DIRECTORS, BOARDS AND CLIMATE CHANGE

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Among directors there are many who may have concerns about the environment. They might also be worried about the implications of climate change. Like other citizens, they may have options to change their purchasing, consumption and other behaviours to reduce their negative impact. They can express their views through elections on steps that should be taken at municipal, state and national and international level. They can decide whether or not to invest in ethical and environmentally responsible fund.

As individuals many directors may feel strongly about issues such as environmental pollution, threats to biodiversity and global warming. They can opt to work for some companies and not others, or to join particular boards rather than others because of their track records in areas such as the environment or climate change. As corporate directors, the extent to which they can allow their personal opinions to influence board decisions needs to be tempered by responsibilities to the companies concerned and their stakeholders.

Director Involvement and Awareness

Climate change is already contributing to rising sea levels, changing weather patterns and affecting the environment. It is compounding water shortages and various other problems. Many Governments around the world support action to reduce global warming and they may increasingly look to businesses and expect the corporate world to play its part. What does this mean for directors and boards and how should they react? Are there also opportunities for them to be proactive, independently of Governments?

At minimum, directors should expect boards to be aware of the short, medium and long term impacts of environmental trends and developments and climate change upon the operations, activities and ambitions of those companies for which they have responsibilities. Senior management should be asked to explore these impacts and consider what needs to be done in response, either to address challenges or seize any resulting opportunities. Significant issues can then be discussed by the board and strategic direction provided.

Directors and boards should also be aware of the impact of corporate activities and operations upon the environment. Are externalities such as pollution minimised? Are inputs sustainably sourced? Is waste management effective? Where applicable, is it integrated with municipal sewerage arrangements? Is hazardous waste handled, recycled or otherwise dealt with responsibly? Are steps taken to avoid the contamination of water supplies, rivers, streams and the oceans with oil, chemical and plastic pollutants? Are clean up operations initiated, undertaken and/or supported?

Caution and its Consequences

Some boards seek to avoid their responsibilities for the damage corporate activities and operations cause to others. Like those who procrastinate or seek to delay or lie low, they can pay a high price for doing this. Trust and reputation can be quickly damaged by such conduct. Alternatively, they can be built by being proactive, taking responsibility and paying compensation when it is felt right to do so. A board can act as a corporate conscience in such circumstances. It can also question, probe and investigate. For example, are appropriate steps being taken to reduce or eliminate noise and vibration?

Much will depend upon the nature, severity and timescale of impacts and there may be a variety of different scenarios and options to consider. These could include flexible working to avoid traffic jams, a different business model or the use of 3D printing to avoid costly distribution arrangements. In many cases, care should be taken to discuss options with supply chain partners, selected customers and those likely to be most affected. Collaborative action can be explored where appropriate.

In uncertain times, when band-waggons can suddenly arise and the mood of particular publics can quickly change, tipping points can suddenly arise, whether in relation to climate change or the impact of a disruptive technology. Wherever possible, directors and boards should seek to avoid becoming trapped in dead ends or bogged down in crawl out costs. They should favour flexibility and agility. While uncertainty persists, a number of options could be explored simultaneously. This might allow quick action when the time is thought to be right.

Considering What Needs to Change

Climate change can trigger requirements for reassessment. Policies may need to be reviewed. New skill sets may be demanded. People may need to be reoriented. Are significant changes of operations or priorities needed or desirable? In some cases, a board might wish to reconsider whether a company still has the right vision and mission or whether these should be amended in the light of environmental issues or climate change. Do they take account of the requirements for a low carbon future and green growth?

Changes may be required to processes and certain corporate offerings. Do financing and technology strategies need to be revised? How should a board initiate, influence, assess, monitor and review adaptation, mitigation and innovation? What needs to be preserved or protected as change occurs? If affordable options emerge, how might they be quickly scaled up? Are governance changes and/or new social initiatives required?

While the consequences of climate change may be dramatic for some activities, others may not be so directly affected. Directors should adopt and maintain a holistic and corporate wide perspective that also embraces trends and developments other than climate change. Certain issues may be inter-related. It is sometimes difficult to consider environmental issues in isolation from climate change which can have a major impact upon them.

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Risk management and mitigation strategies could include increasing the resilience of processes, technologies and corporate capabilities as temperatures rise. How inclusive are they? Are social changes required? For agriculture, fisheries and the food processing sector, sustainability and food security are major issues. In such and other cases, have roadmaps to sustainable development goals been established and agreed with relevant parties?

Sustainability and Energy and Water Security

For some boards, the encompassing and integrating issue may be sustainability. The main challenge may be transition to a carbon neutral, green and sustainable economy. The board of a significant entity might wish to consider how its sustainable development goals and those of its supply chain complement and/or support those of the UN or national commitments resulting from the 2015 Paris Climate Change Agreement.

Energy security is a key requirement for many sectors and public services, and it can be directly impacted by climate change, as the US has found during the hurricane season. Directors can enquire about the steps taken to conserve energy, reduce both energy consumption and cost, increase energy efficiency and ensure the continuing availability of an affordable and uninterrupted supply. Are eco-innovative options and collaborative activities being explored? Might solar power allow a degree of energy independence?

Water supply, quality, conservation and security is an issue for many municipalities and cities, for agriculture and for national Governments. Responsible boards ensure that the management and conservation of ground and other water is undertaken on an integrated and, where appropriate, a collaborative basis, taking account of re-use requirements. Is sufficient attention devoted to food, energy, water and supply chain security in risk assessment, mitigation and management policies, plans and practices?

Contextual Factors and Awareness

Owner directors of family, entrepreneurial or unlisted businesses may feel relatively free of external constraints and able to be proactive in combating climate change, but directors of listed companies are sometimes more inhibited. The capabilities they control may be largely owned by others. All directors should act in the best long-term interests of the companies on whose boards they sit. When taking decisions should have regard to stakeholder interests.

