

Reviewing

Corporate Purpose, Strategic Direction and Board Responsibilities

**Prof Colin Coulson-Thomas*



Introduction

Directors should learn from their own experience and that of their peers. Some boards take stock of what they have learned at the end of their meetings, or following the discussion of a particularly important or unfamiliar item of business. The approach of a calendar year end represents an opportunity for directors to take stock of what can be learned from their collective experience and, importantly, from a further twelve months of national and international conferences organised by India's Institute of Directors.

In particular, what are the implications and consequences of the changing perspectives, priorities and concerns of stakeholders and wider society for the different areas for which a board is responsible? Certain themes such as sustainability and social and environmental responsibilities occurred in different events throughout the year and were echoed by various speakers at the 2019 London Global Convention. For individual boards, when were these last discussed? Should fundamentals such as the purpose of a company be periodically reviewed?

Providing Will, Rationale, Purpose and Vision

Boards should provide companies with a rationale, purpose and vision and the will and drive to pursue them. If directors are working hard to wrestle with a variety of problems and confront challenges, and are burning up resources to keep an organisation alive, it seems reasonable to periodically ask for what purpose and for whom? How responsible and inclusive is an organisation's purpose? Does it embrace the environment and climate change or a social issue such as greater inclusion? Does it reflect responsibilities to a wider range of stakeholders than those with a direct financial interest such as shareholders and creditors?

If some companies did not already exist, would they be established today and, if so, by whom and for what purpose? Given other and in some cases less damaging alternatives, many companies may not have a distinctive rationale for

existence. It may be the time to establish a new and more responsible rationale, purpose and vision that differentiates, engages and motivates, restores trust where it has been lost, and becomes a cause that establishes and builds relationships with a wider range of publics and appeals to and excites younger generations upon whom our futures and those of other species and the planet depends.

Agreeing Goals, Values, Objectives and Strategy

Boards should establish, agree and periodically review the goals, objectives and strategy of a company to ensure they are still aligned with a renewed or revised purpose, the changing requirements, interests and priorities of its stakeholders, and what is possible and affordable? The expectations that directors seek to serve may have moved on. Is the value that a company creates equitably shared? Have some interests, concerns and responsibilities been overlooked, ignored or left behind? Have certain interests been pursued at the expense of others? Should the focus switch from financial profit to social contribution and wider social responsibilities?

Are some boards too cautious in what they are seeking to achieve? Have new and recent developments pushed back the boundaries of what is possible? Should boards be more ambitious? Should companies become engines of social transformation and give a lead and act as catalysts in addressing global warming, climate change, the loss of biodiversity and the degradation of the environment? Could more be achieved or attained at a lower cost in terms of social and environmental impacts? Should a higher priority be given to collaboration and collective responses and to creativity, innovation and entrepreneurship?

Ensuring Resources, Capability and Processes

A board should ensure that a company has the resources, capability and processes to pursue its purpose and achieve its

goals and objectives. Should boards be more concerned about the opportunity costs of the resources and capabilities they command? Are these used responsibly? Could they be better utilised elsewhere? Could their use be more economical? Are directors conscious of and measuring the natural capital being consumed by a company? Are they actively working to ensure corporate operations are both justified and sustainable?

Might a renewed or revised purpose and vision be more economically and responsibly addressed by different business, organisational and economic models? Should different patterns of work, learning and sharing be embraced? Should simpler, healthier and more inclusive and sustainable lifestyles and patterns of urban living be championed? Should more effort be devoted to sharing resources and embracing elements of the circular economy? What additional capabilities and talent might be attracted by a new strategic direction? Could traditional practices and ancient wisdom usefully supplement the knowledge and understanding needed to cope with global warming and the impacts of climate change?

Delegation and Control

The origins of contemporary corporations lay in a desire to separate ownership from control. Owners who lacked the time to become more involved appointed directors to manage an enterprise on their behalf and they did this through the vehicle of a separate legal entity. With share ownership spread among many investors with a portfolio of shareholdings how many of them now have the inclination or time to be active owners? Are they and also directors in terms of what they delegate to a CEO and executive team abrogating their responsibilities? Do boards monitor what they delegate to ensure executive action matches strategic direction?

How effective are boards at delegation? Does what is delegated and to whom reflect a change of purpose and ambition and what is now possible with the availability of digital technologies or advisable in relation to alternative business and governance models? Are some boards so focused upon directing and controlling that they devote insufficient time to inspiring and listening? Is too little or too much being delegated? Are there areas in which directors should be more or less involved? When were the respective roles and responsibilities of directors and managers and those of a board and CEO last reviewed? Are boards interfering in operational matters? If so, is this at the expense of their strategic role and building new relationships?

