



## CORPORATE SUSTAINABILITY - FROM BLIND SPOTS TO BRIGHT SPOTS

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*Five practices boards can adopt to illuminate their “blind spots”; practices, which need to be updated in order to secure continuity of business*

### WHY DIDN'T WE KNOW?

It begins with the media storm, giving you sleepless nights and causing people to cast blame on you silently, while family and friends ask why your company is behaving that way? The company's reputation is hurting, the customers start to disappear and your share prices plummet. A doomsday scenario? Absolutely. Is it avoidable? Most definitely. Allow me to share five simple practices you could adopt at your next board meeting, to counter the imminent threats to your business.

A crisis can grow out of something lurking in one of the board's blind spots. Unseen future risks and opportunities can make or break a company at short notice. These blind spots need to be illuminated somehow, and turned into bright spots. And there is an important source of light that is often discarded by the board.

### BOARDS ARE NOT ALIGNED ON CORPORATE SUSTAINABILITY

While corporate responsibility has risen as a strategic priority for many companies, boards have not been driving this change. The UN Global Compact Board Programme conducts extensive surveys and interviews with board members, which have revealed some significant key areas where board members are often not aligned. They are: What sustainability means,

what value it brings to the company, whether it adds to (or subtracts from) profit and innovation, what the risks and opportunities of sustainability are, and who the most important stakeholders are for the company's success or failure.

### BUT WHY IS THIS A PROBLEM?

When companies do not manage their sustainability risks they can lose the license to operate or not foresee resource risks and market opportunities, and therefore become un-profitable in the long term. Some sustainability-related investments have a longer-term ROI horizon, which may reduce short-term profitability. However, as boards are responsible for protecting the long-term interests of their shareholders, it is part of a board's fiduciary duty to understand and consider these risks and opportunities.

The board's engagement with the company's sustainability risks sends a strong message to company leaders and employees. If the board is not aligned in its views on corporate sustainability, how can the company expect everyone else to be aligned?

Misalignment on corporate sustainability often results in the overuse of company resources on sustainability efforts, with little value in return. With no clear direction and no apparent interest from the board, sustainability teams can spend valuable time and resources focusing on managing 'simple' issues while avoiding those lurking in the blind spots.

### FIVE KEY PRACTICES THE BOARD SHOULD ADOPT

To help companies that want to realise the benefits of getting aligned on corporate sustainability, here are five key practices that boards should adopt:

#### 1. Show leadership on sustainability.

Boards should establish alignment on what sustainability means for the company and what the company's business case for sustainability is. This is critical if the board is to drive leadership on sustainability. Boards should set short and long-term sustainability targets – just as they do for financial targets – and ensure that the company's sustainability strategy and performance are communicated at annual meetings and investor roadshows.

# BOARD PERSPECTIVES

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## 2. Establish the right incentives.

The right incentive structures are essential to the success of a sustainable strategy. Boards should incorporate sustainability priorities into both the recruitment and remuneration of executives. They should also ensure that leadership and employee performance indicators are designed to incentivize behaviour that is sustainable and creates value for the company.

## 3. Establish a culture of integrity.

Boards can help establish a culture of integrity by placing emphasis on communication about sustainability, and by setting an example in how they deal with tough trade-offs between short-term profit and long-term value creation. According to a UN Global Compact survey only 29% of companies align government affairs (such as lobbying) with their corporate sustainability commitments. Ensuring that all external communications are aligned with sustainability strategy is essential in establishing a culture of integrity.

## 4. Oversee implementation and communication.

Boards should oversee the implementation of the sustainable strategy and ensure that key targets are being met. They should also take responsibility and accountability for the company's communication on sustainability issues to stakeholders. This will ensure that management prioritizes sustainability issues, and will add legitimacy to sustainability information in the eyes of stakeholders.

## 5. Stay informed.

It is essential to be aware of changes in the regulatory landscape, keep up-to-date with best practices, and understand what peers are doing. Listening to stakeholders is also key: Secure and review a rigorous stakeholder dialogue process identifying current and future issues material to the company, or invite experts and stakeholder representatives to sit on a sustainability advisory board.

## CREATE ILLUMINATION

As a board member you can make a big difference by encouraging alignment. Here are a few questions you could pose at your next board meeting to get the conversation started:

1. Are we aligned on our understanding of the value of our sustainability efforts?
2. Are we demonstrating the leadership we want to see from our C-suite members?
3. Are our current incentives motivating the right behaviour or are we sitting on a ticking bomb?
4. Are we establishing a culture of integrity or do we not always practice what we preach?
5. Are we taking an active role in the implementation and communication of our sustainable strategy?

Once you have bright indications that there are no shadowy parts of your sustainability efforts, you can start to rule out the possibility of threats, that would make company leaders say, "Why didn't we know?"

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