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The peer to peer Board Community

A New Ecosystem for Leadership

Stakeholders are demanding more from business leaders in terms of sustainability. At Criticaleye's recent CEO Retreat, Community Members told **Marc Barber** how they are looking at the impact their organisation has from both an environmental and social perspective

It feels like there's a genuine shift in the minds of business leaders on the issue of sustainability. Across a wide range of sectors, Board-level directors seem to understand that customers, employees and investors want to see a real commitment to Net Zero and a whole lot more.

Many will be watching the UN Climate Change Conference (COP26) in Glasgow later this year to find out if governments and regulators are serious about limiting global warming to approximately 1.5 degrees Celsius, as set out in the Paris Agreement of 2015 (or, indeed, if the Agreement even goes far enough).

At our recent virtual CEO Retreat, held in association with Capita and Brewin Dolphin, senior leaders discussed how they're integrating their sustainability and business strategies. The two cannot be divergent or siloed, in the same way that successful digitisation can't be palmed off to the IT function.

Unilever, the multinational consumer goods company, has long been a pioneer in this area. Building on its famous Sustainable Living Plan, the company has launched its Climate Transition Action Plan after being given a resounding thumbs-up by shareholders. The focus will be on carbon reduction, rather than offsetting, with the goal of achieving Net Zero across Scopes 1, 2 and 3 by 2039.

It is a hugely ambitious and complex undertaking, which will require innovation, partnerships and an appetite for risk. **Nitin Paranjpe**, Chief Operating Officer at Unilever, emphasised the importance of a shift in mindset when weighing up short-term commercial pressures against long-term objectives:

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Nitin used the example of recycled plastic, which is more expensive than virgin plastic: “If you simply ask your team to go and buy more recycled plastic, the immediate response will be, ‘How and why should I do that?’.

“That's when you need to change the discussion. If you can do that, you can start to tell a story around recycled plastic [for] packaging so that people's preference towards your brand goes up and they are more attracted to the offering. When this happens, you are able to shift the whole discussion from the ‘cost’... to the ‘value’ of sustainability.”

Catriona Schmolke, who until recently served on the Senior Leadership Team of technical professional services firm Jacobs, emphasised the continued relevance of the UN's 17 Sustainable Development Goals (SDGs), which provide a framework for enterprises around environmental and social considerations.

According to **Catriona**, who played a pivotal role in advancing Jacob's own sustainability strategy, it's essential to delineate and understand the ecosystem a business operates in – partnerships and collaboration are crucial if an organisation is going to be successful. “The key thing about a sustainable organisation is sharing knowledge, not only with your customers, but in a way that also helps them with their own customers and supply chain,” she said.

The cultural aspect of sustainability should also be factored in. “Everyone thinks you need to find an extra pot of money to deliver this, but it is about education, enlightenment and evolving it into how you do business,” she commented.

Categorical Imperative

In a relatively short space of time, Environmental, Social and Governance considerations feel like they're permeating every aspect of the leadership agenda. It's important not to confuse sustainability with ESG, but they're heavily interlinked.

From a Board perspective, the reporting requirements are becoming more complex and multi-layered, as can be seen with the recommendations from the Task Force on Climate-related Financial Disclosure (TCFD), the Streamlined Energy and Carbon Reporting (SECR) framework, and recommendations from the Sustainability Accounting Standards Board. >

What's really come to the fore during the pandemic is the emphasis on the "Social" aspect of ESG. Companies can set Net Zero targets and create a narrative around how this can be achieved, but the social concerns, such as around diversity and pay, now need to be mapped out. It means that Boards must be extremely aware of their stakeholders and how they are engaging with them.

Ruth Cairnie, Non-executive Chair at engineering services company Babcock International and a Board Mentor at Criticaleye, said: "The new generation of employees are much more discriminating about where they work. They want to be where they feel there is a commitment to societal goals and a real purpose.

"I see Boards and companies increasingly recognising this, and it is a very important driver for taking a big step forward on ESG. If companies aren't feeling this yet, they absolutely will."

Alastair Lyons, Chair at Glas Cymru (Welsh Water) and another Board Mentor at Criticaleye, explained how they've created an ESG Committee to explore the way that the different aspects of ESG could be identified and woven into the broader business purpose and strategy.

He said: "Oversight of the effectiveness of our communication on ESG is particularly important – both internally and externally. Firstly, because we want our people to embrace and contribute to our ESG outcomes in everything they do. Secondly, looking at how we appear externally, particularly to our stakeholders in Government, we want those local authorities and bodies to understand the contribution we can make to what they are trying to achieve within communities.

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Then, [it is about] communication with the investor community, which is a major facilitator of our ability to grow."

This clarity is vital given the lack of consistency around ESG reporting. "There's still a whole set of disparate measures, targets and objectives that companies are being asked to contribute to. Choosing which ones we're going to adopt requires a level of consideration," he told attendees.

Ruth noted that the level of scrutiny from investors is only set to intensify. "I see it starting to move to include the fund managers as well as the governance side of the investors. It's important that your business has a clear story, position and strategy on the most relevant aspects of ESG," she added.

The danger is that ESG becomes a box-ticking, reporting exercise, when it should be woven into the strategic and operational goals of an organisation. **Matthew Blagg**, CEO of Criticaleye, commented: "Many senior leaders realise that if their businesses are to prosper over the medium to long-term, then they cannot just be thinking about profit.

"Over the past 18 months, we've seen that organisations which have a strong sense of purpose, and that understand their customers, employees and other key stakeholders well, are the ones that have been most able to adapt and navigate uncertainty."

If you're a CEO, then you need to be looking at the impact your business has from both an environmental and social perspective. It'll get to the heart of the organisation, which is why a number of Boards and leadership teams are currently grappling with their KPIs, including those linked to remuneration and bonuses, to ensure they embrace ESG and sustainability targets.

The stakes couldn't be higher. ■

For more information on Criticaleye's CEO Sustainability Retreat, October 2021, please click here.

Featuring Commentary From:

Matthew Blagg
CEO
Criticaleye

Ruth Cairnie
Non-executive Chair
Babcock International

Alastair Lyons
Chair
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Nitin Paranjpe
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