activities and practices by opting to buy from suppliers that are more economical in their use of resources. This may involve turning away from large incumbent suppliers to favour new entrants and more innovative businesses. There may be barriers to entry and participation in bidding for public contracts that could be reduced by conscious effort.

RISKS OF PUBLIC INTERVENTION

Care needs to be taken to ensure that Government action does not lead to distortion, unfair competition, whether nationally or internationally, or new barriers to entry. Inviting public action can sometimes feel like bringing an elephant into a china shop. Like a large beast public decision making can be slow and progress lumbering.

General laws and regulations can impose unwelcome burdens and may have an unequal impact upon different business sectors. Sometimes when forced to choose between competing interests and adopt a single approach a Government can be less flexible than markets. The operations of the latter can lead to multiple responses each addressing particular interests. Business reactions can often be simultaneously more entrepreneurial, innovative and tailored.

One needs to think carefully about the arenas and forms in which public and/or private action is appropriate and how responsibilities should be allocated between individuals and organisations. Where public action and intervention is thought appropriate, one needs to consider whether this would be best done at local, regional, state or central Government level, or by an agency, either locally, nationally, regionally or internationally.

DEVELOPING MUTUALLY BENEFICIAL RELATIONSHIPS

Directors of companies individually - and collectively through representative bodies - - can help Government bodies to achieve environmental and sustainability objectives by providing advice on implementation and looking out for barriers and distortions created by public measures. Just as established players act to protect their interests, ambitious business leaders can put the case for policy changes and new measures that would stimulate innovation and competitiveness.

Individually and collectively they could also call for a level playing field to ensure they are not put at a competitive disadvantage vis-à-vis international competitors by the actions of a national Government. If successful, they may find that international responses are at the speed of the countries that are most reluctant to act.

While public servants might be wary of those they perceive as lobbying in their own interests, they may welcome collaboration that is for the public good. Providers of public services should seek to work with those at whom these services are aimed and take steps to help them to make business, consumption and/or lifestyle decisions that are more responsible, beneficial and sustainable (Coulson-Thomas, 2012b).

MAKING IT HAPPEN

Once a strategy and a way forward have been agreed, outside of the boardroom little may happen until it is communicated and shared. People need to be engaged. They need to be told why change is needed and what they can do to help to bring it about. For good reason Sir John Harvey-Jones (1988) entitled his book on his experiences as a company chairman "Making it Happen". Too many strategies are dead and historic documents rather than living motivators and guides.

Corporate leaders need to be effective communicators to reach, engage and motivate people. Ways need to be found of reaching people in a language that they can understand. Intellectual arguments such as those displayed at business school when tackling a case are not enough. A cause may need a voice. An effective and evocative argument that resonates, such as that presented by Rachel Carson (1962) in her classic book "Silent Spring", may be required to secure attention and motivate action.

Companies can also help their customers to take more responsible decisions when acquiring and using their offerings by making them more aware of available options and their consequences (Coulson-Thomas, 2009, 2012a & 2013e). As a result of this greater understanding they may be able to make more beneficial and less damaging choices from the perspective of the environment and sustainability.

The 'new leadership' that is required in corporate boardrooms with its focus upon implementation and providing 'bottom-up' support is conducive of more engagement, greater understanding and more effective action (Coulson-Thomas, 2013a-e).

THE VALUE OF DISCUSSION

The 15th World Congress on Environment Management is an opportunity for directors to compare their own strategies and approaches for addressing environmental challenges and opportunities with those of their peers. They can discuss how boards might best handle the problems involved. They may discover governance arrangements that others have employed to achieve a better understanding of the inter-linkages between issues and how best to resolve them.

An issue for many boards is determining a course of action today that does not prevent other - and perhaps more lucrative options - in the future. Learning from the experiences of others and best practice case studies can lead to new insights into ways of conserving natural resources, using these effectively and achieving sustainable and profitable growth.

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