Five Reasons why Board of Directors must Prioritise Sustainability and how it's Relevant to Business Strategy

(Part II)

In the second and final part of this paper we will be addressing:

3. Get ahead of the challenge of addressing climate resilience and adaptation
4. Increased attention on Environmental Social Governance (ESG) reporting
5. Private sector supply chains must take responsibility to help solve modern slavery and commit to ensuring human rights are protected

3. Get ahead of the challenge of addressing climate resilience and adaptation:

All too few boards are forcing the executive to undertake strategic planning to build climate resilience into business plans and to protect not only the ongoing viability of plant, operations and staff, but the relationship between all three and the communities where business operates. This is important as, according to the WEF 2016 Global Risk Assessment Report, climate change is the "highest impact risk to business". Climate hazards can take many forms and together they pose a material risk for business such as global mean temperature rise and variation, extreme weather events including floods, droughts, tornadoes, tropical storms, and heat waves and changes in precipitation and distribution of water.

Business in the past has been using a one-dimensional approach to deal with a three-dimensional challenge. They have been looking at climate risk by climate proofing its own operations yet overlooking the interface between its own resilience and the resilience of its supply chains and local communities. There is an imperative for companies to take a holistic approach to building climate resilience, and they can do this by identifying priorities, properly diagnosing risks, developing a robust strategy and then taking action. It will also be important to communicate their approach to internal and external stakeholders.

Study and research in this area is accelerating. For example, BSR (Business for Social Responsibility), a global nonprofit business network and consultancy dedicated to sustainability has recently been commissioned by the Rockefeller Foundation to explore the role of the private sector in building climate resilience in Thailand and several other countries in South-East Asia. BSR will be inviting companies and a range of other stakeholders in the region to participate in this work which will include developing the case for business action towards climate change.

Additionally, BSR, as secretariat for the "We Mean Business" coalition, has also been translating the implications of COP21 down to the industry and company level in the paper "The Paris Agreement - What it means for Business". The paper describes the commitment by countries "to increase the resilience of businesses and of communities to climate impacts. The Paris Agreement requires countries to engage in adaptation planning and to implement plans which are appropriate within their national context. Nearly 90% of the national climate plans submitted so far include policies to build climate resilience. The Paris Agreement also requires that each country implement appropriate adaptation plans. The agreement outlines broad actions a country can undertake to comply with this, including through economic diversification and sustainable management of resources." It would be worth considering to what extent your board is engaging in this debate with the executive and leveraging their network of contacts in government and professional bodies to advance these critical commitments? This is particularly important for Thailand because ASEAN countries face even greater vulnerability to climate risks, and thus a laggard approach will potentially destroy value creation and have material cost implications.

4. Increased attention on Environmental Social and Governance (ESG) reporting –

Listed companies across the region and internationally are increasingly being asked to report on their ESG activities and policies. There is also a growing shift towards integrated reporting and the emerging role of banks establishing ESG performance standards ahead of their credit and profitability criteria. In the Asia region we see incredible growth in regulated reporting trends with the HKEX, SGX,

Bursa Malaysia, Japan and Taiwan securities regulators' all establishing ESG stewardship codes. Markets are getting smarter and more demanding around transparency and firms are also seeing the value of understanding their organisation's impacts within the value chain.

Being aware of potential human rights and modern slavery issues in their supply chain and addressing those proactively can save firms from material brand damage and potential loss of license to operate in heavily regulated industries. I would argue that if there are material risks you are not considering or prioritising in the business strategy, then you are not fulfilling your fiduciary duty as a director.

Research by Edelman has consistently been showing how transparency is vital to building trust… Trust is the leading indicator of how stakeholders believe a business will behave in the future. Trusted organisations are given permission to lead and drive their agendas much more freely and through collaboration, increasing value for all stakeholders. It is in a corporate's best interest to be transparent as well because investor analysts are also using available data to either inform investment decisions (creating indexes or industry benchmarks) or make investment decisions (e.g. decarbonizing their portfolio).

5. Private sector supply chains must take responsibility to help solve modern slavery and commit to ensuring human rights are protected - It was only 25 years ago that scandals started to surface with US factories who had moved production to low cost locations and assumed little or no responsibility for worker rights, conditions and health and safety. Things, as we all know, have changed materially for the better. Under the watchful gaze of activist NGOs, an educated customer base, ESG standards in banks and increasingly focused and responsible boards of directors' conditions are improving for many but certainly not all. More work has to be done in this space.

There are now more slaves than in any other time in history. Of an estimated 46 million victims of modern-day slavery, seven out of ten are directly related to the private sector, making the products we buy or food harvested, exploited for labour both bonded or forced. As the main gateway through which 70% of forced labour flows, the private sector is in a unique position to turn the tide in the fight against modern-day slavery.

Besides having a moral obligation to address this issue, businesses should also be aware of the real economic and business benefits that spotlighting the issue of forced labour can produce. Besides helping organisations avoid legal and regulatory implications, investors and the public are increasingly questioning a company's anti-trafficking policies, giving businesses that react quickly an opportunity to strengthen their brand as a leader in human rights issues.

Furthermore, adopting ethical practices not only helps protect a company's brand, it can also enhance staff morale and operational effectiveness. Companies who have taken an active approach in restructuring their supply chain have often been surprised that, in the process of uncovering forced labour, they also discover more efficient ways to operate their businesses.

Banks are mobilising their compliance and monitoring capabilities to identity clients that are inadvertently exposed and deliberately looking the other way in their client bases. Banks are motivated to focus on this because every single dollar of the USD150 billion proceeds of the human trafficking and modern slavery business is defined as laundered money and is a crime. The UK government passed the Modern Slavery Act in 2015 which is having far reaching consequences on any company wishing to trade with or participate in the supply chain of any UK company.

Conclusion

2015 was a turning point for governments, civil society and for the private sector to reflect on the direction of economies, social priorities and corporate governance with landmark commitments made during the ratification of the UN Sustainable Development Goals in August and the COP21 agreement in Paris in December. 2016 by contrast, has been marked by extraordinary political and social challenges that have resulted from emerging social, environmental and economic imbalances that require a considered reaction; "civilised capitalism" being an idea phrased at the G20 to represent a possible response. As discussed in this paper, there are powerful social, environmental and governance forces in play that boards need to engage with that will determine the winners and losers of the next few decades. Opportunities abound for brands to differentiate and lead with socially and environmentally responsible business strategies that will attract customers' clients, attract workers and build pride and loyalty.

The writer recommends that Boards put these subjects firmly on the Board agenda and consider establishing Sustainability Advisory Boards, balanced with appropriate external advisors, to help frame the discussion and provide a forum for the executive to report progress and seek guidance on appropriate actions and responses. What is exciting is the opportunity for companies to embrace these developments be a positive force for change in their respective areas of business expertise.

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