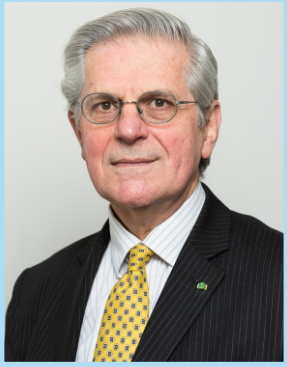
Change, Continuity and Sustainability



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Boards have traditionally innovated and consciously and proactively introduced changes for positive reasons such as benefiting customers, attracting talent, gaining a competitive edge, cutting costs or increasing revenue, efficiency and/or profitability. Certain changes to comply with legal and/or regulatory requirements may also have been made, sometimes reluctantly, while those adopted in reaction to the moves of competitors have sometimes been forced. Past changes have often been relatively self-contained and manageable by the company itself. Many of them have also been incremental in nature and they have occurred within a continuing business model and framework.

Many previous changes have also been accompanied by arrangements to ensure continuity of customer and user expectations and maintain customer, supply chain and other relationships that might otherwise have been disrupted. Those who have felt threatened by changes which they do not fully understand have often sought reassurance, while those who have considered themselves disadvantaged have sometimes sought protection or compensation. Responsible leaders endeavour to explain why change is required and what people need to do in order to help to bring them about and deliver their expected benefits.

Changing Business Context

More recently, inter-related challenges and related opportunities have arisen that in some cases could impact upon many or most activities of almost all companies and the communities and countries within which they operate. They affect business models, the context and environment within which companies operate, and the expectations of various stakeholders. For some people, they call into question the rationale and purpose of enterprise. Often they cannot be addressed in isolation. Effective responses may require collective and collaborative action while windows of opportunity still exist. Where the negative consequences of inaction rise exponentially with additional delay, continuity and 'business as usual' may cease to be viable longer-term options. The multiple challenges of sustaining corporate viability, communities and cherished activities will be explored at the 2019 London Global Convention. Participants will learn about how others are responding. They will also discuss a variety of questions relating to the scale and breadth of change that is now required.

Many directors who used to be content with their accomplishments and who once felt respected now feel threatened. Environmental, climate change and other activists berate them for perpetuating unsustainable practices and continuing to respond to consumer demand by maintaining or increasing production by traditional means. The consequences of their alleged irresponsibility range from reduced biodiversity and pressure on fragile eco-systems to pollution and over-exploitation of scarce natural capital. Past plaudits have given way to current criticism. Some young people who are concerned about climate change and environmental impacts accuse business leaders of trashing their futures. Laws and regulations may become ever tighter as more countries step up their efforts to achieve their voluntary Paris agreement commitments and UN sustainable development goals (SDGs).

Sustainability and Change

For an individual business, sustainability may or may not involve significant change, depending upon the demands it is making on limited resources and the impact it is having on the context within which it is operating, the wider environment and the natural world. Judgements of what is acceptable and sustainable require an understanding of external developments and trends, changing expectations and requirements, and the impacts of not just a company and its competitors, but those of many other parties as well. The activities of other companies and organisations in general can have consequences for a business's future. Some directors are reluctant to cut back on profitable activities to save natural resources or reduce harmful emissions and risk being at a disadvantage, unless competitors do likewise. While they tread water, skill and other shortages may lead to price increases, which might trigger the search for substitutes and alternatives.

Market mechanisms can be less effective when an externality is widely spread, or an impact is not easy to discern, for example the consequences of reduced bio-diversity. Political leaders like directors are often reluctant to put those for whom they are responsible and/or those they represent at a disadvantage. A reduced standard of living and/or higher charges or taxes, like

lower turnover and/or profit, may not be easy to sell. Electorates in poorer countries don't like to be told that the environment cannot cope with them catching up people who live in richer countries, while many voters in better off countries don't want to be poorer than their parents and citizens elsewhere. Their complaints of unfairness may be echoed by entrepreneurs and directors of smaller companies who may object to being constrained by rules and red tape because of the harm being caused by established larger businesses.

