Theme Paper

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Board's Strategy for a Secure Future & Turning Disruptions into Opportunities

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A secure future for people, organisations, communities and societies cannot be assumed. Without significant and/or radical change of purpose, policies and priorities it is unlikely. In addition to operating in a rapidly changing, increasingly complex and demanding business environment, directors and boards face multiple global risks and existential threats (Coulson-Thomas, 2024c & f; WEF, 2024c). 45% of 4,702 CEOs participating in PwC's 27th Annual Global CEO Survey believe their company will not be viable in ten years if it stays on its current path (PwC, 2024). Given the uncertainty, unpredictability and volatility, and the risks, threats and challenges, that confront many boards, it is perhaps more disturbing that so many CEOs believed their company would remain viable without a change of direction and steps to reinvent their business models and operate sustainably and in harmony with the natural world. Our prospects hang on whether disruptions can be turned into opportunities.

People and their lifestyles and livelihoods, as well as organisations, institutions and infrastructures, face challenges. Developments, events and disruptions can suddenly turn what is valued and depended upon into a threat. For example, the risk to life from the release of radiation from nuclear power stations is increased by the disruption to security and safety protocols when they change hands during armed conflicts (Plokhy, 2024). In the face of ever-present risks and multiple other existential threats, continuing human life on earth for many people and other species is uncertain (Dasgupta, 2021; Lynch and Lynch, 2022; Coulson-Thomas, 2024c & f; WEF, 2024c). Some threats are becoming more difficult to ignore. For example, warming, acidifying and rising seas affect coastal communities and low-lying islands around the world, and sea levels are rising at an unprecedented and accelerating rate (UN, 2024). Extreme heat threatens human and other life forms and ecosystems (Goodell, 2023). World Meteorological Organisation and climate science reports highlight the urgent need for climate action (IPCC, 2021; WMO, 2024a & b).

Given fragmentation and polarisation, how can we work together to collaborate in the face of multiple challenges and survive in an age of conflict (Flyvbjerg and Gardner, 2023; Ury, 2024)? Will business, political and other leaders be willing and able to co-operate and collaborate? A poll of 380 lead authors or review editors of Intergovernmental Panel on Climate Change (IPCC) reports has found almost 80% of them expect a global temperature rise of at least 2.5 degrees C this century leading to a "semi-dystopian" era of famines, conflicts, mass migrations, heatwaves, floods, wildfires and storms of an intensity and frequency far beyond what has been seen before (Carrington, 2024). Only 6% of them believe the agreed target of limiting increases to 1.5 degrees C above pre-industrial levels will be met. As and when action is taken, including governance related steps, unintended consequences can arise where and when general measures adversely affect one or more groups, locations, situations and/or contexts (Puchniak and Umakanth, 2024)?

Humankind is running risks that people may not be aware of. As well as being a consequence of human activities, many risks and threats are also inter-related. They can exacerbate each other and lead to overload and breakdown of the ability of institutions and infrastructures to cope. There are at least 10,000 viruses that could affect humans which circulate mainly within animal species. New and more virulent strains in one location have the potential to spread elsewhere, and adequate supplies of relevant vaccines may not be quickly available where and when they are most required (Sullivan, 2024). Migrations of populations are both a practical problem and a political issue (IOM, 2024). By causing migrations, global warming and climate change can increase the risk of cross-species and other viral transmission. Water shortages, inundation or flooding because of extreme weather events can cause further conflicts and add to migratory flows of people (Carlson et al, 2022; Pacific Institute, 2024).

How might decision makers and key stakeholders be made more aware of the fragility of conditions on earth that support contemporary lifestyles and business activities, and the narrow range of variability within which they remain viable (Mann, 2023)? What lessons can we learn from the earth's past, and how might they be made more relevant for contemporary concerns? Disruptions, upheavals, revolutions and tumultuous events are not new, but how can contemporary challenges be turned into opportunities in an era in which our survival is under threat (Zakaria, 2024)? How likely is it that the required degree of cooperation across the widening fault lines of our differences will occur? Will perceived common and shared interests overcome the delaying tactics employed by those who have a vested interest in the status quo, such as the fossil fuel lobby and communities likely to be adversely affected by proposed sustainability or climate related measures (Coulson-Thomas, 2024a)?

