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Sustainability, Continuity and the Board

Effective corporate direction is often a question avoiding extremes and striking a balance between contending factors and alternative uses of time such as action and reaction or thinking and doing. A particular challenge for many directors is the balance between change and continuity, and determining where, when and to what extent changes should be introduced or avoided. Certain interests may associate continuity with reliability and trust. Customers may place orders based upon confidence that their expectations will be met. The implications of change may be uncertain, but pressures for it may build up when there are compelling reasons why a current situation cannot last.

For directors whose role is to think and challenge, the term sustainability may conjure up questions such as the sustainability of what, when and from whose perspective and at what cost? As citizens they may look beyond their companies and its activities at the sustainability of communities and lifestyles, and of certain behaviours and institutions. Those with families may be concerned about the world their children and grandchildren will grow old in. Some might reflect upon questions of fairness between and across stakeholder groups and generations in terms of who gains or losses and who pays or benefits.

From a board perspective, how should sustainability be managed? Does it feature in issue monitoring and management exercises and reports? Should particular directors be asked to review developments from a sustainability perspective or take a lead in relation to corporate responses? Are there distinct sustainability risks and opportunities? Where and in relation to what is a company exposed? Are there potential liabilities? Is further regulation or legislation likely and if so what might the impact be? Prior to establishing a strategy, agreeing priorities and initiating further actions, should a consultation exercise be undertaken with one or more stakeholder groups? Where and when might additional expertise and resources be required?

Sustainability and Continuity

When sustainability is mentioned, some people instinctively first think about how they and their colleagues might be impacted, rather than reflect on implications for others. Their concern might be internal and corporate rather than with an external environment. On occasion, rather than consider what sustainability is or might be, it may be advisable for directors to reflect upon what sustainability is not or ought not to be. Sustainability should not be a search for ways of safeguarding or perpetuating current corporate activities regardless of their costs, consequences or impacts upon others and the context in which an organisation operates.

Sustainability is sometimes associated with continuity, but this may or may not be desirable. Different standards may be applied to one's own activities and those of others. Many directors appear to instinctively assume that their role is to work for the continued existence of an entity and to explore new and better ways of enabling it to carry on the pursuit of its vision and mission. Few question whether a company's purpose is still valid or desirable, or whether it is time to call it a day and to either do something else or return capital to owners.

Scaling back is sometimes regarded as an unwelcome imperative when costs have to be reduced, while winding up an entity is associated with failure. It is rarely seen as positive. It may be an aspect of a career to hide. Founder directorships and the launching of new initiatives are proudly listed on CVs, while closing down ventures are not mentioned unless one is a liquidator. From an external environmental, climate change, community or social perspective the termination of certain harmful activities might be beneficial. It might improve the quality of life of current and future generations. Is there a bias in favour of starting things rather than stopping them? Should there be awards and honours for those who close down operations and entities with negative externalities?

Pulling out, cutting back and stopping certain activities may well be beneficial for some, but it can also be disruptive for those involved and affected. Customers and others may need time to adjust and develop alternatives. On occasion, a board might

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need to take some stick from determined, visible and vocal sustainability campaigners in order to be responsible and not to default upon obligations to customers and others, or impose unwelcome costs upon them which are significantly greater than would be the case with more time to adjust and further innovation. More than symbolic gestures such as the staged turning off of a tap may be required. Nevertheless, there may be various aspects of a board's responsibilities that should be challenged.'

One should not assume the continuing relevance of a corporate vision and mission. Rather than focus upon ensuring that existing activities and proposals for new ones are in line with them, should more directors consider their contemporary relevance and value? When markets and priorities are uncertain, the life cycles of technologies are shortening, new options, channels and business models are emerging and strategic threats and opportunities are changing, should holding to a particular vision, mission and strategic direction give way to greater openness, flexibility and diversity of responses? Are some directors and boards acting as breaks upon adaptation, evolution and reinvention? In some cases, are they so protective of current interests and an existing situation as to be a barrier to innovation and progress?

Questioning Corporate Longevity and Perpetual Succession

Against the background of human history, the notion of a limited liability company that will continue to operate as a going concern from one year to the next is a relatively recent development. So too are the associated overheads, relationships and commitments of resources that continuing operation may require. Do some companies engage in activities not because we would establish them to do these things today, but simply to help ensure their continuing existence, together with the the associated employment? Are some directors, boards, management teams and the people for whom they feel responsible working very hard to keep alive companies that no longer have a compelling rationale for existing?

Comparing lists of leading companies from one decade to the next reveals a churn. Some companies are taken over. Others decline and are wound up. Significant entities for one generation can become bit players for the next. In some sectors, and in open and competitive markets where barriers to entry are few, relatively few companies sustain market leadership for a run of generations. While others may reinvent and remain relevant, the decline and fall of some businesses is rapid. With the adoption of step change developments in more fields appearing to speed up, will the life spans of companies reduce and the churn of those at the top increase?

