



ESG and Climate Change Challenges and Opportunities for Professionals

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Human activities are having a negative impact on our planet and its eco-systems. They are the cause of global warming and climate change, and their impacts have environmental and social as well as economic and financial consequences. In the Autumn issue of *Management Services Journal* we considered risks, challenges and threats in the contexts in which organisations operate and their implications for individual professionals and for risk management and governance¹. With environmental, social and governance concerns to consolidate, and corporate and collective responses

to consider, how are organisations and interested parties bringing these distinct but inter-related elements with their separate and over-lapping constituencies together? What approaches or frameworks might assist scrutiny, consistency and reporting? Could ESG provide an umbrella that embraces both financial and non-financial considerations concerning the environment, society and governance?

ESG and Differing Perspectives

ESG has grown in significance as investors have become

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more concerned with improving standards of governance and addressing negative environmental and social consequences of corporate activities. This is evidenced by the growth of ESG funds catering for the requirements of ESG investors, the proportion of listed companies with ESG initiatives, more people with ESG roles and seeking and receiving ESG advice, and the development of ESG codes, frameworks, guidance and reporting requirements. Many such activities concern different aspects of sustainability. While in certain jurisdictions there may be some reaction against ESG, in others it is still on the march. In relation to COP28 in Dubai and urgent action now required, how relevant is ESG for resilience, sustainability and our collective survival in the face of an existential threat such as global warming and climate change?

Aligning the separate environmental, social and governance elements of ESG and its relation to climate change raises questions for directors and boards^{2,3}. It also has implications for management services professionals. Greater understanding of the governance element of ESG could help professionals with relevant experience and personal qualities to transition from management to direction and better advise boards. Project and programme management experience could be very relevant to aligning, integrating and coordinating the elements of ESG and focusing them on priority corporate challenges, risks and opportunities. Many of these relate to those global risks ranked the highest in terms of their impacts over the next ten years by the World Economic Forum⁴.

Directors, executives and advisers 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. They regard environmental and social factors as potential costs and/or constraints to be gamed and/or negotiated. 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, more people and employers are requesting that sustainability be integrated into educational and professional development programmes.

Global Warming and its Consequences

A global UN stocktake of the efforts of countries to reduce global-warming emissions following the 2015 Paris Agreement has concluded that radical decarbonisation with fast phase-out of fossil fuel use without carbon capture is now required, and deforestation must also be stopped and reversed by 2030⁵. The stocktake was undertaken to inform discussions at COP28. It calls for widespread system transformation that will need to impact many aspects of contemporary activities, operations and lifestyles. To avoid the triggering of tipping points after which further global warming will be unstoppable, sweeping and decisive collective action is now required. This transition and transformation will create unprecedented demand for analysis, investigation and a range of professional services.

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 and severity of extreme weather events, and the loss of human and other life resulting

from fires and floods. Habitats in which different life forms can survive will reduce, crop yields will fall, and areas of possible water scarcity will increase. More major cities will be threatened by sea level rises. Many forms of infrastructure and various public services will suffer stress and damage. Local and national governments currently experiencing rising demands for support and 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 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. Our depletion of natural capital means they may well be less able to effectively respond, assuming that by then it will not be too late. This reality is 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 arenas.

Adequacy of Individual and Collective Responses

Current policies, targets and actions are unlikely to prevent increases in global temperatures beyond 2°C⁵. 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 which they enjoy and/or value, and those in developing countries with much lower emissions per head to keep their rates of economic growth below levels that might trigger tipping points after which global warming becomes unstoppable?

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 change⁶⁵. Too many people and organisations seem determined to pursue narrow and short-term self-interests. While negative externalities persist and emissions of greenhouse gasses increase, Governments continue to pursue growth ambitions. Windows of opportunity to act decisively are narrowing. With emissions and impacts to measure and track; activities, operations, climate change adaptation and mitigation proposals and actions to analyse and assess; and related opportunities to evaluate; management services professionals are in demand.

Social Impacts of External Trends and Internal Practices

There are many issues and questions that management services professionals may need to consider. Extreme heat and weather events can make life uncomfortable before they prove fatal. Negative externalities resulting from our actions are already accelerating. The aspirations of larger numbers of people in developing countries, and the refusal of others to give up what they have experienced, will further boost them. Many companies are reluctant to acknowledge them let alone address them. What about the social dimension of ESG? Are policies, standards and codes adequate? Are easier to reach objectives pursued, while more difficult ones are avoided or ignored 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? Are digital technologies 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? Are consequences for the job and career prospects of young people joining the labour market and their local communities considered? As transition and transformation occur, will educational institutions, professional bodies and others enable people to cope, change direction, remain current and continue to contribute?

