ARTICLE

Implementing Board Policies in Diversified Companies and Groups

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COP 28 discussions in Dubai and issues arising highlight the challenges that boards can face when determining and implementing corporate responses to existential threats, whether global warming and climate change, declining biodiversity, or AI and particularly AGI. There may be entrenched vested interests to overcome, differing concerns to address, and a variety of conflicting perspectives and priorities to reconcile or confront, when significant changes of strategic direction are required or being considered. Current collective activities, operations and lifestyles are unsustainable, but Governments and corporate boards still pursue ambitious growth ambitions. As consumers and electors we also want and demand ever more, seemingly irrespective of the negative consequences for ecosystems and future generations.

Discussions at the forthcoming **18th International Conference on Corporate Social Responsibility (ICCSR)** may need to confront dilemmas that many boards face as a result of the continuing incentivisation of fossil fuel exploration, extraction and use, and resulting greenhouse gas emissions, while the dramatic action needed to ensure our survival continues to be delayed and the gaps between promises made and subsequent delivery often grow. With so many people wanting to continue as before and sustain current practices, collective progress is often limited by the pace of the slowest. The scale of adjustment needed increases with every year of delay. What are the prospects of leaders at any level ever taking necessary and radical decisions that are likely to be unwelcome and may be actively opposed?

Shared existential threats may impact almost all parts of many organisations, which is why they might appear on board agendas. They cannot be simply given to a particular person, department or function to address. People and different groups, teams and units across an organisation may have to respond in distinct ways according to how they might be affected and can best adapt and cope and/or contribute to a wider response. At what point will delay in the hope of a critical mass of people and organisations accepting the need for radical change trigger more tipping points, after which global warming becomes unstoppable? Are we already too far down the slippery slope to recover? How might boards implement unpopular policies and ensure their adoption takes account of local contexts and potential contributions?

Differing response requirements

A total organisational response may require a diversity of individual and other actions and reactions depending upon local situations, circumstances and capabilities. Such a diversity of approaches and activities may extend across a supply or value chain. What the most appropriate response or contribution should be at a particular point might be best decided at a local level. At the same time, an inappropriate response or lack of vigilance at any point might lead to reputational damage, financial loss, harm to the environment, or threat to human life. People might need to respond differently, but risks may still have to be managed, changes aligned to be consistent and coordinated, and progress monitored and reported.

If more people are to be involved in a greater variety of responses, boards may need to review what should be delegated to whom, where, when, and how, and revisit the accompanying checks, balances and reports that might be required if directors are to receive the assurances that will enable them to feel comfortable with their accountabilities, duties and responsibilities. Much will depend upon trust, and whether those to whom responses and contributions are delegated can be relied upon to behave and act responsibly. There may be some matters that are best handled centrally at head office or group level, and others that would be more usefully determined locally. Might more flexibility enable faster progress?

The greater the diversity of activities, functions or businesses within a group, the more scope there might be for disagreement on what should be prioritized and undertaken at each level. Too much central control might constrain and limit creativity, imagination, innovation and entrepreneurship across a group. Too little, may result in fragmentation and incompatible, conflicting and even undesirable responses and initiatives from certain interests or units. Getting the balance right can be especially challenging in a group of fundamentally different businesses that may be impacted by events and sought changes in dissimilar ways and adversely. Views may also vary according to role and position within a corporate structure.

Determining the balance between uniformity and diversity

Discussions of corporate policies and cultures sometimes assume they should be common across a large organisation or a group of companies. To what extent should they be consistent or compatible rather than the same if an organisation is made up of a diversity of specialised and distinct departments, functions and/or business units, or a group includes fundamentally different companies? The challenges, opportunities and requirements for success they experience may differ considerably, yet much effort is sometimes devoted to creating standard approaches where greater diversity might be advantageous. Could those closer to a situation, impacts or customers be in a better position to judge what would be appropriate?

If significant differences exist, where and/or when should divergence and coordination be favoured, rather than mandating that common and standard approaches be adopted? Should culture and practices be contextual and relevant for those concerned and their roles, rather than uniform and imposed? Boards sometimes grapple with the effective implementation of group solutions at the level of individual units or companies, for which they may not be relevant. A challenge may be viewed as local aversion to centralised corporate ideas, rather than as an indicator that amendment might better suit local application. Perhaps a board should encourage greater respect for diversity in the implementation of shared goals.