The purpose of this Theme Paper is to explore areas on the agenda for the forthcoming 2024 London Global Convention on Corporate Governance and Sustainability. It suggests issues and questions that directors, speakers and other participants might wish to consider ahead of the event and discuss with their peers when they meet. When thinking about the relevance of articles and reports for a particular board, the study situation and context, and where, when and from whom data was collected should be considered. Evidence presented may be selected to support a certain viewpoint and might be subject to confirmation bias (Edmans, 2024a & b). Directors should address issues faced or raised and reflect on the relevance and applicability of study findings, advice received, and questions posed to their companies and the contexts and issues that concern them. Boards face inter-related global risks, existential threats and complex challenges, that result from collective human activity and have common features (Coulson-Thomas, 2024c & f; WEF, 2024c). They should respond and confront any obstacles that must be overcome if humanity is to survive (Coulson-Thomas, 2024a, d, e & f).

Boards and Corporate Governance in an Uncertain World

Vigilance is essential for effective board, corporate and collective responses when operating in an uncertain world (Goble et al, 2023). Boards need to ensure that corporate governance arrangements are appropriate for activities in a context of protracted uncertainty and that board members and executives have the competences to navigate, manage and generally cope with risk and uncertainty (Kelly, 2023). How can companies not only survive but thrive and deliver responsible, sustainable and inclusive outcomes when uncertainty is the ‘new norm’? What are the next steps for boards to ensure effective governance through an era of the unpredictability? How can board engagement and commitment be ensured, and how might boards enhance the role of Chief Sustainability Officers to better manage sustainability risks and opportunities? Given the multiple pressures upon boards and changing stakeholder requirements and concerns, are there additional governance considerations that should be taken account of because of emerging external factors such as global risks and existential threats (Coulson-Thomas, 2024c & f; WEF, 2024c)? How might these and sustainability and pressing Environmental, Social and Governance (ESG) concerns best be addressed?

Corporate governance arrangements may need to be reviewed to accommodate geo-political uncertainty. What changes might be helpful, where and when, and who should be involved? International accords and an ‘external’ treaty such as the Paris Agreement to curb carbon emissions may have a role to play in influencing priorities if, when and where internal governance arrangements seem unable to deliver required responses (Khatri, 2024). What more could be done to broaden a board’s perspective and encourage greater engagement with global challenges? Are there factors that might limit a board’s discretion? Corporate governance scholars have tended to focus upon the financial impact of controlling shareholders, rather than their political and geopolitical impact, including the implications of control by entities, agencies or proxies of a state, and or an authoritarian ruler, clique or network of relatives and/or cronies, which could have military and security as well as economic consequences (Milhaupt, 2023). Is a board aware of who is calling the shots in entities with which a company is negotiating? How should it respond to sudden power shifts?

Responsible and caring leaders might prepare for possible emotional and behavioural responses to threats and shocks, and think about their own roles and the help and support that key executives and others might require in crisis situations. What role should a board and business leaders play in preparing for, pre-empting and tackling internal and external shocks? How might an urgent need for radical adjustments and rapid adaptation be reconciled with continuity of service and requirements for continuing operation and seamless business practices? Factors that have led to past successes can sometimes be the most difficult to change. Actions can lead to division and polarised reactions. For some, external conflict assessment and management may become a boardroom imperative. Who needs to do what if directors are to become more involved? New and surprising relationships may have to be forged. Opinion polling suggests a degree of pragmatism and flexibility, with a willingness to cooperate across ideological divisions on an issue-by-issue basis, according to situation and circumstances (Garton Ash et al, 2023). Who should be engaged and involved when big and perhaps unpopular steps must be taken and quickly? What role could stakeholders such as significant shareholders, major customers and key suppliers play in responding? Whose roles should be enhanced to improve corporate governance in a volatile political atmosphere?

Embracing Quality of Corporate Governance and Inclusive Growth in an Uncertain World

Corporate governance arrangements should ensure a strategic direction that can enable actions necessary for both survival in the face of existential threats and responsible, sustainable and inclusive growth. What changes to boards and how they operate might make the biggest contribution to the quality of corporate governance and subsequent outcomes? There are many factors that could be considered. For example, a study of Indian companies has found that consistency or stability of board attendance positively corelates with independence, company age and return on net assets, while an increase in board size, meeting frequency and promoter ownership has a negative impact (Potharla and Kranthi, 2024). Another Indian study on the impact of corporate governance on earnings management since amendment of the Indian Companies Act 2013 has found that both board independence and board size have a significant impact, which is negative in the case of independence and positive in the case of board size (Mangalagiri et al, 2024). Much will depend upon the priorities, experiences and competencies of individual board members and how they interact.

