CORPORATE CITIZENSHIP INSIGHTS

BRINGING THE BOARD ON BOARD

Securing business buy-in to sustainability

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Corporate Citizenship

Highlights

Corporate sustainability is most effective when backed by compelling support from senior decision-makers.

Responsible business practices are no longer the preserve of one department. They must cut across issues and teams to realise real value for the business *and* society.

Whilst many companies claim that sustainability is important, few boards systematically consider the issues. The key to overcoming this gap is to translate corporate responsibility from a niche, technical issue into a language that resonates with boards. That means explaining how responsible business practices support the long-term profitability of the firm.

Managers seeking to secure buy-in for sustainability need to understand the core competencies of the board. Perspectives; skills and knowledge vary, and companies find themselves at different stages of the sustainability journey.

A set of nine approaches to bringing the board 'on board' can help cut through the noise and simplify sustainability for senior executives.

Introduction

Effective corporate sustainability requires good corporate governance. Firms must ensure that senior decision-makers understand and can respond to the challenges and opportunities of sustainable development. This is particularly true today because corporate sustainability spans diverse issues, from new product innovations to tax policies.

But sustainability managers frequently encounter barriers to engaging decision makers.

This paper looks at how to understand the board and their varying competencies. It identifies the most appropriate tools to secure buy-in to sustainability initiatives. It is intended for public companies with a Board of Directors, but the insights will apply equally to different levels of management and other types of organisation

Why engage the board?

Responsible business practices have evolved in recent decades from ad hoc, philanthropic activity to strategic, company-wide initiatives that align the social, environmental and economic impacts of a firm with commercial success.

Managers tasked with implementing these programmes must ensure senior-level buy-in to agree the level of ambition; coordinate initiatives across different business units; and deliver programmes that benefit the whole company.

“In order to realise the advantages, levers need to be pulled from the top”

In order to realise the advantages for the firm and society, levers needs to be pulled from the top. A study prepared for the World Economic Forum found that enabling boards to better understand the total environmental impacts of a company’s products and services would be the single greatest contributor to a step change in sustainability worldwide[1].

[1] *The Consumption Dilemma,* World Economic Forum, January 2011

The Corporate Governance Gap

Although CEOs and company directors say that sustainability is a priority, few boards give the issues much prominence. Instead, the board's primary attention often only focuses on a narrowly-defined set of financial controls. Non-financial impacts receive passing mention - or fail to make the agenda at all.

But there is a clear recognition of a need for greater commitment to sustainability from company directors. According to a United Nations survey, 93% of CEOs say that sustainability is important to their company's future success[2].

The Companies Act in the UK states that directors must have "regard to the impact of the company's operations on the community and the environment". Sarbanes-Oxley in the United States imposes a responsibility to identify and disclose material issues.

But active board engagement in responsible business practices remains low[3]. In fact, when asked about their priorities for the year ahead, just 2% of company directors at large American firms cite "CSR". Instead, "strategic planning" ranks highest[4].

Translating Sustainability

The apparent gap between "CSR" and "strategic planning" is the key reason why so few boards give prominence to corporate sustainability. In order to overcome this, managers need to break corporate responsibility out of its silo and explain it in a language that resonates with the board.

Good corporate governance requires directors to have the foresight to steer a company through unchartered waters. That means an oversight of: long-term strategy; changing market dynamics; risk controls; investor perspectives; regulatory

[2] *A New Era of Sustainability*, United Nations Global Compact/Accenture, June 2010
[3] *CR Practices Amongst Global Corporations*, Corporate Responsibility Officers Association, December 2011
[4] 2011 Public Company Governance Survey, National Association of Corporate Directors

compliance; and reputation management. These issues are fundamental to modern corporate sustainability.

Many of our clients have told us that their biggest barrier to internal buy-in is securing time on the board's busy agenda. But time is only half the story – what issues is the board being asked to consider?