While aims might be common, would it be better for diverse teams to determine their own routes to achieving them? More directors might usefully question what should be common and what might be best left to others to determine what would be most appropriate. When time is running out for effective responses to some existential threats, simultaneously pursuing a variety of initiatives may be less risky and more responsible than sequentially testing single possible solutions. The current preferred common or standard approach may also need review or even be misguided. Things may need to be done differently to confront contemporary global risks or evolving existential threats. Excessive reliance upon a small and relatively homogenous group that may exhibit groupthink can be limiting, compared with the encouragement of responsible critical thinking and diversity across an organisation.

Revisiting the rational for diversity

Diversity across an organisation or group of companies could be the result of different units, functions or teams evolving approaches, practices and ways of working that best enable them to discharge their responsibilities. A diverse group of companies could be the result of historical evolution, specialisation and acquisition. It might be a consequence of many people doing what they felt was right at the time. Attempts to impose a standard approach or culture might lead to the loss of much of the value of what has been acquired or evolved, and the departure of key people who want to continue to operate in a way more conducive of success.

Businesses within a group may experience a variety of differing customer, market and other requirements, and in some cases possibly a mix of ownerships. A group or holding company board may have pursued a past diversification strategy to spread risks and preserve differences appropriate to each business. Within a group's portfolio of businesses, might be those separated for various reasons such as a prelude to buy-out or divestment, or to ring fence, close them down, or create opportunities for future buyouts or private equity involvements. It may not be the right time for the imposition of corporate standards and its distractions. A degree of separation may also make it easier to attract dedicated investment.

Group standards, especially inappropriate ones, and allocations of head office and/or group overheads can constrain and even kill viable business units that might prosper if set free. Their potential and opportunities are often best appreciated by those in the front line and close to customers and their changing requirements. Rather than grapple with organisational politics and head office bureaucrats whose priorities are elsewhere, how many boards are even aware of the disquiet that might exist in some business units that senior executives are trying to reign in? Do they under-estimate disunity? Is the release of overlooked value and pursuit of opportunities too often left to asset strippers and those who instigate buyouts?

Differing perspectives within an organisation and/or group

Views may differ on what is best done where, within and across an organisation and/or group of companies that might either be relatively homogenous or diversified. Central direction and local implementation may be an inadequate response to diversity when policy and strategy adoption by various entities and units might need to reflect their differing local requirements for successful operation. A purpose might be shared and a threat common, but their impacts may vary. At a local, function or business unit level, distinct imperatives, opportunities and issues might arise. There could be winners and losers. One activity or community of people may be no longer required, while another could be viewed as the key to a sustainable future.

Significant differences of perspective and priorities may arise between group and individual entity boards, and between head office executives and local management. Good relationships can be easier to maintain when there is overall growth and a surplus to allocate. Downsizing and discontinuing operations can exacerbate hidden sensitivities and divisions. People can become defensive. Families that own businesses may divide. Old rivalries may be replaced by new alliances, with associated internal politics and jostling within supply and value chains. Stakeholders might also have differing positions. Some of them may face lobbying from certain sectional interests. Predators and private equity investors sometimes circle a large company or group known to be under pressure, or otherwise likely to be broken up.

The nature and scale of change needed to cope with an existential threat may cause some boards to review their priorities and consider the form of leadership they provide. Should they continue to endeavour to hold a group together when value might be released by allowing some business units to go their own way? Ought a board revisit the discretion given to different entities? Directors might also reconsider where they strike the balance between top down and bottom up leadership, and whether it needs to be the same for all parts of an organisation and/or all entities within a group. Urgency and crises can encourage central direction. As the complexity of issues grow, and impacts and required responses increasingly differ, boards that still practice them may forgo traditional command and control approaches to leadership in favour of more consensual forms of listening and shared leadership.

Recognising issues that can arise

Differing perspectives, impacts and potential responses can give rise to disagreement on the allocation of roles and responsibilities. Additional legal, regulatory, listing, reporting and other requirements can increase central and group overheads, encourage suspicion of head office empire building, and lead to disputes about how centrally incurred costs should be allocated to business units. Ideally, every effort should be made to reduce group overheads, as allocating them, and successive re-allocation as marginal units and entities cease to appear viable, might result in the last one standing shouldering all of a group's central costs. Group practices and proposals sometimes trigger debates on the relative merits of greater independence as opposed to more central control, and of persuasion versus imposition.

