

New Year Reflections and Policies for Planetary Responsibilities

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A new year can be a time of reflection and an opportunity to take stock of wider developments affecting companies and the communities and societies in which they operate. Directors and boards face a combination of looming inter-related challenges, global risks, and existential threats. These require collective action from a planetary perspective, in which companies will need to play a part if they are to be successful. Hence, they cannot be ignored. The consequences of failing to grasp nettles while there may still be time could be fatal.

Board priorities and boardroom practices for 2024 will depend upon the extent to which directors recognise realities, widen their perspectives, and change direction to address the consequences of past decisions and policies that now threaten our collective survival. Boards need to anticipate and innovate, confront vulnerabilities and possibilities, and act to initiate, enable, and support the required transition and transformation journeys. Corporate, collective, and community purposes and strategies need to be more focused, flexible, and resilient.

Greenhouse gas emissions continue to rise. Scientific reactions suggest that what was agreed at COP 28 in Dubai is unlikely to limit global temperatures to not more than 1.5 °C above pre-industrial levels. Unless collective action is stepped up and front-loaded, the time available before the situation becomes irrecoverable is limited. COP decisions require consensus. They are limited by fossil fuel interests and short-term national objectives. Our shared prospects now depend on board priorities for inspiring and creating sustainable lifestyles and societies.

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Recognising realities

Some boards seem reluctant to look ahead, widen their perspective, see a bigger picture, and recognise realities and responsibilities to ecosystems, the environment, and future generations. They might be content with current approaches to sustainability and ESG. Comparisons are made with what others do rather than with what they ought to be doing. Ethical issues that conflict with 'business' may be ignored, and geopolitical questions, scientific reports, wider discussions, and existential threats may be left to governments. Warnings are disregarded.

Following a year of record temperatures, people and their organisations, communities, and societies face a climate catastrophe and, for many, a shortage of potable water. A previous international order is fracturing and transitioning to a less stable and multipolar world. People are already dying from heat, pollution, and hot wars. A global extinction of other species is occurring. Mass migrations are underway. As the world's population increases, further areas cease to be habitable and food becomes scarce; millions more could be on the move.

In some countries, infrastructure and systems are already struggling to cope. Law and order may be increasingly difficult to maintain, especially in democratic societies where views are expressed. As less value is placed upon labour in information societies and inequalities increase, some of those who feel excluded and ignored may take direct action. Those seeking escape from reality by retreating into virtual worlds might be unable to stop them. Directors and boards may need to widen their perspectives and review their responsibilities.

Embracing a bigger picture

All is not well with our planet and its ecosystems. The consequences of human activities are not sustainable. The UN's 2023 Sustainable Development Goals Report suggests the SDGs agreed in 2015 will not be achieved by 2030. Published as a half-way review ahead of the SDG Summit convened by the President of the UN General Assembly, it reported that the impacts of the climate crisis and COVID-19 pandemic, the war in Ukraine, and a weak global economy have hindered progress. It also identifies areas in which urgent action is needed.

Many of the world's poorest and most vulnerable people are likely to feel the greatest impacts of anticipated changes unless more dramatic steps are taken. This will require a level of political leadership that has hitherto been lacking, despite available technologies, resources, and knowledge, and immediate action in place of rhetoric about future intentions. The pre-COP 28 stocktake report said that the Paris Agreement global temperature objectives are unlikely to be met. Current pledges and actions are insufficient to prevent a climate catastrophe.

The overall impacts of too many government policies are increasing the challenge of global warming. For example, the IMF's 2023 update of fossil fuel subsidy data estimates that globally, these were \$7 trillion in 2022. What happens after COP 28 will be evidence of whether governments finally act to curb them. Some discussions can distract from the need for faster progress in tackling root causes, whether phasing out the production and use of fossil fuels or transforming food systems that create a third of human-generated greenhouse gas emissions.

Addressing multiple challenges

The challenges, risks, and existential threats faced by corporate boards and the opportunities that accompany them are often interrelated and interdependent. So too are areas of responsibility relating to them, whether economic, social, or environmental. Addressing them individually and in isolation may have an adverse impact on the others. In some cases, they also should not be pursued sequentially. There simply may not be time before they become critical. They need to be considered holistically and addressed together and simultaneously.

How might this be done? Does progressing in the interests of some people or stakeholders inevitably mean that others are likely to be disadvantaged? Too narrow a perspective and focus can increase the risk of negative externalities. Boards have long had to balance the contending interests of different stakeholder groups, doing enough to retain desired loyalties and relationships but not so much that investment in remaining current and competitive is compromised. Some resources need to be devoted to ensuring a company's future success.