"Responsible business practices should be translated into a language that presents them as strategically significant to the long-term profitability of the firm"

Whilst some might switch off at the mention of energy management or employee volunteering, the same people sit up when discussing the long-term risks and opportunities facing the company.

Responsible business practices should be translated into a language that presents them as strategically significant to the long-term profitability of the firm. A set of tools to help articulate the link between sustainability and commercial success are explored later.

Perspectives, Skills and Knowledge

Before engaging with board directors, it is important to understand an individual's starting point.

Not all board directors are the same. The fundamental competencies of the board can be divided into perspectives, skills and knowledge. It is essential to understand these differences in order to effectively engage both individuals, on a one-to-one basis, as well as a board collectively.

- **Perspectives** are the attitudes and values of individuals. They relate to moral and personal priorities, such as honesty, integrity, value judgements, experiences and even biases. Perspectives are deep seated personal qualities that evolve slowly over time.

  Perspectives are difficult to change, but some leaders describe an 'epiphany moment' that has done exactly that (see box).

Changing Perspectives through 'Epiphanies'

Leading firms often appear to have a charismatic champion at the helm. PepsiCo's Indra Nooyi talks about "Performance with a Purpose"; Unilever's Paul Polman has championed a "new capitalism".

The truth is that such leaders have sometimes developed these perspectives on sustainability relatively late in their leadership journey - through what some describe as an 'epiphany' moment. This is where sustainability "just makes sense" for them.

It might be visiting an inspiring project or watching a film (some mention Al Gore's *An Inconvenient Truth*). The response to Hurricane Katrina was instrumental for Walmart's CEO, Lee Scott. For the late Ray Anderson of Interface, it was reading Paul Hawken's The Ecology of Commerce.

But it doesn't always take a charismatic leader, major disaster or clever reading list to secure senior-level buy-in. With the issues translated through the right approach, any board can be engaged.

"Flows of knowledge can be increased"

- **Skills** differ from perspectives in that they are values-neutral and functional. They include expertise, such as in stakeholder relations and partnership building, as well as insights, such as the ability to consider different viewpoints. Unlike perspectives, skills are amenable to being taught and developed.

- **Knowledge** refers to the information that is available for decision-making. Dexterous boards need to have access to the right information, at the right time, in order to make effective decisions. Knowledge may come from prior experience (which affects perspectives), or a new source. Flows of knowledge can be increased. For example, board members can be briefed on new data on non-financial issues, such as changing societal expectations, environmental opportunities, employee motivations and long-term industry dynamics.

The interaction between perspectives, skills and knowledge creates a unique set of competencies for each individual that makes up the board. The culture of the company will also have a significant impact, as well as where on the sustainability journey the business finds itself (see “What type of Board do you have?”).

What type of Board do you have?

Denial → The board is not engaged in responsible business practices. The Chief Executive shows little interest in, or understanding of, the issues. Activity focuses on ad hoc philanthropy and is a sub-set of marketing.

Primed → The board has expressed some interest, such as an annual sustainability report, but is diverted by other issues. The Chief Executive selectively engages with flagship programmes. Other board members see little apparent connection between their roles and the issues.

Champions → The board is up to speed and driving a range of sustainability initiatives. Directors are ready to be given new tools to push their performance further and faster, to demonstrate how social, environmental and economic impacts benefit society as well as the company.

Significantly, the perspectives, skills and knowledge of boards can be changed over time. Individuals respond to different stimuli: for some, a rational approach to sustainability is most effective; for others, an emotional appeal can resonate more readily.

Of course, boards are not homogenous entities and a divided board can be the most challenging to engage. The perspectives and skills of some directors can be carefully leveraged to influence others.

By understanding the perspectives, skills and knowledge bases of individuals, the most appropriate set of tools can selected to take to the board.

Nine Approaches to Board Engagement

Corporate Citizenship has developed nine approaches to help break down the barriers to gaining buy-in from the board.

These are mapped below according to the different types of board (see “What type of Board do you have?”), as well as whether they help to increase the levels of *knowledge* of a board, or develop new *skills.*

Each approach is designed to help managers translate corporate responsibility into the language of commercial success.

