



ESG and Climate Governance: Questions for Directors



I *Prof. Colin Coulson-Thomas

Directors and boards vary in their interpretation of ESG aspirations, requirements and considerations, the priority they attach to them, and in their assessments of their importance to investors and other stakeholders. Some take a short-term and minimalist view and regard environmental and social factors as potential costs and/or constraints to be gamed and/or negotiated, while others are more positive and ambitious. They may look beyond steps to minimise or end negative externalities and at ways of contributing to environmental protection and/or re-generation and benefiting society. Attitudes and responses to climate change and the challenges and opportunities it creates also vary. As awareness grows of the impacts of human activity and climate change there are questions for directors to consider.

Climate Change Challenges and Opportunities

As global temperatures break through the 1.5°C Paris threshold and head towards 2°C and above, their negative impacts will extend beyond the greater frequency of extreme weather events and the fires and floods that regularly receive extensive media coverage. Habitats in which different life forms can survive will reduce, crop yields will fall, and areas of water scarcity will increase. More major cities will be threatened by sea level rises and many forms of infrastructure and various public services will suffer stress and damage. Governments at different levels currently experiencing rising demands for support and often struggling to 'balance the books' could face unprecedented levels of relocation and other impact costs.

Public finances could 'fall over a cliff', accompanied or followed by social unrest and community breakdown as people feel let



There are many ways of helping the environment, communities and societies to cope with climate change and other existential threats. Boards should ensure a balance is struck between responding to developments and being proactive.



down and/or betrayed by those who should have been 'reading the road ahead', responding while there was still time, and generally looking after their interests. Challenges, risks and existential threats have been avoided or ignored. Necessary responses have been kicked like a can down the road to future generations who are likely to be less able to effectively respond, assuming that by then it will not be too late. Realising this will be especially galling for those who feel that earlier investment in climate action in multiple areas could probably have resulted in much greater future benefits and yielded higher returns than those available in many other areas.

Current policies, targets and actions are unlikely to prevent increases in global temperatures beyond 2°C. Experience to date suggests that any optimism that disasters might be prevented could be unjustified. Given the large numbers of people, especially in developing countries, who aspire to the lifestyles of others that already appear unsustainable, what needs to change for the benefits of opportunities to be realised and the inconvenience and pain of challenges to be avoided? Given human nature, what can and should be done to persuade people in developed countries with high rates of carbon emissions per head to give up aspects of their lifestyles they enjoy and/or value, and those in developing countries with much lower emissions per head to accept and adopt lower rates of economic growth to avoid triggering tipping points after which global warming becomes unstoppable?

Assessing Whether Humanity Might and Should Survive

Various creators and pioneers of AI have concluded that its possible future development and applications represent an existential threat to humanity. Should we be surprised? Despite a succession of warnings and overwhelming scientific evidence of adverse trends, a steady flow of authoritative findings has highlighted our inadequate collective responses to global warming and climate change. Various reports provide evidence of environmental degradation, polluted oceans, declining biodiversity, and the steady extinction of other species. Given that so many people and organisations seem determined to pursue their narrow, short-term self-interests, might some forms of intelligence conclude that humans represent a threat to life on earth? If programmed to save life, could an AI application conclude that stopping harmful activities and culling humans would be preferable to the earth becoming a Venus-like planet?

An AI appraisal of attempts to be more responsible such as ESG might yield mixed results. Widespread activities such as doing just enough or the bare minimum, gaming and greenwashing might provide as much or more evidence for the prosecution than could be used for the defence of humankind. While

negative externalities persist and emissions of greenhouse gasses increase, Governments continue to pursue growth ambitions. Windows of opportunity to act decisively before certain trends become unstoppable are rapidly narrowing. How likely is it that a rational, objective and dispassionate form of rapidly evolving intelligence might conclude that humans are the problem rather than a likely source of collective solutions? With many applications of AI enabling surveillance and central control, might more authoritarian regimes also initiate further unprovoked wars of aggression?

Social Considerations

Reference has already been made to adverse environmental consequences of human activities. Melting ice sheets and rising temperature increase the levels of acidifying seas. Extreme heat and weather events can make life uncomfortable before they prove fatal. Negative externalities resulting from our actions are already accelerating before the aspirations of larger numbers of people in developing countries, and the refusal of others to give up what they have experienced, further boost them. Many companies are reluctant to acknowledge them let alone address them. What about the social dimension of ESG? Do we also see inadequate policies, standards and codes, and efforts to achieve easier to reach objectives, while more difficult ones and many negative impacts are often not considered?