What needs to change for growth to become more inclusive, and for the benefits of future innovations and technologies to be more equably shared (Acemoglu and Johnson, 2023)? How might some boards develop a more meaningful commitment to sustainability and ESG? The impact of the sustainability experience of board members upon a firm's sustainability performance may be more significant with board members of lower average age in comparison with boards whose members have a higher average age (Collevecchio et al, 2024). Directors should try to understand how different generations and stakeholder groups see the world and how their companies are perceived. The informational environment in which interaction with stakeholders occurs may shape stakeholder evaluations of firms (Dorobantu et al, 2024). What messages should boards communicate relating to sustainability and ESG? How realistic, appropriate and sufficient is an existing strategy on ESG? To what extent is it smoke and mirrors? Are negative externalities being identified and reduced? How might corporate greenwashing be better recognised and exposed or eliminated (Liu, 2023)?

Given the scale of adjustments needed and the extent of possible stranded assets as the use of fossil fuels are phased out and negative externalities eliminated, provisions for contingent liabilities in many accounts may not be sufficient. Where and when might more be required? A regression study of 3,648 listed firms has found a positive relationship between accounting conservatism and board independence and a negative relationship between it and board size (Jha, 2024). How might ESG risks be better managed? What should the board's priorities be for better managing sustainability risks and opportunities? Are new and/or different chief officer roles or appointments required? Is a board aware of changes in the landscape of ESG investing? How might Diversity, Equity and Inclusion (DEI) initiatives help? In the US there has been some backlash against DEI programs in work and state government organizations, healthcare, and educational institutions (Blackstock et al., 2024; Roberson et al., 2024). Should investment criteria be widened to include addressing impacts of existential threats that impact large numbers of people, such as extreme weather events (Dayal and Singh, 2024)?

What changes of strategy and/or management might make ESG real for those affected, the people of organizations and stakeholders? 97% of respondents to PwC's 27th Annual Global CEO Survey report having taken some steps to change how they create, deliver and capture value over the past five years (PwC, 2024). Yet global risks, existential threats and various challenges and their accumulating impacts continue. Gender economic, educational, health and political inequalities persist. The World Economic Forum suggests they could remain for 134 years at the current rate of progress (WEF, 2024b). Are there fundamental problems with aspects of capitalism, and what might be done to tackle them (Mayer, 2024; Sharma, 2024)? Is democracy on the way out (Applebaum, 2021)? Have boards thought through the implications of more authoritarian regimes and a greater concentration of influence and power? Could competition law play more of a role in improving both competition and corporate governance in India, especially in Indian companies with concentrated shareholding structures and pervasive governance problems (Roy Chowdhury, 2024)?

Corporate Governance and the Changing Role of Directors and Boards

Directors should work for the future success of a company. The role of a board has traditionally been to conduct a lawful, ethical, profitable and sustainable business to create value for investors. More recently, and following another established strand of thought, it has been suggested that the purpose of companies be broadened to embrace the interests of a wider range of stakeholders, environmental and social concerns, and a greater good (Handy, 2002; Mayer, 2021). The case has been put for more responsible leadership and corporate governance (Coulson-Thomas, 2023c; Saks, 2023). What would a broader purpose and more emphasis upon environmental and social concerns mean for the role and composition of the board, corporate culture and leadership skills (Coulson-Thomas, 2023b & 2024d)? How should directors prepare for new and changing internal and external controls and shocks as events unfold, concerns evolve and developments occur? What might a changing situation and context mean for how a company operates and how a board monitors and regulates its affairs? How might the judgement of a board and the role of shareholders and other stakeholders be enhanced to remain aligned to changing expectations and required responses.

How can and should boards and directors prepare for international operation (Coulson-Thomas, 2024e)? What steps could they take to better understand the global power and political dynamics of foreign and global developments from a business perspective? Many and different players may be involved in international supply and value chains. What steps should a board take to ensure continuing access to critical technologies and minerals (Miller, 2022)? Multi-national enterprises may need to orchestrate coordination and collaboration to drive digital sustainability across global supply chains (Kilpatrick and Conroy, 2024). Connectivity that leads to dependency which can be exploited may lead to conflict (Leonard, 2021). For companies and countries, energy and other dependencies and sheer scale or need can limit acceptable options and lead to relationships that others may disapprove of. What responsibilities should accompany expectations of India's growing future importance (Dhamija, 2024)? Where should the balance be struck between being a neutral observer and opportunistic pursuer of perceived self-interests and an active participant and supporter of certain contending and/or common interests? How should boards resolve such dilemmas?

