

Resource Security and the Circular Economy

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Prior to the Covid-19 pandemic, strategic challenges to business models, ways of operating and lifestyles to which billions more people aspired were beginning to accumulate. Water supplies were under strain in many areas. The burning of fossil fuels to keep up with the growing demand for energy contributed to global warming. Natural capital was being overexploited and mountains of waste accumulated. During lockdown the pressure eased. Damaging impacts of human activity upon the environment reduced. Our finite earth's precious ecosystems have showed signs of recovery. Will the fragile improvements that have occurred be wiped out and reversed by a resurgence of economic activity, or will they spark a desire to rebound and develop in a way that is more inclusive, in harmony with the natural world and hence more sustainable? What will such an aspiration mean for corporate boards?

In particular, what will greener and more responsible growth, and transition to different business, organisational and market models and new ways of operating, working and living, mean for the use of natural resources? What questions should directors ask to achieve greater water, energy and resource security? What steps could boards take to reduce pollution and waste, boost repair, recovery and reuse as alternatives to replacement, and re-generate natural systems? How might processes and operations be re-designed or re-located so that outputs from one activity become inputs into another? How might the criteria for board decisions better reflect externalities and future costs, a desire for a lighter or neutral environmental footprint and the creation of natural and social as well as economic and financial capital? How should boards provide the responsible leadership that is required?

Water Conservation and Management

Water is essential for life, food production and some processes. In recent years, fresh, potable and usable water supplies have fallen short of rising demand. How aware are directors of water challenges, issues and shortages within the communities, cities and societies in which the companies for which they are responsible operate? Where should the availability, management and conservation of water feature on board agendas and among corporate objectives? Are board members apprised of corporate water consumption in relation to local supply and the pressures and external costs caused by corporate operations? What perverse incentives are too often causing water to be over used?

Are boards providing leadership and direction to corporate and collective efforts to prevent water pollution and achieve more integrated and responsible management and conservation of water resources?

How will challenges such as local, regional or national potable water crises impact upon corporate aspirations, objectives and strategies? Are certain cities and patterns and locations of urban living and industrial activity viable longer-term at an acceptable financial and environmental cost? What architectural, planning and conceptual changes need to occur if we are to create viable future cities? What needs to be done to better harvest, store, treat and transport rain water and improve ground water management? How might this be funded and achieved? How could certain aspects of past practices be improved? How might excessive, unnecessary and undesirable uses of water and its contamination be prevented? What combination of appeals, directives, laws, regulations, incentives and pricing or other market mechanisms might best achieve SDGs, specific water protection and/or conservation objectives, and the more equitable and responsible use of water?

What further steps are needed to improve water use efficiency in the agricultural, industrial and domestic sectors? Are those organisations and activities which are the biggest net users of water paying a fair share of the costs of supplying it? Should they also bear some liability for the external costs being imposed upon others as a result of any consequential water shortages? What market mechanisms and/or forms of public intervention might redress the balance between costs and benefits, supply and demand, and 'winners' and 'losers'? How many boards know the extent to which corporate operations are net positive or negative in terms of factors such as water usage and pollution? What more could or should they do to achieve a positive balance, encourage the more equitable, responsible and sustainable use and allocation of supply, and achieve greater water security?

Increasing Usable Water Security

Taking a longer term strategic view and externalities into account, what more could be done to increase access to a secure and sustainable supply of usable water? Might some corporate activities be no longer sustainable when the interests of a wider range of stakeholders are

taken into account? Are boards considering what could happen as wells and affordable water supplies dry up? Should certain activities be scaled back, changed or relocated closer to a water supply? What could and should be done to increase water supplies, whether through the interlinking of rivers, desalination of sea water, replenishment of water tables or recycling and reuse? How might and should each of these and other possibilities be funded? What additional supplies of water might result and when are these likely to be available?