When there are difficult choices to make, corporate considerations generally come first. Personal interests and those of colleagues and others, such as customers, who may be regarded as 'insiders', are regularly given priority over those of outsiders. Those with power and influence, leverage, and the law on their side usually have more clout than those who are dependent or vulnerable. Notions of fairness or what is ethical may moderate actions to some degree, and directors are encouraged to be socially and environmentally responsible.

Reading the road ahead

A new year can also be a good time to reassess the continuing and future relevance of current assumptions, positions, and practices and one's contribution as a director in the light of emerging trends and likely future developments. Directors who are overly concerned with keeping in with today's insiders may miss the dynamics of what is happening elsewhere, overlook 'outsider' views that are gaining momentum, and underestimate the extent to which existing positions are being undermined or questioned. They may be building on foundations of sand.

Increasingly, the scientific evidence suggests that traditional moderators and past attempts to encourage many decision-makers to widen their perspectives and think more broadly are not producing the changes in activities and lifestyles needed for collective human survival in the face of a threat such as climate change. In too many cases, where decision makers feel they 'can get away with it' and insiders will benefit, negative externalities and impacts, as well as ethical and legal considerations, are ignored in favour of 'profit' and 'growth'.

Does this mean that human societies are inevitably doomed? Perhaps, but not necessarily. Throughout history, while some communities, empires, and civilisations have come and gone, others have responded to existential threats and survived. Enough people have recognised the need to see a bigger picture and work with others previously seen as 'outsiders', whether the next village or a foreign country, to cooperate and respond to what previously seemed an insuperable challenge. Collective actions occurred while they could still affect outcomes.

Widening directorial perspectives

Direction is often distinguished from management in terms of perspective. That of directors should embrace the whole, and increasingly, this needs to extend beyond an organisation to its supply chain and the wider context within which it operates. Whatever one unit or function does or achieves may count for little if the whole is threatened and other teams are not pulling their weight or rowing in different directions. Collaboration and alignment of interests and efforts may be required to cope and survive. Too many boards fail to anticipate and prepare.

In the light of discussions at COP 28 and IOD's recent International Conference for Corporate Social Responsibility, what about the planetary responsibilities of boards? In terms of new-year resolutions, what should responsible directors focus on and what should they be wary of? As more people become aware of the negative impacts of many activities on the environment and corporate contributions to global warming, a tipping point may be reached at which public reactions become better organised and more vocal and determined.

As young people and other 'outsiders' who are concerned about the environment and climate change become customers and influential insiders upon whom the future of businesses depends, many companies may face greater challenges. Enterprises offering less damaging and more environmentally and socially responsible alternatives and substitutes may cream off their more lucrative customers and their most talented employees. Their boards may be left with stranded assets, drones, and crawl-out costs. Some directors, risk missing the tide.

Recognising vulnerabilities and being ahead of the wave

The forces of change have the power to sweep away previously profitable endeavours. Directors who are supposed to be monitoring what is happening in the contexts in which their companies are operating may lack awareness and foresight. When they finally react with the conviction and drive to have an impact, it may be too late for anything other than salvage operations. Few threats have been as trumpeted as the impacts of global warming and climate change, or heralded as starkly as

the extreme weather events that occur with greater frequency and ferocity.

Rather than continue to avoid, downplay, or conceal negative externalities, 2024 could be the year for complacent or confirmed laggards to finally identify, assess, and value them, determine which activities need to be phased out, establish end dates, and set up task forces to achieve the required closures, transitions, and transformations. Areas of opportunity for replacement and more responsible offerings, alternative uses of capabilities, and possible substitutes should be prioritised, and potential partners or collaborators identified.

Activities and operations likely to be targeted by others should likewise be recognised. Some enterprises initially viewed as external threats might become potential collaborators if approached in the right way. Perhaps indigenous leaders could become advocates. Reskilling and financing plans may also be required. Proactively undertaking these activities as a director may be more responsible, fulfilling, and better for one's personal reputation than continuing to do 'too little, too late' and later being replaced by a liquidator or receiver.

Doing more with less

For many companies and national economies, a major vulnerability is running out of increasingly scarce natural capital and raw materials at an affordable price, while postponing transition to more sustainable activities and operations can lead to a rapid growth of future costs. Critical minerals are not evenly spread around the globe. They are often concentrated in certain places, with most of the available reserves already spoken for or controlled by a few players. New sources of supply can take a long time to come on stream.