Prior to the incorporation of limited liability companies there were charter companies, but before them enterprising individuals collected together to support particular ventures. These could be a single voyage of an individual ship, at the end of which the proceeds of the sale of a cargo would be divided between captain, crew and financial backers in an agreed proportion. Overheads were limited, but charges were made for the use of shared dock facilities and other services. Some ventures succeeded. Others did not. Some ships returned with valuable cargoes. Others were lost at sea or shipwrecked, on occasion when almost safely home from some far corner of the world.

New Organisational Forms and Governance Arrangements

The possibilities created by new technologies are multiplying. As more people are employed on a freelance basis and are attracted to entrepreneurship, will more business activities be undertaken as ventures and within the framework of a contract or partnership? Will larger entities mutate into portfolios of projects or ventures, each of which might be tackling particular opportunities while a window of opportunity for cost-effectively deploying a relevant solution, technology or business model exists? As projects come and go, will the greater flexibility that may result make it easier for corporations to adjust to external sustainability pressures and concerns?

For a period state-owned enterprises may feel protected from market forces, but in time will pressures to reduce the overhead costs of public bureaucracies require them to also adopt a more flexible portfolio model of operation? Does the very existence of public sector bureaucracies create repeated requests for initiatives and activities that will ensure their continuing existence? More ad hoc arrangements may not justify the effort of building up and then running down a large central team and the associated overheads. What are the implications for directors, boards and governance? Will they still be required in their current form? Will more matters be dealt with by laws and regulations relating to the forms of venture and operation that might emerge?

Were operation by project and/or venture for a limited period between step change innovations to become more widespread, one might see less investment in inflexible facilities and arrangements that consume resources, demand time and require significant cost to decommission and/or unwind. This could result in less opposition to change and less disruption as and when changes are required. Not being locked in and more modest crawl out costs could speed up responses to changing concerns, requirements and priorities and spur innovation. If the current scale and structure of a corporation is making it difficult for a board to react, thought should be given to how best to introduce greater fluidity and organic evolution to match what technological breakthroughs might allow. Obstacles should be removed rather than be used as excuses for corporate inaction.

Rather than bemoan how current practices and arrangements make it difficult to develop a coordinated response to external sustainability concerns, how many boards think strategically about how they might change how they and their companies should operate in order to better cope with sustainability challenges? As its name suggests sustainability will be a core element of the 17th London Global Convention on Corporate Governance and Sustainability. The 2017 theme of this annual event will be "The Board: Emerging Issues in Corporate Governance and Sustainability Challenges". The agenda and experiences of winnners of the Golden Peacock Awards for Sustainability might give the participants food for thought and the opportunity to exchange ideas.

Coping with Sustainability Challenges

In London, there will be an opportunity to reflect and build upon views expressed and the conclusions drawn at the recent 19th World Congress on Environment Management, particularly in relation to environmental sustainability and the impact of climate change. In Hyderabad there was much discussion of external developments and possibilities, with contributions from the leaders of many organisations that are in the van of technological progress. The sequencing of the world congress and global convention means that with greater understanding of external requirements the focus can shift to how boards should respond and how governance and other changes might help.

Direction is very much about integration, bringing various interests and considerations together and viewing them holistically from the perspective of a total organisation and its stakeholders. Are there hard

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choices and trade-offs to be made? Might there be opportunities for synergy and simultaneously achieving multiple objectives? In relation to sustainability, a board might feel under pressure from various external sources, whether ethical investors or determined legislators.

Effective corporate responses can depend upon three keys to sustainability, three areas in which directors and boards can provide direction and exert great influence on making things happen: transparency, resilience and innovation. Openness and transparency are important for stakeholders and reporting, if issues, possibilities and their implications are to be better understood. Resilience in coping with stresses and strains needs to be accompanied by the flexibility to adapt quickly to cope with challenges and seize opportunities. Innovation may offer the best hope of addressing a range of sustainability issues and concerns, but breakthroughs do not just drop from the sky. Boards need to create conditions that are conducive of creativity, innovation and entrepreneurship.

Boards should also consider the interrelationship of internal corporate sustainability and external environmental sustainability. This can determine the sequencing of what needs to be done, when and by whom. Thought needs to be given to how best to engage management and other stakeholders and colleagues, especially if a portfolio of initiatives and a change of priorities are required. For example, how could growth be more inclusive? Initiatives may be required that collectively benefit an organisation, its people and other stakeholders and the environment. What changes might be required to introduce more of a "triple bottom line" perspective? How should one handle the transition to a different and more sustainable business model and associated practices.

The progress of new sustainability initiatives and the impact of new regulations will need to be monitored and evaluated. Directors need to understand the scale of adjustment required, for example, whether or not a market is over-saturated. New channels of communication may have to be opened and arguments put to explain the importance of sustainability initiatives and justify and support any new funding and capital that may be required. People should be informed of why change is required and what they can do to help bring it about.

Much will depend upon consumer expectations, the state of the market, marketplace competition and competitor responses. With so many considerations to balance, being a director will continue to be challenging. Instant responses and knee jerk reactions should be avoided. Having a dialogue with stakeholders and securing buy-in to a thoughtful, balanced and responsible approach to internal and external sustainability could help to restore public faith in business. It could lead to a renewed rationale and purpose, the identification of strategic opportunities and more sustainable business and operating models, and a switch from defending the present to creating the future.

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