How should available supplies of water be fairly distributed between competing agricultural, industrial and domestic demands? At what level should critical decisions about access and quotas be taken? Access to safe and clean water and safe and hygienic sanitation has been recognised by the UN General Assembly as a basic human right. What are the opportunities and challenges for providing universal and equitable access to safe drinking water? What needs to change for directors to acknowledge their responsibilities in relation to water use and the access of others? Could more be done to understand stakeholder uses of water? Could helping and supporting them become a differentiator and business opportunity?

Energy Security: Sustainable Energy Options

Energy generation is a significant contributor to global warming. In many locations the burning of fossil fuels to produce electricity has increased, because total energy demand has increased more quickly than fossil fuel generated production can be replaced by renewables. Should the first priority of responsible directors be to reduce energy consumption, energy wastage and the use of fossil fuels? Is the extravagant consumption of energy by many societies and communities an unnecessary indulgence? Should boards require companies to exercise restraint? Even if off-peak energy at cheaper prices is available, must so many cities be lit up like Christmas Trees at night? While recognising security issues, would turning external lights off during quiet and traffic free periods in residential areas allow more people to see the stars and encourage them to benefit from deeper and undisturbed sleep?

What needs to be done to encourage a more responsible demand for energy and ensure that this is met with a sustainable supply? Recent progress in the transition to renewable energy sources has fallen below what is needed to meet Paris Agreement goals. What additional mechanisms are needed to replace fossil fuels by exploiting and expanding renewable energy sources? How might boards simultaneously address a number of environmental issues, for example by using the principles of the circular economy? Could agricultural, food and other waste be used to generate electricity? Are there specific public interventions or market-based incentives that might speed up this process of reuse? What is the status of the roadmap for India's target of an additional 175GW of renewable energy by 2022? What can and should directors and boards do to help to bring it about?

Private and Public Sector Responses

How effective are corporate energy risk management, saving and security objectives, strategies, policies and plans? Are customers, supply chain partners and other stakeholders involved in their formulation? When were they last reviewed by the board? How energy resilient are supply chains and operating and business models? What back-up, disaster and recovery arrangements are in place to cope with an interruption of supply? How quickly can replacement energy provision become available? How cost-effective are sustainable and green energy options? How could disruptive technologies within the renewable energy sector also have a wider social impact in enabling more sustainable development? What calls should directors make if

companies that have the choice opt not to purchase energy from a renewable source because fossil fuel generated electricity is cheaper?

How effective have Government, state and local initiatives to encourage the greater use of renewable energy been? How will the end-of-life costs of reducing fossil fuel production be addressed? Will continuing innovation and a trend towards lower renewable energy costs be sufficient to encourage more companies and other enterprises and public organisations to purchase their energy from renewable sources? Are additional Government measures and market incentives required? What renewable energy initiatives are underway at local, municipal, state and national level, and how are companies responding to them? What changes might increase their take up and impact?

Preventing Pollution and Managing Waste

Environmental Pollution and the discharge of waste are a threat to human health and the planet's ecosystems. The River Ganges improved during lockdown. Its past treatment illustrates the damage that human activity can do to an ecosystem that is of special importance to large numbers of people. What steps could and should directors, legislators, enforcement agencies and regulators take to reduce the production and discharge of harmful pollutants and the generation of waste? How could waste management and the recycling and/or reuse of waste be improved? How might the principles of the circular economy help? How can companies be made accountable for the negative externalities resulting from their activities and operations? Could pricing be used to cover social costs?

Innovation and commitment is required to cope with the global challenge of dealing with waste. What questions should directors ask to avoid the irresponsible handling and/or disposal of hazardous waste? How should hazardous and e-waste be managed, transported and its recycling improved? Is closer surveillance and monitoring required? Should stricter penalties be enforced or incentives introduced? Solid waste is a growing and international problem. Given its negative and long-lasting impact upon the environment, should all boards be taking steps to firstly reduce and then eliminate the single use of plastic? What strategies, measures and options are there for achieving this? How can people be weaned off their use of plastic? How might stakeholder support be best obtained? Who should be held accountable and by what means for the harm caused by plastic and other waste and the cost of its collection and containment? Dealing with it is an opportunity for innovation and enterprise.