An international perspective is increasingly helpful for both serving and aspiring directors. Even the boards of largely domestically operating companies are likely to be impacted by global risks and the consequences of existential threats and geopolitical developments (WEF, 2024c). Power struggles and conflicts between status-quo and revisionist powers are not new (Morgenthau, 1949). Future scenarios are dominated by the prospect of a clash of contending systems for global dominance (Niblett, 2024; Sangar, 2024). Democracy is under threat from authoritarian leaders with dictatorial leanings and absolute rulers who increasingly deal with each other and act to maintain their grip on power and undermine certain Western and other states (Rachman, 2022; Applebaum, 2024). Unexpected and counter-productive actions can arise when checks and balances that operate elsewhere are no longer able to constrain a concentration of power. Controlling shareholders and enterprises they command, including state-controlled entities, can have significant political and geopolitical influence that far exceeds that of a CEO of a firm with dispersed share ownership and without a controlling stake (Milhaupt, 2023). Concentrations of power within corporate entities may also have national security implications and impact domestic politics.

Incorporating ESG into Corporate Governance through Shareholders

UN agencies, NGOs, institutional investors, activist and investor networks, and others are concerned with environmental, social and governance (ESG) issues from a stewardship perspective (Bowley and Hill, 2024). How might greater engagement with stakeholders, including shareholders, facilitate and support the incorporation of ESG concerns and perspectives into corporate governance arrangements? What tried and tested strategies could be employed? Certain changes may be difficult to bring about when ownership and influence are concentrated in a relatively few entities (Coates, 2023). The ownership of some fossil fuel companies is concentrated among a subset of investors, which raises the question of whether or how their influence could be used to support a faster and sustainable transition to renewable alternatives (Dordi et al, 2022). A long-term vision, stakeholder engagement and strategies for cooperating with stakeholders have enabled Nordic countries and companies such as Novo Nordisk and Ørsted to achieve top sustainability rankings (Strand, 2024).

Directors need to consider the situations and circumstances of companies on whose boards they sit. Shareholders are not the only interest group that a board might need to engage. Employee engagement, local community participation and investor commitment might all benefit the corporate sustainability of a small and medium sized business (Tam and Phong, 2024). In emerging markets, institutional investors in family-owned firms tend to play a more passive and negative role, compared with their practices elsewhere (Rasheed et al, 2024). Agency theory is often applied with a spotlight upon a board and directors. However, what if the principal is the problem and the source of principal costs which other shareholders are unable to control (Zajac and Goranova, 2024)? What corporate governance steps could be taken to address such issues which are also conducive of sustainable operation? How might a board select the most appropriate of available ESG governance frameworks for promoting corporate sustainability goals? Particular attention may need to be given to ESG reporting.

The Securities and Exchange Board of India (SEBI) has introduced an ESG reporting framework in India. It is intended to increase transparency in ESG policies and standardize disclosures from India's top 1,000 listed companies. The framework includes the Business Responsibility and Sustainability Report Core (BRSR Core), which was introduced in July 2023. The BRSR Core requires the top 150 listed entities in India to report on mandatory ESG disclosures starting with the financial year ending March 2024. The disclosures include key performance indicators (KPIs) under nine ESG attributes, such as: greenhouse gas, water and energy footprint, embracing circularity, and enhancing employee well-being. The quality and relevance of what is reported can reveal the extent of ESG commitment. There are also opportunities to learn from other enterprises through networks such as the UN Global Compact and a variety of ways in which companies can derive business benefit from their pursuit of each of the UN's Sustainable Development Goals (SDGs) (UNGC, 2024).

Stakeholder assessment of the quality of corporate governance can also reflect the value it creates in terms of impacts, common good and outcomes, in relation to current, emerging and new challenges and opportunities. One of the priority requirements for addressing multiple risks, threats and challenges is to bring people together across departmental, discipline, organisational and national boundaries into practical problem-solving groups and instil a culture of collaboration (Ijjasz-Vasquez et al, 2024). Do governance arrangements, perspectives and practices encourage and enable this? The perceived relationship between quality and value, and whether the perceptions of quality held by directors and people within a company are aligned with customer and user perceptions of value, is often especially important. Does the customer's assessment of value depend upon the situation, circumstances and context in which an offering is encountered and consumed or used (Bettinson et al, 2024)? How might ESG Goals be better embedded into Business Strategy for addressing negative externalities and achieving a positive impact on returns and shareholder sentiment.

