

## Today's Board – Tomorrow's Issues

Social and environmental change is happening at an ever-increasing pace. In the corporate world, this translates into pressure, especially in the Boardroom and the C-suite.

But some members of these vitally important decision-making bodies are of a different era. The issues for today's Boardroom and C-suite are tomorrow's issues, not yesterday's. Are they up to the task?

When tomorrow threatens with the unknown, past experience may have less value. Careful deliberation can lead to unacceptable and costly delay. Informed responsiveness is what's required when sandbags are needed to hold back a flash flood.

Some claim that Climate and Community don't sit easily with Capitalism. They suggest wholesale change is the answer.

Diversity and inclusion are the watchwords that herald the end for the old guard. Youth, enthusiasm and creativity will pave the way to defining and securing the corporation's future. A gathering of grey haired, out-of-touch relics of a bygone era isn't needed.

That may be a step too far.

Many Board and C-suite members mastered their craft against a background of KPIs that were focused on a mix of corporate strategy and shareholder value. The deliverable was profit, share price and strategic targets. The interests of other stakeholders needed to be taken into account, but shareholder returns were paramount.

The corporate business model was designed to be ultra-efficient, with everything being delivered just-in-time. Debt rather than capital was the fuel. And it all seemed to work, until a combination of events emphasized the flaws.

The world's people became sick and the world itself forcefully demonstrated, with heatwaves, fires and floods, that the warnings were true; it wasn't in great health either.

The consequences challenge established thinking and make it clear that business as usual is not sustainable. Yet, some argue for fudge. They want to phase down, rather than phase out fossil fuels. They want living standards for their constituencies to level up, while ignoring that the better off suffer from rampant obesity and diabetes. "Someone else must make the sacrifice, but not me. I deserve my day in the sun". That, they argue, is equity.

This may soon become a much more difficult path to follow.

On the sidelines of the COP26 Climate conference in Glasgow, the International Financial Reporting Standards (IFRS) Foundation made a game-changing announcement: the formation of the International Sustainability Standards Board (ISSB). All the main investor-focused disclosure organisations have agreed to consolidate into the new board. The IFRS Foundation influences financial reporting standards in over 140 countries, including those adopted by Malaysian regulators.

The purpose is the development of consistent, robust and credible global standards for climate-related sustainability disclosure to be used by the international financial and capital markets. A prototype disclosure format has been developed which follows the already established headline topics of Governance, Strategy, Risk Management, Metrics and Targets.

When regulators require disclosure by the providers of funds about their climate-related policies and targets, coupled with the make-up of their lending or investment portfolio, it has a direct impact on those who need funds. For instance, major banks are already stating they will not finance new coal-fired power stations, but will consider alternative energy projects. Major investing institutions have a similar stance. That's a strong signal to the corporate/business sector as to where they should focus their attention if they require new funding or the continuation of existing funding.

What this also signals is that business, the corporate sector, is central to the solution. With the right people in the C-suite, business has the agility and the creativity which are essential features of an organization wrestling with the "new normal". C-suites which are focused primarily on replicating past success will not last. They must be populated with those who have grown up with change, often unplanned change, and are comfortable in that environment.

And then, they need a sounding board, not a bottleneck. Ideally, a Board constructively challenges the C-suite, not to maintain the status quo, but to rein in unbridled optimism while supporting change with a disciplined timetable. There's a balance to be struck between those who need to "move on" constantly, and those who have the determination to see things through.

Will this mean changes to the shape of the Board? Certainly!

It is difficult to imagine a fast moving consumer products company, for instance, without a Board demographic reflecting its customers and the issues they believe to be important. That may go beyond product appeal to include social matters and equity.

Those same matters may be areas of interest to investors who might also have Board representation. However, their interests will likely be tempered by the desire to protect shareholder value, which will come with a short timeline and little tolerance for missed targets.

So, a Board without members who have “been around the track” before could well turn into a bottleneck because of differences between the various interests represented, rather than the pursuit of agreed corporate strategy and change.

Is there a formula? No!

Too many human factors come into play to make that work, but it’s very clear that a “same old, same old” Board is not the shape of the future. Diversity and inclusion must be part of the future Board which will have an appetite for embracing the new, while validating the benefits it should bring.

When a company needs to pivot to continue being relevant in a changing world, some grey hair may well be a feature of the balance needed in an effective Board.

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