Contemporary automation and development practices, policies and priorities sometimes further advantage a favoured few at the expense of many others⁷. In many countries growing numbers of poorer and less well-educated people have experienced falling real incomes and inequality has increased. The priority of active and engaged management services professionals could be to make work more enjoyable, productive and rewarding for people by better helping and supporting them, or it could be to develop ever more applications of technology to monitor and control them. Rather than just replace people with smart machines that require scarce natural capital to manufacture and operate, should practitioners look for new roles, tasks or activities people could undertake?

Allocating Responsibilities

If negative environmental and social outcomes are compounding challenges and existential threats rather than ameliorating them,





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and their root causes are not being effectively addressed, who should be held accountable? To what extent are corporate decision makers stakeholders, public bodies, governments, regulators, standard setters, city, urban and rural authorities, professionals who advise them, 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 purpose, outcomes, what is important and what most needs to be done? Are applications of management services tools increasing or reducing negative externalities? How might decision-makers and responsible professionals play a more significant role in influencing and determining purpose, priorities, resource allocation, capabilities and outcomes? Are changes in governance, innovation, and investment approaches, policies, priorities and practices required? What might this mean for boards, their advisers and professional development?

Inspiring Re-purposing and Re-invention

The existence of ESG along with related roles, regulations, approaches, codes, models, standards, policies and practices, suggests many people feel that more needs to be done in relation to environmental, social and governance activities and outcomes. Why is this necessary? Why are negative externalities, such as discharges of raw sewage and plastic waste into rivers and the sea tolerated? Avoiding the cost of remedial action compounds future budgetary challenges. Why does concern about negative consequences of activities and lifestyles, or natural capital requirements of future generations, not quickly lead to more sustainable alternatives? Why do so many people, including professionals, take the perceived easy route of incremental change and reluctant adjustment, when in relation to climate change the case for radical transition and transformation is overwhelming⁵?

Directors and professionals should act in the best long-term interests of companies and clients respectively. Should they advocate and initiate 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

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developing countries without triggering tipping points to disaster. What needs to be done now for people and organisations to pursue different and more responsible environmental and social goals? How might business, professional and political leaders become more inspirational and effective as catalysts of change? What should be done to encourage boards and professionals to be more ambitious in recognising and addressing negative externalities, and accelerating transition and transformation journeys?

Environmental and social aspirations, objectives and priorities could be integral elements of the purpose of a company or profession and the goals and objectives that derive from it. Should policies, priorities and approaches better match the contexts in which professionals operate? Social priorities could reflect the aspirations of communities and societies affected by corporate activities and operations. Greater automation and AI enabled applications that might be appropriate for developed countries facing labour shortages and with aging and perhaps declining populations. However, in developing countries with growing populations, should a social priority be to provide job opportunities for young people joining the labour market?

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 and their advisers also ensure that what they seek to do is achievable and sustainable? Professionals should encourage clients to think through the implications and consequences of decisions, actions and priorities. For example, certain minerals, including those required for digital infrastructures and devices, may be in short supply. Mining operations to unlock new deposits

often take time to come on stream. Substitutes might not be easy to find or develop. Available raw material stocks may dry up before recovery operations from products bought by early adopters are able to meet demand. Should resilience assume a higher priority in objectives for productivity and other projects?

Are different and more responsible climate strategies required? Corporate climate related initiatives and collective responses are often 'too little, too late'⁶. Are the mechanisms, processes and structures of governance responsible for inadequate action, or is the root cause the attitudes, values and motivations of directors and the strategic direction they provide? Are too many boards and corporate decision makers 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 trying not to 'create waves'? Professionals should encourage directors and their clients to think critically, probe, question and challenge.

Governance Considerations

Some of the most pressing global risks and existential threats are inter-related⁴. They share certain root causes. Addressing these should reduce negative impacts. Effective climate governance action that impacts the drivers of global warming and climate change could benefit both the environment and society. Leaders should take a holistic view that embraces the three elements of ESG and ensure they are better aligned, combined and integrated. Future purpose, aspirations, aims, objectives, policies and priorities should be imaginative, motivational, 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

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threats. A balance should be 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. More positive approaches might lead to collaborative as well as competitive and early mover advantage. Could they enable 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?

Revised governance arrangements might be 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, 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, board policies and strategic direction?

Perspectives, Motivations and Priorities

Events can move more quickly than 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? How far can boards 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 action in areas as varied as 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.

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 priorities, 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. More management services practitioners may need to work with members of other professions. The perspectives, motivations and priorities of key decision makers and those who advise them, and the focus and purpose of innovation and investment, should address priority risks and threats. They and professional counsel and support should also be affordable, cost-effective, flexible, easy to adopt and adapt, inclusive, and economical in their claims upon scarce natural capital.

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