A greater focus on sustainability and the achievement of ESG goals may suggest a review the criteria used to assess quality from a purpose, delivery and customer perspective. In the case of radical changes, a new quality assurance framework and set of indicators for designing, delivering and monitoring offerings and activities may be required (Sebbaq and El Faddouli, 2024). Across supply and value chains, policies, contractual arrangements, the extent to which corporate purposes are aligned, and the nature of relationships with competing suppliers may have an impact on the relative willingness of different parties to invest in quality improvements (Yang et al, 2024). What factors help or hinder the quality and value delivered to end customers, and how might certain business partners be encouraged to do more? Corporate greenwashing is widespread (Liu, 2023). How can boards ensure that claims, disclosures and reports correspond with realities and expectations?

The expectations and assessments of creditors and other parties can also be important. What do ESG goals mean for sources of finance, and institutions like banks that people and organizations depend upon? Do attitudes and behaviours need to change, and how might this be brought about (Admati and Hellwig, 2024)? Research on green finance and environmental sustainability has increased exponentially over the past decade (Kahn et al, 2024). Green finance raises a host of issues as options multiply and there may be choices to make (Lehner, 2024). Affordability might have to be weighed against the costs and risks of inaction. Given a rise of concern with certain existential threats, such as new or more virulent viruses, global warming and climate change, and/or conscience consumerism, boards need to be alert to opinion trends and sudden changes of mood that certain events or incidents might trigger, and social and other media may exacerbate. In the light of 'new realities', what should a board's priorities be for entrenching sustainability trends in reporting practices?

Board's Role on Integrating ESG into Investment Decision Making

The scale of readjustment required for our collective survival is such that following easier earlier steps, subsequent ones may become ever more costly, difficult and disruptive. Delaying tactics and strategies might emerge (Coulson-Thomas, 2024a). Unilever has scaled-back certain environmental and social commitments "against a backdrop of wider investor unrest around such strategies" (Afanasieva, 2024). Are some companies over investing in ESG related activities? Do ESG investments pay off from a shareholder perspective? A study of global equity real estate investment trusts (REITs) has found that REITs with higher ESG performance scores have lower firm value and operating cash flow, and exhibit higher firm risk (Chacon, 2024). Much depends upon the context and nature of ESG action. A study of Spanish enterprises found that ESG-driven companies exhibit a better future innovation performance than non-ESG driven companies in terms of labour productivity, exporting, and survival (Cabaleiro-Cerviño et al, 2024). Their performance was never inferior to that of innovative firms that are not ESG-drive. The impact of ESG ratings on news and stock prices can reflect the extent to which there is a consensus in the ratings (Serafeim and Yoon, 2023).

While people may disagree over the value of ESG activities and some consider them detrimental to shareholder value, one study using ESG ratings and assessments of senior managers, found that high-ability managers allocate resources to ESG projects in ways that enhance shareholder value (Welch and Yoon, 2023). Much will depend upon the investments, risks and returns, affordability and the availability of funding. How might ESG investments be financed? Climate related finance needs to increase sixfold to achieve Paris targets, but the cost of climate inaction is higher than the cost of climate action (WMO, 2024a & b). What governance changes might encourage investments that are economical in the use of available capabilities and resources, but also contribute to environmental and social as well as financial objectives? There may be opportunities for leverage. For example, improving the quality of an internal audit function may increase investment efficiency (Abbott et al, 2024).

Rather than maximisation of financial returns to shareholders, or the interests of any other stakeholder group, should the purpose of corporate governance arrangements be to maximise collective welfare (Stoelhorst and Vishwanathan, 2024)? Ought the focus to be upon all stakeholders, including the environment, eco-systems and future generations and the advancement of a shared, sustainable, inclusive and responsible collective good? If corporate governance focuses on creating value for stakeholders and enhancing a wider 'common good', should all those who contribute to the resulting value benefit, as well as those with a legal right to a share of profit (Jhunjhunwala, 2023)? Boards must prioritise multiple claims upon what can be delivered with finite resources in ways that are responsible and sustainable. How might we build more effective boards that are better able to do this and balance strategy, operations and compliance? What could we do differently with an existing boardroom team?

