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Corporate Responsibilities: Prioritisation and Reporting

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Directors face multiple challenges, imperatives, and stakeholder requirements. These can arise from internal business model and strategy drivers and/or external developments in the legal, regulatory, and geopolitical contexts in which companies operate. Issues are often interrelated, and different interests sometimes conflict. Chief Officers and other executives reporting to them grapple with understanding and aligning a host of different approaches, codes, exigencies, frameworks, and guidelines relating to their particular responsibilities. Their inputs to directors may need to be reconciled with those received from other business units and functions. How might CEOs and boards best handle the flow of internal and external advice, demands, and recommendations they receive from differing perspectives, most of which are ostensibly potentially beneficial? What issues should directors consider when prioritising and ensuring responsible and justifiable actions and responses?

Providing Responsible Direction

Many directors and boards aspire to provide responsible direction and leadership. Their core accountabilities and responsibilities are set out in company legislation. Their personal and corporate responsibilities can also be found in multiple laws and applicable regulations, which reflect government priorities and public hopes and expectations. They might also be subject to various codes, and there may be licence conditions to take into account. Some requirements might be mandatory, while others are voluntary. Interpretation and guidance may be needed to determine applicability, relevance, and responses. Such is their nature and number that many directors seek advice from others. Beyond an inner and essential core, there may be concentric rings of possible responsibilities to various interests. Within these, directors may have discretion to determine to whom they should be or feel accountable, when, and for what. Boards may also need to agree on what behaviour is or would be 'responsible'.

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Actions in support of UN sustainable development goals (SDGs) and addressing a common existential threat such as climate change could be regarded as responsible. However, views may differ on what is sustainable, when action should be taken, by whom, and what form it should take. Advice received from different professionals and views within and across stakeholder groups may also vary. Finite available time, corporate capabilities, and financial resources may limit the number of possible responses and their form and extent. Penalties and other sanctions for contraventions and/or reactions to being thought 'not to be doing enough' may be uncertain. Some directors are unsure, cautious, and circumspect. They may satisfice and wait for others to respond to their initial moves before taking further steps. Others are more pro-active and inwardly directed. Whether driven by values, feelings, evidence, and/or a sense of purpose, they endeavour to do what they consider is right in the circumstances.

Corporate and Collective Responsibility

Board decisions can result from interplay of personalities. Looking ahead at anticipated developments such as the impacts of global warming, decisions on the sequencing and timing of required preparatory, adaptation, mitigation, and transition actions could have significant economic, financial, environmental, and social consequences. Recent events have shown that community infrastructure as well as people and organisations are at risk. Many communities, from settlements to cities, will need to be relocated to more habitable locations and/or redesigned and rebuilt to become more resilient and sustainable. Governments assembling in Dubai for COP28 face heavy potential expenditures and tough financing decisions. Hitherto, many decision-makers have displayed a tendency to delay grasping nettles. Should they and boards put off making hard calls when the costs of future action may rise exponentially but the prospects of collective action and collaboration may increase as concerns mount?

When stakeholder positions, views, and preferences are uncertain or perceived as shifting but are currently unknown, directors should engage in order to better judge the mood and possible reactions to different courses of action. This is not an abdication of responsibility, but a prudent course of action. Understanding and monitoring the changing concerns, expectations, and requirements of different stakeholder groups can inform judgements of what might be possible, welcomed or opposed, and regarded by them as acceptable and responsible. Authoritative reports have concluded that collective responses to climate change are 'too little, too late'. Members of each stakeholder group may have ways of advancing or harming a company's prospects. Understanding points at which corporate actions or responses may switch from being regarded as responsible to being viewed as irresponsible can be helpful.

Prioritising Responsibilities

There are many ways of prioritising the areas in which a board might wish a company to be more active and/or responsible and focusing on the most important ones. These can range from the ranking of risks and customers, other stakeholders, resource and financing requirements, comparative advantages, and where a board feels corporate action could have the greatest impact. The latter may be more responsible than just doing things to 'look good' regardless of actual outcomes. In areas such as contextual, economic, financial, or global risk, annual WEF and other periodic assessments are available. Perceived difficulty, supportive communities or public bodies, related opportunities, or the availability of complementary partners and/or infrastructure could influence prioritisation. One could consciously look for potential to quickly scale up or be inclusive in terms of those who would benefit. Priorities that further community aspirations or government objectives might secure welcome support.