Directors that have mainly been concerned with their own companies and competing in tough markets are now required to be more outward looking and to simultaneously compete but also collaborate with companies facing similar challenges. Importantly, they need to be attuned to evolving stakeholder and public opinion. Increasingly, they should see problems as arenas of opportunity, especially when tipping points in opinions are reached. For concerned members of society the issue can be whether or not enough business leaders will be prepared to be among the first movers to make significant changes that in themselves may or may not give a particular company a perceived, expected or quick advantage, but when matched by other similar actions may constitute a worthwhile response to a shared challenge. Will too many of them hold back until Governments or regulators intervene? How many of them will be sufficiently articulate, determined and/or innovative to secure stakeholder support?

Change and Continuity

Environmental, social and governance (ESG) investors may already be on message and actively looking to back and invest in companies that are responsibly led. However, some people, customers and other stakeholders are more willing to change than others. Some almost instinctively resist change. Others find it stressful, particularly if too many things are changed at once. Changing almost everything can leave people rudderless and lead to chaos. Adoption of a new and more sustainable business model and/or associated enabling technology may require the simultaneous achievement of a combination of changes. Change in some areas may need to be accompanied by continuity in others. Getting the balance right between change and continuity is a judgement call. How many directors have the courage to advocate, argue for and initiate the changes required against opposition in some quarters? How many boards have the competence and programme management support they would require to achieve the transition that is needed to combat climate change and protect the environment and scarce natural capital in collaboration with other players?

Resistance to change can result from calculations of self-interest that give a high weighting to envisaged short-term and negative consequences, and attach less importance to longer-term and less certain benefits for a wider range of people. In such circumstances and in relation to sustainability, business leaders require the communication skills to put the case for immediate action, perhaps by highlighting the consequences of inaction and/or delay. The rationale for change should be explained. Directors should be alert to opinions among their customers and users and the wider public. Some directors do act to protect the environment and ensure sustainability, for example by withdrawing single use plastic bags or reducing carbon emissions. They are sometimes pleasantly surprised by positive customer reactions. In contrast, laggards may face discontent and consumer boycotts.

The boards and senior management teams of some organisations are primarily focused on the actions that they themselves need to take to enable them to continue to operate. They forget that their customers, suppliers and other stakeholders might also need to adapt to changing circumstances and growing external pressures. Could what they learn as a result of the beneficial changes which they themselves make be of value to others? Directors should encourage people employed by their companies and those who work with them to be alert to opportunities for helping others to adapt that might generate new income streams. Being seen to lead and be helpful can also attract talent and generate goodwill and reputational benefits.

Global Requirement for Action

Business leaders who unashamedly continue along an unsustainable 'business as usual' path of growth and development should expect a backlash. Biodiversity and species are being lost at mass extinction rates. Ninety percent of the world's population now lives with polluted air. Too many boards seem focused upon sustaining current priorities, operations and practices rather than inspiring and adopting more sustainable approaches and business models. Calls have been made at successive IOD international conferences for sustainability, social responsibilities and climate change to be given a higher priority. Will rhetoric now be matched by crisis action? How many board strategies put the same emphasis upon social and environmental roles and responsibilities as is placed on economic and financial ones? Are the visions of boards sustainable? Are directors articulating future lifestyles that are simpler, healthier and more sustainable? Might these and innovations, renewables, decarbonisation, recycling and the sharing and circular economies offer alternative and more acceptable routes to the creation of more sustainable forms of long-term value?