A lack of diversity can increase the risk of groupthink, while the encouragement of differences may lead to silo thinking and increase the risk of fragmentation. Focusing on a shared external threat to achieve greater unity, might lead some entities within a group to conclude that independence could give them more of a chance of survival and re-invention or transformation. Sometimes the business units wishing to leave are those a group would most like to retain. Directors and boards face multiple dilemmas when drastic action needs to be taken and quickly. Is there a common solution to implement, or does what is required vary in different parts of an organisation or group? If an attempt is to be made to impose a standard solution, how flexible should a board be to ensure both implementation and compliance?

In relation to climate change, as loss and damages claims; rescue, health, relocation and social expenditures; and infrastructure repair and replacement costs increase, negative externalities may 'come back to haunt' in the form of extra taxes, penalties and other charges. Mandatory action may be imposed on a business. There may be little time to consider fairness when required responses are allocated. A board may struggle to retain control. What mix of incentives and/or penalties might be employed? How should transgressions and outliers be dealt with? From whom might guidance be sought? Who decides what to do in meltdown situations? Should boards be better prepared? Perhaps ends or outcomes could be prescribed, but discretion given as to the best means of attaining them, or the path taken to reach them.

Dealing with aversion to central initiatives

Boards should address realities. Collectively, we need to do more and quickly to reduce greenhouse gas emissions and the use of fossil fuels. It's necessary to do things differently with more diversity, and innovation. Radical transition and transformation are urgently needed. To moderate their social costs, flexible and contextual implementation could be desirable. That enough is not already being done, suggests boards cannot wait and some central impetus and initiatives will be required. Should discussion at the 18th ICCSR shift from the promises of others and good intentions to measures that directors and boards ought to take now to build a consensus in favour of more radical action and larger steps?

A board could begin by assessing where various groups, communities, functions, units and entities within a company or group are in terms of: awareness of existential threats, and particularly climate change; understanding its implications, impacts and consequences; acceptance of the need for immediate and far-reaching change; and its internalisation in terms of their role and what they can contribute in response, and the adoption of an action plan. This might enable a board to determine corporate appetite, readiness and capability to act and where, when and with whom to start. Identified implementation, transition and transformation issues and requirements should be explored, assessed, and adopted or shared where relevant.

Some organisations and their boards still largely operate as if in a 'business as usual' rather than a 'crisis' mode. They leave responses to existential threats and global risks to those like Governments who are not rising to the challenge with sufficient urgency. This may be because they face even greater challenges in terms of differences of perspective, contending and vested interests, and potential harm from the imposition of national measures that may not be appropriate in all situations and circumstances. The risks of organised opposition and disorder may also be greater at the national level. Corporate boards should not underestimate their discretion to act and the potential influence they could exert as a relatively trusted source through involvement and engagement with stakeholders, and articulation of a shared purpose to survive and visions of desirable, resilient and sustainable alternative lifestyles.

Embracing more responsible outcomes

Prepared boards recognise that radical measures can arouse strong emotions. They identify and monitor supporters, opponents and potential allies. Post industrial goals, different priorities and living in harmony with the natural world may be more in tune with traditional values than current relentless drives to deplete natural capital that will be required by future generations. They might also be more aligned to UN Sustainable Development Goals (SDGs). Both helps and hinders might be found in legislative, legal, regulatory, license, contractual and/or national COP commitments. Could these be built upon or mitigated? Market, stakeholder or supply and value chain pressures might vary. Some may be benign while others are hostile. Smart boards work with the grain and the likeminded. They are open to internal and external ideas and collaborate in joint and collective responses.

When responding to shared challenges, risks and existential threats, greater diversity may benefit corporate and collective responses. Challenge and critical thinking can lead to more acceptable central policies and speed up their adoption, implementation and internalisation. Boards should recognise the dangers of groupthink. Diversity of gender, age, ethnicity, nationality, culture, disability, religion and other factors can be beneficial. Boards should create conditions and environments in which it can flourish. Social diversity and differences of perspective, aspirations and thinking, within workgroups are sometimes lacking. There might be local homogeneity within a wider and more diverse group, if 'birds of a feather flock together'. While targets and quotas may be suggested, diversity to suit each context and opportunity might better enable effective total organization responses to existential threats. ■

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