Some initiatives are self-contained and could possibly lead to a dead end. Others might result in further opportunities or open doors to desirable collaborative partners, new sources of funding, or earlier involvement with a promising technology. The context in which a company operates often influences prioritisation, for example, the proximity of a supportive hub, cluster, a local university, or other sources of relevant and high-level skills. Practical considerations such as local planning requirements, the availability of a usable site, or either access to or ownership of relevant know-how and intellectual property could be significant prioritisation factors. Favourable regulations, financial incentives, and the lack of any evident or anticipated opposition might also affect selection decisions.

Rankings could be provisional, subject to further developments and/or investigations of dependencies. Factors sometimes overlooked include whether a substitute is available or an alternative to an activity of concern exists, and the time it might take to bring these on stream. What external parties might perceive as procrastination might be because a board honestly believes the responsible course of action is to wait for the arrival of further information, a better possibility, or a later iteration of a technology that is known to be in the pipeline. In such cases, the progress and continuing acceptability of one or more viable alternatives should be tracked. Costing's, dependencies, risks, and how long any resulting comparative advantage might be sustained may need to be reviewed. Where shortages are perceived or a supply chain partner needs to be replaced, people sometimes underestimate the time remedies take.

Embracing Opportunities

Some preliminary work may need to be done ahead of prioritisation. One cannot prioritise the reduction of negative externalities or opportunities to enhance positive ones without first understanding the negative and positive impacts of corporate activities. Responsible boards try to avoid overlooking negative externalities and just concentrating on the positive ones. They should encourage executives and staff to raise, rather than conceal, unwelcome consequences and report concerns. Too often, however, boards focus largely, and sometimes almost exclusively, on challenges, risks, and threats while ignoring the opportunities that accompany them. Opportunities may be left to people within corporate R&D units and others who are persistent and willing to pursue them through corporate bureaucracies and past distracted and busy executives to obtain funding and support.

Challenges such as inflation can be externally measured and tracked. They may affect most people and organisations in similar ways and are widely reported. Hence, directors and boards tend to be aware of them. With opportunities, it is often different. They can vary in relevance and significance for each person and company according to personal circumstances and factors such as the sector, location, scale, and aims of a business. Directors and boards need to think about what an opportunity might mean for their company. Given the scale of the opportunities that accompany a shared existential threat such as climate change, whether mitigation, adaptation, or transition, and the number of people, organisations, and communities and their infrastructures likely to be affected, understanding and scoping them should be a priority for many companies in terms of corporate responsibility and action.

Compared with reacting to crises, seizing opportunities may allow more time for engagement and collaboration. Engaging stakeholders can result in a two-way exchange of views and influence positions, priorities, and rankings. It may also help to identify possible supporters, opponents, collaborators, and partners. Not all prioritised initiatives or activities to be more responsible may make significant claims upon corporate capabilities or financial resources. Some may, therefore, be undertaken relatively quickly. These could include changes in policy, priorities, and focus where board members are largely in agreement. They may involve modest costs but have a significant impact, especially when catalysed by wider action. In other cases, collective responses may be possible and desirable to maximise their effect. Collaboration could involve public bodies and/or result in the sharing of some areas of cost.

Pragmatic Prioritisation from a Directorial Perspective

Directors should remember their responsibility for the long-term success of a company. If boards just prioritised and focused on challenges, risks and threats, and ignored opportunities to support transition to more resilient, sustainable and inclusive communities and infrastructures, our quality of life prospects would be constrained. A company's portfolio of initiatives should embrace both challenges and opportunities. There should be enough of the latter to ensure that, collectively, humankind can have a desirable and sustainable future as well as survive. Collectively, a board should also consider a company's role in its situation and context. From a corporate environmental and social responsibility perspective, the biggest contribution a board could make might be to tackle damaging emissions by quickly decarbonising and phasing out the use of fossil fuels or discontinuing certain operations on account of the pollution and/or other environmental harm they cause.

