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How Boards Can Steer Companies to "Build Back Better"

The momentum for sustainability is strong despite misgivings over current financial strains. Few businesses can afford to ignore it.

When the history of the Covid-19 pandemic is written, it will no doubt note how, in one fell swoop, the bug accomplished something humanity had long struggled to do: **slash global carbon emissions** by an expected record of 7 percent in a single year. The planet we live on remains very much **in the grip of climate change**, and the pandemic has only underscored the destructive consequences of our "**war on nature**".

As the novel coronavirus swept the globe last year, the European Union, China, Japan and the United Kingdom announced ambitious plans to cut emissions over the next decades. Developments on the ESG (environment, social and governance) front have been especially robust in Europe. The EU Commission is holding a **public consultation** on sustainable corporate governance. Switzerland has held a **referendum**, which was rejected, on whether to impose new standards on Swiss businesses' activities abroad. In the UK, the government **plans to mandate** financial disclosures by 2025, following the recommendations of the Task Force on Climate-related Financial Disclosures.

But there appears to be a disconnect on climate action among countries. The G20 – which accounts for two-thirds of the world's population – is spending 50 percent more in stimulus money in sectors linked to fossil fuels than low-carbon ones. Our ongoing research, published in ***Management & Business Review***, indicates that the world of business may likewise be divided on sustainability issues.

We had previously identified **five archetypes of board behaviour**, from "deniers" to "true believers", based on in-depth interviews with 25 experienced European non-executive directors representing 50 well-known companies. From a recent check-in with some of the interviewees, we find that the pandemic may have widened the gulf between those resistant to and those supportive of sustainable practices.

As one director told us: "We are fighting to survive; sustainability is not on our priority list." Meanwhile, another said, "Covid-19 shows us that ESG considerations are increasingly material to our ability to create value sustainably."

Six actions for boards

Leaders may be split on sustainability, but momentum to "**build back better**" is growing in society at large as political and financial imperatives align. According to a Boston Consulting Group **study**, 50 percent of US investors think it is important for companies to continue their ESG agendas and priorities while navigating the crisis, even at the expense of some earnings. Big corporate names – from Microsoft, Starbucks to Shell and BNP Paribas – have announced **plans to cut emissions or improve the environment** in other ways.

More broadly, there is a growing realisation in many sectors of society that one lesson we must learn from Covid-19 is that **predictable** but inadequately addressed high impact events, like pandemics and climate change, can exact huge costs.

Business has its part to play and boards, in turn, have an important role in steering companies safely through climate change and other systemic externalities. For boards that are still not unified in their pursuit of sustainability, we suggest six ways to help achieve consensus.

1. *Revisit* company statements of purpose.

- What does value creation mean to your company?
- Are your company's efforts consistent with current sustainability demands and principles? Are they in line with the UN **Sustainable Development Goals**?
- Does your company have a comprehensive view of how the world is changing as a result of the coronavirus pandemic and of its role in these changes?
- How is your company supporting societal progress? Does your corporate culture encourage participation?

2. *Schedule* a meeting of the entire board with the sole purpose of discussing sustainability.

- Ask the CEO to provide all pertinent data on the company's sustainability progress.
- Compare leading sustainability practices of benchmark companies with your company's.
- Discuss in detail the process by which your company identifies risks and opportunities in the medium- and long-term – does it consider the possibility of systemic risks and shocks (like pandemics)?
- How will gaps be filled? Does the company have existing strategies for reaching goals and strategies needed for future development?

3. *Audit* board members' sustainability expertise and mindset.

- Which sustainability **archetype** predominates on your board?
- Do the directors have sufficient expertise and interest to embed sustainability thinking in their processes, risk management and investment decisions, including mergers, acquisitions and innovation?
- Does the board need to recruit new members, perhaps those with specialist expertise?
- How should the board's membership evolve to make sustainability a priority?

4. *Organise* the board in such a way that it can effectively oversee sustainability.

- Which board committees should concern themselves with sustainability?
- Should there be a dedicated ESG committee? If so, how will it report to the main board?
- Does the board have a process to plan and act in accordance with a range of events on different timescales, including in times of crisis?
- Would it help for an independent expert panel to scrutinise the board's actions and progress?

5. *Evaluate* the information provided to the board on sustainability.

- What information does the board currently have and what further information does it need?
- Does the board regularly receive benchmark data used to judge its performance and that of competitors?
- Has the board established suitable key performance indicators for management?
- Does the board need additional resources to better understand or investigate the firm's sustainability performance?
- Is there a suitable balance between attention to efficiency and resilience?
- If the company received government support during the pandemic, evaluate the fundamental economic reasons for this support and prioritise them in evaluating strategy going forward.

6. *Explore* how the firm engages with, and learns from, its critics.

- Does the board need to hear from its critics more directly?
- Determine and prioritise common denominators in the "build back better" sentiment among key stakeholders.
- Study potential ESG litigation and policy developments in the geographies the firm operates in and stress test current governance approaches against them.
- In the event of any corporate restructuring, should the firm allocate funds to expedite or intensify ESG efforts?

Our six actions should help boards develop a comprehensive view of changing ESG factors and better address pressing sustainability challenges facing the communities in which they operate. In a pandemic-scarred world, companies' long-term growth and profitability will increasingly depend on such efforts.

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