Indicators such as rising deaths of older people in heatwaves, or the incidence of respiratory problems among children in urban areas, suggest undesirable community and social impacts are occurring. Is there also a growing disconnect or gulf between the desires of people for gainful employment and meaningful work and prevailing corporate priorities and practices? For example, are digital technologies being used to enrich, empower and develop the skills of employees and widen their horizons, or to automate, standardise and control them, and replace people with technology? What about consequences for the job and career prospects of young people joining the labour market or the local communities to which they belong?

Who benefits from contemporary automation and development practices? Are current policies and priorities further advantaging a favoured few at the expense of many others? In many countries growing numbers of poorer and less well-educated people have experienced falling real incomes and inequality has increased. Will rhetoric about inclusive societies be matched by its achievement? Is the priority of many boards to make work more enjoyable, productive and rewarding for people by better helping and supporting them, or is it to develop ever more applications of technology to replace them? Despite fine words about the importance of employees, in practice are many boards investing in technology rather than people? Are they replacing people with smart machines that require scarce

natural capital to manufacture and operate, rather than looking for new roles, tasks or activities that people could undertake?

Allocating Responsibilities

If environmental and social outcomes are compounding challenges such as existential threats, rather than ameliorating them, and their root causes are not being effectively addressed, who should be held accountable? When just about everyone has some role to play, to what extent are corporate boards and/or stakeholders, public bodies, Governments, regulators, standard setters, city, urban and rural authorities, local communities or citizens responsible? Are they all affected in an adverse way by deficiencies in the human psyche, certain drives and particular individual and collective behaviours? Are too many involved parties still pursuing zero-sum games and seeking advantage when what is required is collaboration and effective action for the common good? Is there a problem with players, or with how they interact?

When trying to reconcile diverse interests and navigate a path through relatively dense networks of differing expectations and requirements, are we losing sight of what is important and what most needs to be done? Within the mix of factors that determines outcomes, how might corporate boards play a more significant role in influencing and determining priorities, re-allocating resources, arranging and ensuring appropriate finance, and removing blockages? What priority should be given to certain relationships? Are changes in governance, innovation, and investment approaches, policies, priorities and practices required? What might this mean for boards and their members? Will they step up or continue as before?

Inspiring Re-purposing and Re-invention

The fact that ESG exists, along with the roles, regulations, approaches, codes, models, standards, policies and practices associated with it, suggests there must be a feeling that more needs to be done in relation to environmental, social and governance responsibilities. Why is this necessary? Why are so many people willing to tolerate negative externalities, such as discharges of raw sewage and plastic waste into rivers and the sea? Why are they so unconcerned about the consequences of their activities and lifestyles, or the natural capital requirements of future generations? Why do so many people, including directors, take the easy route of incremental change and reluctant adjustment, or tolerate the marginalisation of certain groups and the replacement of human input?

Are some people unaware of the satisfaction that can come from taking what might be the more difficult path of re-purposing and re-invention that could allow responsible and sustainable growth? Such a path might create the headroom to

transform the lives of millions of people in developing countries without triggering tipping points to disaster. What needs to be done for people and organisations to pursue different and more responsible environmental and social goals? How might business and political leaders become more inspirational? What could and should different stakeholders do differently to encourage directors and boards to be more ambitious in recognising and addressing negative externalities, and also accelerating transition and transformation journeys?

Environmental and social aspirations, objectives and priorities could be integral elements of the purpose of a company and the goals and objectives that derive from it. Rather than adopt a standard approach, a board could pursue policies and priorities that reflect the contexts in which it operates. Social priorities could reflect the aspirations of communities and societies affected by corporate activities and operations. Greater automation and AI enabled applications might be appropriate for developed countries facing labour shortages and with aging and perhaps declining populations. However, in developing countries with growing populations, should the social priority be to provide job opportunities for young people joining the labour market each year?

Responsible Aspirations and Strategies

Boards should look beyond survival and work for the longer-term viability and success of a company. How many of them are prioritising the identification and elimination of negative externalities that have harmful environmental and social impacts? Should they also ensure that what they seek to do is achievable and sustainable? Certain minerals for which there is a growing demand are already in short supply. Mining operations to access new reserves and deliver from them take time to come on stream. Substitutes may not be easy to find or develop. Early in the lifecycles of new waves of offerings, available raw material supplies may dry up before recovery operations from products bought by early adopters become available for recycling at the end of their useful lives and are able to meet demand.