As they affect more people, negative externalities from current operations may no longer be tolerated. Innovation and increasing productivity by achieving more with less while delivering more positive and fewer negative externalities may create more value for stakeholders while damaging impacts and transition costs are reduced. Growth without a focus on efficiency, effectiveness, and productivity may only be possible in a rapidly growing economy while it is still able to obtain the natural capital, raw materials, and minerals it needs.

Whether and for how long many current operations can continue is problematic. Adjustment, transition, and transformation are easier to accomplish without social unrest when more value can be delivered as a result of productivity increases, especially greater output per unit of scarce resources. At some point, failing SDGs, continuing global warming, growing alienation and inequality, and mass migrations may trigger instability and more disruptive and violent reactions from those who feel excluded. Postponing action can cause greater future problems.

Making difficult decisions

For directors and boards, things that may be easy to advocate for are sometimes difficult to achieve. Advance preparation can reduce the height of hurdles around the point at which difficult decisions should be taken. Action to scale down or eliminate negative externalities is sometimes avoided or postponed. Those that arise within a company's supply chain and/or from the use of its offerings may account for much of its environmental footprint. They should be monitored, reported, and tackled rather than ignored.

The negative externalities of corporate activities should ideally be avoided. They should not exceed the margins gained at prices customers are prepared to pay for essential offerings produced. The collection of data and net impact calculations may enable activities to be ranked in the order in which they contribute a net value surplus and have a future. This may reveal some offerings that should be phased out and others with declining margins that are at risk. Alternative uses for the capabilities and resources devoted to them could be investigated.

How a difficult decision is taken and implemented can distinguish a responsible board. Retraining and a period of adjustment or transition might be required. Consultation with key stakeholders may be desirable and advisable. Collaboration with local communities and other organisations might be possible. Directors should exercise independent judgement and form their own opinions rather than follow the herd. There may be a clear first mover advantage, for example, where alternative uses for plants and/or recycling and recovery capacity are limited.

Reviewing purpose, strategy and priorities

A period of reflection is an opportunity to review corporate purpose, strategy, and priorities. The perspectives of directors should be wider than those of managers. If we are to deal with the challenges, risks, and existential threats we face, both directorial and government perceptions of their responsibilities should be from a planetary perspective. Could power and influence be used to prevent the demise of human societies and ensure the well-being of global ecosystems? Might a common cause and purpose enable public-private collaboration?

Should we no longer consider people elsewhere whose activities affect us as 'outsiders'? How might corporate responsibilities extend to other species and the biodiversity required to ensure future food supply and eco-system health? Governments and boards could put more emphasis on leading and influencing aspirations, expectations, and opinions rather than following and responding to them. Corporate communications could increase awareness of the negative impacts of

certain decisions and how to achieve more responsible results.

Hitherto, and from a short-term perspective, many companies have focused on reacting to customer demand with limited consideration of possible outcomes. They have supplied what boards think customers are seeking without explaining consequences or offering acceptable & desirable alternatives. Too many people want benefits without the obligation to deal with their negative impacts on others and the environment. How might prices, penalties, and incentives address externalities and ensure responsible cost-benefit assessments?

Approaching thresholds and collective possibilities

Discussion at COP28 suggests widespread disquiet about the lack of progress in addressing global warming and climate change. We risk triggering the remaining tipping points, after which global warming becomes unstoppable. A climate emergency requires crisis responses, radical innovation, and disruptive strategies. Rapidly increasing crawl-out costs suggest we are approaching thresholds after which recovery might be neither affordable nor possible. Widespread liquidations, community breakdowns, disorder, and violence could result.

New approaches and innovations will take time to come on stream. Many, at an early stage, require acceleration. Multiple claims for financial and physical resources are increasing at what seems to be an exponential rate. An accumulation of traditional measures, such as additional reporting requirements, can impose additional burdens on companies and lead to ever longer annual reports and accounts. A broader and planetary perspective is now required if we are to deal with global extinctions already occurring and others on the way.

Corporate calls for public policies that deliver the certainty and stability that boards seek before making significant investments can lead to government reluctance to take the required radical action. Narrow and short-term perspectives may lead to the demise of democracies and economic systems that are not resilient and/or unable to cope with current uncertainty and likely instability. Anticipating and addressing challenges, risks, and threats from a planetary perspective could lead to public-private action and global collaborative advantage. ■

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