Whether from a commercial or a corporate responsibility perspective, areas to prioritise and focus upon might lie outside an organisation. For example, they could be found with a supply chain partner. Pursuing them may require collective action as well as an individual company's own efforts. The search for opportunities to be more responsible can arise across and within a corporate network and/or value chain. Boards should remember that the benefits delivered to an end customer may be the result of a wider, and in some cases extensive supply chain with overseas elements, and in which a company is just one player. Irresponsible conduct and both negative and positive externalities might exist or arise at any point. A board and senior executives should be aware of a company's role and contribution within wider supply chains, and alert to its exposure to reputational and other risks.

Boards sometimes spread their attention and corporate resources thinly across a wide range of activities. Each may lack the critical mass needed to succeed. Pragmatic prioritisation takes account of the dangers of distractions and the realities of financial, know-how, staffing, skill, and other constraints. It should lead to a focus on those possibilities likely to have the greatest impact on the achievement of corporate objectives. These are often the ones thought likely to be most significant for stakeholders, the environment, and society. They may also be areas that should be alluded to in corporate reporting. In terms of materiality, responsible boards should explore and understand the current, short- and long-term external economic, social, and environmental impacts of corporate activities, the extent to which these are negative or positive, and their implications for risk assessments.

Reporting Considerations

Investors are likely to have an interest in financial consequences and risks, especially those that are material and might influence their decisions, as well as the external environmental impacts of corporate activities. Growing numbers of them may become aware of the accumulating consequences of human activities, such as the nature and frequency of extreme weather events. Environmental concerns may grow, and calls for action might increase. Many investors may already hold ESG funds and be influenced by ESG ratings. Material financial information and related and relevant non-financial information should be provided in annual reports for which directors are responsible. Boards should think about what might affect investor perceptions and expectations of future risks and returns and influence whether they might wish to retain, increase, or decrease their holdings of a company's shares.

Looking ahead, boards should consider whether anticipated changes, such as those arising from new strategies, revised priorities, additional responsibilities, or transition and transformation journeys, might create risks or opportunities that could be considered material and should be reported. The impact of decisions, plans, and activities for sustainability, including those that might arise elsewhere within a supply or value chain of which a company is an integral part, could be material if the activity in question is a significant element of its business portfolio. There may also be possible costs, penalties, and other risks that should be reported. When communicating, directors should remember that what might be considered material for some parties or stakeholders may be regarded as insignificant by others. Messages should reflect the concerns and perspectives of an audience.

Balancing Different Considerations

Being responsible and acting responsibly can have many advantages. To behave otherwise can lead to legal, regulatory, and other challenges that might result in significant penalties. Doing the 'right thing' is not always easy. Different interests are not always affected by decisions and positive and negative externalities in the same way. For example, the positive longer-term environmental benefits of decarbonisation may be accompanied by the short-term negative social consequences of shutting down activities and the economic costs of transition and reskilling. Postponement of tough decisions when a board is in control and capable of deciding can often lead to a company being forced to take a much greater hit at a later stage. If material, such risks should be reported. Foresight, anticipation, and preparation might help a board, investors, and other stakeholders avoid unpleasant surprises.

Whether acting or reporting, the processes of looking ahead, prioritising, and focusing depending on what is most important are often similar. They require a sense of proportion, a degree of pragmatism, and the ability to look beyond corporate boundaries. When thinking about impacts and consequences, directors should consider the perspectives of others and make choices. Boards should be selective and avoid being overly elaborate or complex. One cannot do or report everything. 'Less' is often 'more'. Prioritisation can be helpful for smaller businesses as well as larger and listed companies subject to more extensive financial and sustainability reporting requirements. Historically, the reporting of climate and other environmental risks and their social consequences has often lagged behind their impacts. Their prioritisation may increase understanding, enable action, and enhance resilience and sustainability. People often react when alerted to how they personally might be affected.

Remaining Relevant and Current

Once possible actions and initiatives have been prioritised and areas of focus agreed upon, reflection and consultation with key stakeholders may be advisable before a final decision to proceed. It is sometimes possible to become so wrapped up with internal debates and processes and the groupthink of colleagues eager to bring deliberations to a conclusion, that changes in external expectations and views since stakeholders were last engaged might have been missed. The public mood and what is regarded as acceptable and responsible can quickly evolve as a result of events, particularly when these are widely covered in the media. When proceeding, boards should do so in ways that are flexible and can be adapted as circumstances change and events unfold during transition and transformation journeys. ■

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