Are different approaches to climate governance required? Are the mechanisms, processes and structures of governance responsible for inadequate collective responses, or is the root cause of 'too little, too late' assessments of corporate initiatives and responses the attitudes, values and motivations of directors and the strategic direction they provide? Are too many boards content to carry on as before, doing just enough in relation to legal, regulatory and reporting requirements, keeping in with vested interests and powerful players, and endeavouring not to 'rock the boat' or 'create waves'? Do they think critically, probe, question and provide challenge? How committed are they to climate change action?

Aligning and Integrating the Elements of ESG

Some of the most pressing exogenous challenges, global risks and existential threats are inter-related and they share certain root causes. Addressing the latter should reduce the negative impact of the former. Effective climate governance action that impacts the drivers of global warming and climate change could benefit both the environment and society. Boards that care should take a holistic view that embraces the three elements of ESG and endeavour to ensure they are better aligned, combined and integrated, and that future purpose, aspirations, aims, objectives, policies and priorities are imaginative, motivational and more ambitious, responsible and sustainable. To speed up responses and action, initiatives and projects should also be pursued simultaneously rather than sequentially.

There are many ways of helping the environment, communities and societies to cope with climate change and other existential threats. Boards should ensure a balance is struck between responding to developments and being proactive, for example ensuring processes are in place for identifying, assessing and prioritising harmful impacts and negative externalities. Might a more positive approach lead to collaborative and well as competitive and early mover advantage, and progress towards a more socially and environmentally responsible form of capitalism? In relation to inclusivity, how should the interests of younger people, future generations, and other species be recognised, established and addressed? What governance changes might better enable required cooperation, collaboration and collective responses?

Are there models of governance that might be more appropriate for boards that view their companies as a network of relationships working together, rather than as a self-contained entity? There may be a requirement to collaborate and agree a common purpose and goals and collective action, when or where the interests and cultures of the parties may vary and not all objectives might be shared. Some boards adhere to a shareholder perspective, while others may be more sympathetic to a stakeholder model of governance and capitalism. How far might a board want to go in relation to sustainability practice and reporting? Should ensuring sustainability and enabling collective responses to existential threats such as climate change be the main purpose of governance and board policies and strategic direction?

Perspectives, Motivations and Priorities of Directors

Events can move more quickly than the periodic consultations and reviews associated with changes to company law. Do those relating to corporate governance tend to lead to incremental evolution rather than root and branch reform? For many

directors, is it a question of how far can they go to secure the support they need, given the legal, regulatory and reporting frameworks within which they are required to operate? There may be scope for directors to make a difference in areas as varied as corporate contribution to building more climate resilient communities and societies, creating job opportunities, protecting and restoring the environment, reducing carbon emissions and the use of fossil fuels, or supporting, enabling and speeding up responsible lifestyle transitions and transformations. Critical thinking and greater diversity in corporate boardrooms are required.

The nature of growth and its environmental impacts and social consequences may be more important than its quantity. Growth per se, may or may not be responsible, sustainable or desirable. Engagement and conversations with ESG investors and other stakeholders may need to be given a higher priority, especially in relation to existential threats and the use of scarce public goods and natural capital. Constraints and limits should be tested rather than assumed. Greater ambition and candour in relation to contributions and negative impacts may be needed to establish the trust required for effective collaboration and collective action. They may also be desirable if opportunities accompanying existential threats and strategic risks are to be seized. Infrastructures, built environments and a variety of activities, operations and services may have to be reviewed, redesigned, remodelled or relocated.

The perspectives, motivations and priorities of directors and the focus and purpose of innovation and investment can be of critical importance. Ideally, they should address priority risks and threats, be affordable, cost-effective, flexible, easy to adopt and adapt, inclusive, and economical in their claims upon scarce natural capital. Could the conduct of directors, boards and corporate, community and societal leaders cause an AI enabled assessment to conclude that their stated values and ethical principles are often not observed? An evaluation of differing reactions to Russia's illegal, unprovoked and brutal invasion of Ukraine reveals responses ranging from support for the victim of aggression, through neutrality to increased business with the aggressor. The war's consequences now include the ecological disaster of the breaching of the Nova Kakhovka dam. Will directors do enough for an AI appraisal to conclude that there is still hope that future human impacts on our planet may turn positive? ■

**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.*