Some directors and boards are responding, but more determined action to deal with climate change is long overdue. The costs of delay are likely to rapidly increase. In time, cracks may appear in the social fabric. What now needs to be done and by whom to stimulate action? Will Governments come under greater pressure to intervene? Whatever carrots and sticks they employ, a variety of independent companies will need to effectively respond if we are to live upon our planet in a sustainable way. The challenge for IOD London Global Convention participants will be to consider how corporate governance arrangements and the activities and decisions of directors and boards can best ensure the sustainable evolution of life on earth. In the past, the search for competitive advantage has spurred innovation. Are different drivers and longer-term success factors now needed to ensure boards address new and evolving economic, social and environmental expectations? How can directors be more effective at developing and implementing strategies for longer-term sustainable value creation? What should the key elements of such strategies be? Who else should be involved in their formulation? Are directors and boards able to determine and provide the collective responses and collaborative action required to address a global challenge such as climate change?

What more could corporate boards do to help ensure countries meet their obligations for achieving UN sustainable development goals (SDGs) by 2030? How many boards are adopting or

implementing approaches and strategies recommended by the UN Environment Programme? Should more directors view climate change as an opportunity rather than as a problem? India, China and the US are the world's major sources of carbon emissions. A variety of technical and other potential solutions are available and areas where further innovation is required have been identified. Considerable talent is available in many companies. Rapid progress is being made in renewable and other technologies. Capital and ESG investors seek longer-term returns. Why are many boards still defensive? Why are they not pursuing more sustainable, inclusive and responsible models of growth? Many young people around the world are concerned about sustainability and climate change. What stops directors from becoming their heroes? Why are they often overly cautious and complacent?

Corporate Governance for Sustainability

Traditional and largely standard approaches to corporate governance with their fixed calendars of meetings can struggle to cope with multiple and inter-related challenges and various opportunities and possibilities offered by disruptive technologies and new businesses and organisational models. Different arrangements may be required according to the ambitions, situation, context, nature and size of a company? Might more than one governance model be needed across a diverse enterprise and/or network? Should the nature of an overall umbrella differ from the governance of individual elements beneath it? Should governance arrangements evolve and change along with circumstances and priorities? Against a background of pressure on resources and climate change, could sustainable development and/or UN SDGs provide a unifying theme that embraces monitoring, compliance and risk frameworks and hold a network of relationships together? Might more ethical, inclusive and principle-based forms of corporate governance emerge? Might they bring collaborating entities together? Could they help to align organisational goals and ethical practices? Could they provide the responsible leadership that might rebuild trust with stakeholders?

Could more effective and responsible corporate governance become the corner stone of sustainability? The legal responsibilities of directors in some jurisdictions could be viewed as supportive of sustainability. Furthering a company's long-term interests or promoting its success, rather than the pre-occupation with short-term performance one often finds, favours those with a longer-term perspective rather than the shorter-term interests of dealers, traders and speculators. Corporate governance is exercised through decisions. Should more directors view matters through a sustainability lens? For example, should more attention be paid to wider, downstream and upstream interests, and life-time, 'true' and decommissioning costs when investment decisions are taken? These and other questions will be considered by delegates during the conference at this year's IOD London Global Convention.

What are the global trends in corporate governance that affect sustainability? Does more attention need to be devoted to collective responses, collaboration and the alignment and co-evolution of corporate and political strategies? Should responsible board leadership go beyond strategy and policy to include a first principles review of prevailing assumptions, priorities and a company's rationale, mission and purpose? Should boards give a lead in relation to sustainability by redefining corporate purpose, excellence, quality, performance, productivity and success in terms of sustainability considerations such as reducing environmental and resource footprints and addressing climate change? Should they champion the adoption of more sustainable approaches, paradigms, lifestyles and business models?

Future Prospects

Certain companies that have consciously taken a hit to their bottom line in the interests of sustainability have been pleased with the positive responses of existing and new customers. The large costs associated with an objective of a zero-carbon economy or society by a certain date represents a historically unprecedented opportunity for businesses that can help with its achievement and enable and support much needed adaptation and change. Lord Stern believes that the pursuit of a zero-carbon economy will generate strong and inclusive growth, result in a more acceptable climate and assist the delivery of the UN SDGs. Boards should consider whether or not they are proactively taking sufficient steps to combat climate change, protect the environment, safeguard scarce natural capital and ensure sustainable development by instigating and supporting required changes and the continuity of essential services.

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