

How can we do business when nature is no longer free and unlimited?

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A new reality of driving for a more sustainable world is upon us. Boards that understand this will include natural and social capital in their guidance. They will account to all stakeholders that their business depends upon and impacts. By doing so, they will ensure the long-term profitability of their company.

Recently, a board director said: “I care about the environment. I regularly go hiking in the forests on Sundays. But what has the environment got to do with my business?”

This mindset conflicts with a director’s duty of care for the company: it ignores the huge potential economic opportunities, it is socially unacceptable, and it is increasingly legally dangerous.

The turning point

The year 2015 saw the approvals of the Paris Agreement on climate change and of the UN Sustainable Development Goals (SDGs). These two landmark events are catalysts for moving the world towards a decarbonised economy and for a new type of growth that accounts for natural and social capitals.

Less than two years later, Singapore announced a price on carbon to help fulfil its climate change commitment, and SGX mandated sustainability reporting from FY2017 onwards.

Why this is happening now

This is no fad.

The world’s population has increased by about 150,000 people every day for the last century. Since 1971, we have been exceeding the bio-capacity of our planet to regenerate what business and society needs most: water, air, resources, functioning ecosystems, and a stable climate that ensures predictable weather patterns so vital for food production, supply chains and other business critical inputs.

Our economic model is based on the assumption that infinite growth is possible in a finite world. For more than 40 years we have known this flaw but did very little about it. Now, climate change has tangible negative effects on business, starting in the agricultural sector. We have scientific consensus on, and political commitments towards climate change. There are new demands from customers for more sustainable products, and disclosure requirements from society.

Risks and opportunities for boards

After 2015, boards can no longer ignore climate change as peripheral to the company.

Boards are responsible for defining the level of risk a company should not go beyond.

What Boards Should Do About Sustainability

Board governance of sustainability

Sustainability should not be parked in a separate CSR committee. Sustainability touches all aspects of business. Ideally, there should be a separate board-level Sustainability Committee, or otherwise embedded in the Board Risk Committee or Board Strategy Committee.

Board composition

At least one board member should have the necessary knowhow on environmental and social issues, and the experience in managing them effectively. The board should also be informed and aware of this fundamental dimension and regularly updated.

Information and time

Board members should receive relevant information well ahead of board meetings. The board agenda must set time aside for

sustainability issues and not allow them to be hijacked by other seemingly pressing matters.

Stakeholder engagement

Stakeholders are more than shareholders. The Code of Corporate Governance requires the board “to ensure that obligations to shareholders and other stakeholders are understood and met” (Guideline 1.1). Shareholders are thus viewed as one of the many stakeholder groups and the board has a much wider range of obligations than commonly assumed. The board needs to identify relevant stakeholders, and decide on how they engage with them.

Disclosure and transparency

The board has responsibility to ensure that external reporting is done in a fair and consistent way. This now includes sustainability reporting.

They must question management on how the company will handle these new risks. Failing to do so will endanger the long term success of the company.

Recent examples include the investigation of ExxonMobil for lying to the public and to its shareholders about the risk that climate change poses to its business. Hans Dieter Pötsch, board chairman of Volkswagen, is now also under investigation over the diesel emissions scandal.

Besides risks, sustainability imperatives also bring new opportunities quantified at US\$12 trillion by the Business & Sustainable Development Commission. Its latest report, *Better Business, Better World* lists the 60 biggest market opportunities related to delivering the SDGs.

It is thus important for boards to fully understand the new environmental and social issues, and

how they impact their business strategies and resilience.

Boards must take the lead

For boards and directors to respond to the challenge of sustainability, they should first ask themselves two basic questions:

- As a director, how much do you (really) know about sustainability?
- As a board, are you spending adequate time on sustainability matters, and are you sufficiently challenging your senior management on the issues?

The box “What Boards Should Do About Sustainability?” shares some good practices in this area.

Case examples of companies leading the way are found in the following pages. ■