Should reparations be paid by their sources to cover the cost of cleaning up plastic and other waste and the restoration of habitat and environmental damage? The oceans cover over 70% of the world's surface and contain some 97% of the world's water. How focused are directors upon pollution generated by entities for which they are responsible and the impact of human activities and resulting effluents and waste upon natural habitats? What needs to be done to better protect the oceans, save them from oil, chemical, plastic and other pollutants, and help them and marine life to recover? What new measures and corporate, collective and international commitments are required? Could action to improve marine and other environments be a potential business, engagement and innovation opportunity?

Developing the Circular Economy

A lockdown, slowdown and/or recession is an opportunity to increase resilience and resource efficiency by rethinking and redesigning supply and value chains and applying the principles of the circular economy such as recovering, recycling, repairing and reusing either by one's own

company or another one? Should participating in the circular economy be a higher priority? Is this an arena in which rhetoric needs to be matched by reality? Externalities need to be taken into account in current activities and in relation to circular economy claims and proposals, for example, in relation to the rebound or negative environmental effects of asset sharing, such as additional journeys to a shared resource. Are some directors more interested in appearing to be doing something, rather than understanding what is actually happening? How can boards ensure that all relevant externalities are taken into account?

There is an urgent need for a more developed recycling and reprocessing infrastructure, especially as opportunities to export plastic and other rubbish diminish as more countries refuse to import it. Greater priority needs to be given to waste reduction, prevention, reuse, recycling, recovery, composting and responsible disposal and dumping. How might the policy and regulatory framework better support the development of the circular economy? Does it need to be promoted through laws, policies, risk reduction via taxes and strict governance arrangements? Should more boards take the initiative and investigate the opportunity for corporate and collective action to build local and wider circular economies?

What pollution control and sustainable environmental initiatives are underway and/or planned locally, nationally and globally? What are the impacts of these initiatives likely to be and how might these be improved? Do they and other public measures influence relevant board discussions? Should directors be concerned about possible costs of penalties, reparations and clean-ups? Are corporate decisions mainly based upon internal and financial considerations? To what extent are externalities and environmental factors taken into account? How might corporate actions be made more environmentally responsible and better aligned with SDGs?

Addressing Environmental Challenges and Opportunities

Given the imperative for urgent, decisive and systematic action in relation to environmental challenges and opportunities, why are so many boards waiting rather than acting? Other challenges, such as responding to the Covid-19 pandemic and recovering from it, should not

distract attention from environmental concerns, when addressing the current situation may provide the possibility of pursuing multiple objectives simultaneously. The global pandemic could represent a once in a lifetime opportunity for thoughtful and responsible directors and boards to re-boot enterprise, re-purpose companies and re-engage with stakeholders and the communities and societies in which businesses operate.

Supporting collective and joined-up responses to environmental issues, climate change and Covid-19, and working to ensure a more resilient, sustainable and inclusive future, could make younger generations more aware of the role that caring capitalism could play in their lives. Ensuring that this happens requires board oversight and direction, because the challenges and opportunities involved are inter-dependent and they also impact on many or most areas of corporate operation. They cannot easily be delegated to a single department, director or function. Nor can they be resolved by individual organisations acting alone and without the involvement of Governments and relevant public bodies.

Boards need to ensure that the silo-like functional structures that still exist in many organisations, and the departmental thinking of the professionals and specialists that accompany them, do not prevent the holistic and inter-disciplinary thinking, connections and collaborations required for effective action and to make progress. The perspective of directors should embrace the totality of organisations and their network of relationships with stakeholders, and encompass both immediate and crisis issues and longer-term aspirations and considerations. Board leadership has a vital role to play in influencing the 'new normal' that emerges from the current situation and ensuring that future changes and developments are environment friendly, responsible and sustainable. ■

****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.*

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