Sustainability: From the Back Room to the Board Room

Creating a sustainable future takes more than good intentions. Boards of directors have an obligation to help drive a strategic approach to corporate sustainability.

While Environmental, Social and Governance (ESG) issues are becoming mainstream for corporations and the wider public, much more has still to be achieved. It is fairly well accepted that promoting sustainable practices can affect the long-term economic performance of a company. Organisations are beginning to understand that addressing sustainability is about managing risks and opportunities for growth, and developing solutions that respond to the future demands of customers, other stakeholders, and the needs of the planet.

What is not so well-recognised is that ESG issues need to be considered at all levels of decision-making, and that, as the highest decision-making corporate bodies, boards have an essential role to play in driving, overseeing and incentivising corporate sustainability across the organisation. It is up to directors not only to initiate sustainable practices, where absent, but also to 'join the dots' for employees, investors, customers and other stakeholders to demonstrate how a company's actions today can have a real impact on its profitability in the future, if not its survival. This can be done in relation to many board agenda items, not just where sustainability is explicitly up for discussion.

Board members, of larger organisations at least, will most obviously discuss sustainability in the context of the company's sustainability report. However, this is far from the end of the story. They need to realise that sustainability issues are interlinked with nearly every decision they make as a director.

Capital expenditures

An essential governance role of boards is the approval of major capital expenditures. Sustainability is front and central in investment decisions of companies in resource extraction industries, as gold miner **Barrick Gold**, for example, has learnt all too well.   Board members of utility companies also need to address sustainability directly when it comes to decisions about investments in new power generation sources. However, capital expenditures almost always have some sustainability implications in any industry context, be it in relation to energy requirements, resource scarcity, or human factors in supply chains.

Sustainability for corporations is a journey. It is a simple journey to start and, initially, it's easy to make progress without substantial investment. Many companies have found, for example, that programmes to reduce CO_2 emissions can actually save money from an early stage; with such obvious benefits the initiatives are easily sold to stakeholders. But once these 'low-hanging fruit' have been picked, corporations face tougher choices on whether to proceed with projects requiring substantial investments that may only pay off in the long-term. When this happens it is up to boards to demonstrate true leadership; place greater emphasis on the risks and opportunities that sustainability represents, and make decisions based on what is best for the firm in the long-term.

Identifying sustainable alternatives for existing operations

The board's function also extends to integrating ESG issues into existing business strategy and operations. The risks of not doing so can have long-term financial impact on the company.

For a utility company, for example, there are strategic considerations associated with the sustainability of older power generation facilities (for example, coal-fired power plants). Less obvious, perhaps, for a company like Coca-Cola, there are challenges in relation to health and the environment, reflecting growing concerns about obesity and the significant amount of water it uses (in the product but also in the production processes of its bottlers). To address these issues, and the increasing scrutiny of consumers, the company has developed a broad-ranging sustainability strategy, "Live Positively", and integrated it into the company's overall business plan. The strategy includes environmental, workplace, community and product initiatives and extends to supplier partners. To achieve many of its bold goals, which include going 'water neutral', the company has had to look beyond cost-saving operational improvements and invest in products and initiatives to engage stakeholders and suppliers. This focus on sustainability is driven not only by ecological and environmental imperatives, but the company's vested business interest in preserving and improving its future.

Encouraging an innovative culture of sustainability

Every board should be attentive to the values of the organisation and whether they are being lived and sustained. Organisational values will certainly reflect ethics and likely already extend explicitly to sustainability in many companies. It is up to the board to push these sustainability and related values consistently from the top down, to ensure everyone truly understands the company's commitment to sustainability, and the risks, opportunities and ultimate returns this commitment entails. By creating the right infrastructure and encouraging an innovative culture, boards open the way for employees to contribute to the company's journey towards sustainability. The classic illustration is the **Unilever Sustainable Living Plan**, a far-reaching organisational embrace of sustainability introduced by chief executive, Paul Polman, but clearly with the support of the Unilever board.

Rethinking KPIs

Evaluating Key Performance Indicators (KPIs), especially in relation to executive compensation, is a key task of the board. It will, in part, reflect a company's values, with incentive components of executive compensation aligned with what the company believes is important as approved by the board. Clearly, executives who know their actions, or inactions, with regards to sustainability are being assessed will be more inclined to reflect on these issues in their decision-making.

Reporting

Finally, there is the role of the board in relation to the organisation's sustainability report. This is where the company says, 'Here's what we're doing on sustainability' and 'Here's the progress we're making'. Perhaps even, 'Here's where we need to do better'. The board needs to be involved in approving the report but also in determining that the underlying processes that feed into the report are sufficient and appropriate. It is what goes behind the reporting that matters; the initiatives that are put in place to ensure that the sustainability performance is being delivered.

Sustainability reporting is becoming increasingly more sophisticated, moving from "feel good" stories of company sustainability projects that may have little real impact relative to the company's overall "footprint", to more comprehensive assessments of company social and environmental impacts and efforts to mitigate more harmful impacts. In some cases, companies are moving towards a form of integrated reporting that embeds sustainability performance within the company business model, highlighting potential economic consequences (positive and negative) of attention to sustainability.

It is well known that what gets measured gets acted on. More specifically, academic research suggests that measuring and reporting sustainability performance can, in itself, spur greater attention to sustainability.

Corporate sustainability equates to corporate excellence

In many ways, sustainability is already being addressed at a board level, though it's not always recognised as such. Issues such as bribery and corruption and what a company is doing to mitigate the risks posed are board level concerns and addressed in reviews of risk assessments and anticorruption programmes. Evaluating workplace safety controls is another board responsibility that falls under the sustainability mandate.

In many ways, corporate sustainability simply means corporate excellence. As my colleague, Erika Karp, founder and CEO of Cornerstone Capital noted in our video interview at Enel, "Corporate Sustainability is the uncompromising pursuit of material progress towards a more regenerative and inclusive economy, globally."

A substantial body of research suggests that there is significant positive effect on the economic performance of companies that give attention to sustainability. The UN Global Compact's recently launched **Global Compact Board Programme** is supporting boards of directors in this endeavour. It is now up to the boards themselves to recognise their potential and mobilise their organisations to take greater advantage of sustainability opportunities.

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