Appointment of a CEO and Ensuring a Competent Management Team

A board should appoint an effective CEO and ensure that a management team is competent to implement its strategic direction. If purpose has been redefined and goals, objectives and priorities revised, are governance arrangements and management capabilities still appropriate? Is too much expected of some CEOs? Should other key executives be appointed by the board? How many boards are aware of which people and teams are most critical for the achievement of key corporate objectives, especially when these change? What other people and organisations should a board forge relationships with in order to secure independent and objective advice relating to a changing world and/or new strategic direction?

Do the qualities and competences of a current CEO and senior executive team reflect where a company has been, rather than what a board is now seeking to achieve with a revised purpose and different objectives and priorities? How many existing people are being carried or tolerated because of their past achievements? Many boards fail to ensure that processes and tools are in place to: support transitions to new business models, paradigms and technologies; ensure that people are able to do what is expected of them; and enable people to effectively learn, develop, change direction, reskill and remain engaged and current.

Establishing a Framework of Policies and Values

Boards should also revisit and review the framework of policies and values within which the people of an organisation should operate. Along with assumptions, expectations and perceptions, a framework needs to be appropriate for a change of direction and new activities, and also embrace any new relationships that need to be forged and supply chain partners where required. A board should check that a framework is still aligned with the current values and changing priorities of the communities and societies within which a company operates?

Values should not be assumed or taken for granted. Do existing values, assumptions, perspectives and practices encourage or condone activities that damage the environment, contribute to global warming, exclude and/or are not sustainable? Whose values should be considered for adoption, sharing and embedding? Do the values and priorities a board espouses reflect a previous age? Are values universal and enduring? Might they be out of date or in need of review in a local or contemporary context? Do they reflect the hopes and fears of excluded communities and younger generations? Do they inspire and motivate?

Agreeing and Monitoring Plans and Assessing Performance

Many corporate processes for formulating, agreeing and monitoring plans and assessing performance use approaches that do not reflect the realities of today's business environment and changing requirements, priorities and timescales. Can boards plan with any confidence in uncertain situations in which business models, competitors, reputations and technologies can quickly alter? Would intelligent steering better enable a board to keep pace with changing stakeholder expectations and perceptions of a company's conduct and social contribution?

Many boards employ financial and quantitative measures of performance that overlook externalities such as negative impacts of corporate activities, opportunity costs and the consumption of scarce natural capital. Should assessments of inclusion or exclusion, social impact, carbon emissions or contribution to national and international sustainable development goals also be used? Would stakeholder trust assessments of corporate contribution to bio-diversity, carbon compensation, human happiness and health or the quality of life? If new goals, objectives and priorities have been agreed, how should their attainment and corporate involvement in collaborative activities be assessed?

Safeguarding Assets and Ethical Standards

Are boards doing enough to safeguard the assets of companies, corporate reputations and ethical standards, in the face of changing stakeholder and public expectations and systemic threats such as climate change and global warming? Should how this is undertaken be reviewed? Is too much attention devoted to risks to tangible and physical assets, while certain intangibles and intellectual assets are overlooked? Should boards be more open about the nature of certain risks, possible and potential impacts and the urgency of taking action?


What impact will global warming, new technologies and alternative business models have upon corporate assets? How might the value of a brand be impacted by inappropriate conduct, a data breach or a misjudgement of the public mood? Are there certain categories of asset that could quickly become liabilities if laws, regulations and opinions were to change? Should boards do more to monitor trends and public debates and assess the impact of certain events? Where rapid changes occur and particular interests are threatened, what should a board monitor and do to ensure that corporate responses are responsible and ethical?

Reporting Performance

Directors should report corporate performance and the consequences of their stewardship to the owners of a company and other interested parties who have a legal right to information. Are there other stakeholders to whom today's boards should report? Do performance measures and integrated reports meet the expectations of ESG investors and other interested parties? Are additional measures required to restore trust and reflect any change of purpose, priority and direction needed to confront challenges, seize opportunities and discharge any new corporate and collective obligations? In relation to trust, is reporting biased in favour of positive developments, while negative outcomes are ignored, played down, under-reported or rationalised? Are reports a basis for engagement with stakeholders on future priorities?

Can stakeholders form a balanced view of the extent to which a company is a responsible corporate citizen? How transparent and accountable are many boards? Do they largely report whatever portrays them in the best light and can be defended or justified, rather than the use of plastic or greenhouse gas emissions? Are confidentiality considerations and/or a desire not to alarm sometimes a cloak to hide what directors do not want others to know? Might burying bad news prevent external parties from helping a company to take effective action while this is possible? Responsible directors and boards have a historic opportunity to take the initiative in confronting challenges such as the environment, climate change, global warming and sustainable development and seizing related opportunities while there is still time to do so. ■

***Prof. Colin Coulson-Thomas** holds a portfolio of leadership roles and is Director General - UK & Europe Operations, IOD, India and President, Institute of Management Services, UK. He has advised directors and boards in over 40 countries.



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