What importance do customers, employees, investors, local communities, regulators and various public bodies attach to addressing environmental issues and combating climate change? Would customers be willing to pay a price premium in order to fund more effective action? Would investors accept lower dividend payments, or employees support pay restraint to enable adjustment or migration to a more sustainable path? Would the proactive exerting of influence across a supply chain be welcomed or opposed?

The deliberations of some boards would be greatly helped if they knew more about the concerns and aspirations of important stakeholder groups, what they think about some issues and the extent to which they would be willing to accept changes and incur a penalty to benefit the environment. It is also helpful if directors understand the dynamics of the marketplace in which they operate, and the extent to which there is competition and there are substitutes and barriers to entry. How sensitive are customers to price changes?

Courage and Consultation

It is so easy to win plaudits by suggesting that directors should be courageous and bold and that they and boards should give a lead in relation to climate change. However, what if customers react against any resulting inconvenience and take their business elsewhere? What if the best staff leave when they are hit with what they perceive as a penalty to fund steps to reduce global warming or improve the environment? What if one has not done enough to attract ethical investors? At the same time, it may also be easy and convenient for excessively cautious, insecure and timid directors to use uncertainty concerning how others would react as an excuse to avoid taking action. Blinkered and lazy boards can miss many entrepreneurial opportunities to help others to adapt to climate change.

A balanced approach is to explore options for taking beneficial action and learn more about the concerns and views of different shareholder groups. In 2017 one study entitled “Drawdown” which was edited by Paul Hawken identified eighty different actions that could be taken to directly impact upon global warming. At minimum, a director should enquire if any of the options identified in this and other studies directly or indirectly concern corporate activities and operations. Some directors may be unaware of the harm these cause.

Rather than speculate about stakeholder reactions, directors and boards could take practical steps to find out what different groups think. Meetings can be held, consultations arranged and surveys undertaken. Some groups may not be homogenous, in which case there may be scope for certain options and associated branding and promotions that appeal to people who are concerned about the environment and climate change and keen to make a difference.

Taking Board Decisions

In relation to priority environmental issues and climate change, boards need to decide when, where and to what extent to act. For some this can prove to be controversial. There may be criticisms and one might incur penalties for being too early or too late, or for being perceived as doing too little or too much. Maybe there are ways of taking the temperature before acting and/or steering different parties towards a consensus. Sounding out opinions can be a way of building relationships with customers and other groups. One might uncover shared interests.

Engagement with customers and other stakeholders can enable opportunities to be identified for understanding how they are, or may be, impacted by climate change and helping them to cope. Opportunities for collective action, clustering or introducing elements of local circular economies might also emerge from discussions with other companies and public bodies.

Directors need to be realists. Customers and the members of other stakeholder groups sometimes take a narrow and short-term view of what is in their own best interests. They may want to make hay now while the sun shines, rather than worry about what might be said about them in their obituaries. Some of them might be selfish and unwilling to pay a price today, or suffer inconvenience, to benefit mankind generally or the external environment and other species. Boards that are prepared to give a lead need to consider how far they are willing to go in advance of public opinion and stakeholder support.

Particular Success Factors

Board members should be informed as well as balanced and timely. They require holistic and joined up advice on environmental and climate change issues. This can be a challenge, as many professionals and most academic experts specialise in what to practising directors can seem relatively narrow areas. Should the boards of some companies consider appointing a scientific adviser to help them make sense of technical reports and assess their relevance to corporate activities? Should independent directors agree to monitor particular areas?

The case for change, or the rationale for action, should be carefully articulated. Some boards try to make initial progress unobserved, while others launch initiates to a fanfare of publicity and consciously seek to attract the interest of concerned citizens. Monitoring public opinion and what different people are advocating can allow a board to judge when the public mode may be right for a new initiative such re-useable drinking vessels to be introduced. An early mover could connect with a new audience, while leaving it too late might lead to Government intervention and imposition. Pressure and urgency can be catalysts of innovation.

The environment and climate change are arenas in which local and/or national collaboration with other companies and public bodies and joint action can be particularly effective. Such cooperation can be sensitive to sectoral or contextual considerations, such as a lack of water in Bengaluru or Cape Town. However, collaboration and joint action can also be time consuming and some parties may pull their weight while others are passengers. There may be voices around the boardroom table who would prefer that the effort involved be devoted to building closer relationships with key customers or potentially important prospects.

Board Responsibilities and Leadership

Boards face dilemmas and often have to make difficult choices. There are only so many hours in a director's and executive's day. Spending more on some initiatives can mean less for different options. Invariably, some interests are more vocal than others. Should the squeaky wheel always get the grease when an alternative mode of transport would offer wider benefits? Sometimes it takes courage not to give in to special and persistent pleading.

Directors have responsibilities to current stakeholders to balance against the obligations they may feel towards ensuring a sustainable future for their successors. Effective leadership in a more cynical age, when evidence of corporate conduct can be quickly captured and shared, is more than making the right calls when tough decisions have to be made. It also involves engagement, explanation and justification. Business leaders may find that like politicians they are increasingly held to account and concerned with the art of the possible.

The forthcoming 20th World Congress on Environment Management and Climate Change is particularly relevant for business leaders. It's theme.is "transformational leadership for promoting climate resilient economic growth". Directors will be able to discuss many of the questions raised above with their peers. Alert and competent boards should be aware of the environmental and climate change issues affecting their companies and open to ideas on how best to address them. Entrepreneurial ones should also look for the opportunities they create. ■

Prof. Colin Coulson-Thomas holds a portfolio of leadership roles and is IOD India's Director-General, UK and Europe. He has advised directors and boards in over 40 countries.