Nine Approaches to Effective Board Engagement

Increase Knowledge

Increase Skills

Change Perspectives

Inspiration and Impact – Perspectives can be changed – but it's a long game. Our work with clients on issues like Sustainability Plans has shown how fresh ideas; understanding impacts; new business models and innovation in products and services can help to break through the barriers to short-termism, change perspectives internally and align societal outcomes with business success more profitably.

Performance Measures – leading companies are increasingly tying directors' remuneration to long-term sustainability measures. Setting clear executive objectives on sustainability can drive a step change in performance.

Mentoring – Linking up directors with those at other firms or external experts who have particular insights into sustainability can help to strengthen knowledge. Ideas can be shared and tested in confidence.

Scenario Planning – How might new regulations, resource shortages or changing consumer attitudes impact on the business? Stretching the time horizon helps uncover the overlaps between responsible business practices and long-term success. A compelling analysis of trends or a carefully managed discussion can enable directors to discuss impacts that stretch beyond the current earnings cycle. Scenario planning can be a particularly effective tool to overcome barriers to short-term thinking and spot new risks and opportunities.

Report – Writing the introduction to, or signing off, a Corporate Responsibility report requires focus and input from senior decision-makers. A report is a process as well as an output. Gathering the evidence and crafting a case can help put the issues firmly on the board's agenda.

Risk Register – most companies undertake a formal process of identifying risks, which should be reviewed periodically by all the board. Undertaking a review of the risk register can ensure that it addresses the most relevant social, environmental and economic trends and can initiate a high-level conversation on the issues.

Marketplace analysis – We've found that many senior executives are highly motivated by looking at what others are doing. An incisive benchmark of competitors, alongside the company's own performance, can provide a wake-up call to action.

External Voices – Industry bodies; inspirational speakers; NGOs; and experts can provide an outsider's perspective to challenge and inspire the board.

Internal Audit – For some businesses, the first stimulus to action is often external, such as a request from an investor or customer. An internal audit can demonstrate to the board any gaps between what stakeholders are seeking and what the company can deliver.

Denial | Primed | Champions

For the sustainability practitioner, the key issues to consider are:

1. Where is your board on the sustainability journey?
2. Unless you are very close to the CEO, and very influential, you are unlikely to be able to change his or her deep seated perspectives. But you can expose the board to new information and encourage them to develop new skills.
3. Provide inspiration and new ideas. New inputs are needed to freshen up a company's approach to corporate sustainability and help directors identify the benefits.

Understanding these three dimensions of decision-making will help you to decide the appropriate strategy to engage the board.

Conclusion

The board should be asked to consider a question: where does sustainability "fit" on the company's agenda in the short and long term? Is it part of the corporate vision? Or aligned with supply chain and risk work?

Clarifying the level of ambition, as well as the space that sustainability sits within, is essential to effectively delivering on a programme. Without this insight, progress will be challenging.

Placing sustainability at the heart of senior decision-making is a long-term game. It requires new ways of thinking, fresh ideas and approaches that are tailored to each unique setting.

Effective engagement of the board of directors should lead to a stronger commitment to corporate sustainability. But the real prize will come from a demonstration to the board that, in the long term, commercial success can go hand-in-hand with greater benefits to society.

About Corporate Citizenship

Corporate Citizenship is a global corporate responsibility consultancy that uses clear insights and a simplified approach to sustainability to deliver growth and long-term value for business and society.

We have extensive experience across major multi-national companies, the non-profit sector and the public sector and have a strongly developed understanding and experience of working with businesses that operate across geographical and cultural boundaries.

We offer clients a range of services that include reporting and assurance, strategy and benchmarking, stakeholder engagement, management of environmental risk and community relations. Our clients include over half of the FTSE 100. The company also manages the London Benchmarking Group and publishes the leading journal, Corporate Citizenship Briefing.

About the Authors

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