Many boards operate in jurisdictions where Governments prioritize growth over concerns about the extent to which it is sustainable and implications for the environment and future resource availability. The quality of growth can be more important than its quantity (WEF, 2024a). Owners and boards can sometimes overlook practical things they might be able to do, including together with others, to enhance the creation of value and contribute to the common good (Massa et al, 2023). This includes the use of knowledge and intellectual capital for innovation, value creation, cultural change and organisational transformation (Rice and Reeves, 2023; Ijjasz-Vasquez et al, 2024). They can often be the key to sustainable development, transition and more responsible and inclusive growth, when in response to existential threats it is necessary to do things differently. What guidance should boards provide on prioritisation for executive teams facing conflicting pressures and demands?

Aligning Board Composition to Changing Requirements

Given the seismic shifts that are occurring in a fragmenting and uncertain world, and global risks and multiple existential threats, board oversight and direction may be essential if potentially incompatible claims upon ecosystems are to be reconciled in ways that are sustainable and enables them to continue to support current human populations. The perspective of boards should extend beyond corporate and supply chain boundaries and embrace wider issues and the implications of trends and developments. For example, how sustainable and resilient are the infrastructures upon which our contemporary communities and societies depend (Chachra, 2023)? Because so many risks, threats and challenges are inter-related, action in some areas might benefit efforts elsewhere, generating a multiple return on activities. Operating in harmony with the natural world, local ecosystems and ancient wisdom through sustainable agroecology and/or regenerative agriculture practices can enhance food security while achieving multiple objectives such as increasing local biodiversity and increasing the capacity of soil to sequester carbon (Teal and Moss, 2024).

As pressures mount, more innovative responses to looming threats such as global warming are required, and as scientific and technological breakthroughs occur, product lifecycles may shorten. More frequent reviews, reinvention, refreshes of strategy and organisational changes might be required, along with greater flexibility, reskilling, upskilling and multiskilling. How might a more sustainable human capital strategy help people to better cope with dynamic situations, a succession of new challenges, the flood of communications they may receive, and the increasing distractions that can derive from greater connectiveness (Newport, 2024)? The sheer variety of challenges and their differing local impacts is likely to require more diverse approaches, perspectives and responses. As well as being conducive of creativity, innovation and entrepreneurship, a greater diversity of people at all levels can help to limit the dangers of 'groupthink' (Janis, 1972). More inclusive human capital strategies can both enable diversity and spread the benefits of technological innovation (Acemoglu and Johnson, 2023). How should boards better ensure that the benefits of progress do not just benefit a few?

The composition of a board might also benefit from greater diversity. It can combat complacency and encourage challenge and critical thinking (Coulson-Thomas, 2022, 2023a & b). Evidence from the UK suggests it may also reduce carbon emissions (Khatri, 2024). In China, it has been found to increase the financial stability of listed companies and reduce risk (Ning et al, 2024). When searching for and selecting candidates for board appointments, diversity could be sought in age, culture, gender, ethnicity, nationality, educational and social backgrounds, experience, skills, personal qualities, interests, perspectives, relationships, priorities, strategies, challenges, opportunities, disability, or other factors. Institutional investors may encourage board diversity and companies can experience improved valuations because of compliance with changes they favour and value-enhancing governance reforms (Fauver, 2024). In accordance with the literature on the relationship between board gender diversity and accounting and market-based performance, an increasing proportion of women on listed company boards across five European countries has been found to have a significant positive association with corporate performance (Darmawan, 2024; Omri and Alfaleh, 2024).

Corporate governance arrangements can also impact company disclosures and communications with shareholders and other stakeholders. How might board leadership and strategy leverage effective corporate governance for transparency and accountability? What wider benefits might derive from ESG and sustainability related disclosures and performance and how these are rated? The number of sustainability reporting requirements and provisions has increased in recent years. By 2023 and across 130 countries over 2,400 of them have been identified, 55% of them being voluntary rather than mandatory (Nunes, 2024). A study of Thai listed companies has found that hard disclosure of environmental and social activities tends to reflect their actual performance, but soft ESG disclosures may lack reliability (Katisart et al, 2024). A study of A-share listed Chinese enterprises has found a positive relationship between ESG ratings and green technology innovation (Zhao et al, 2024). What would help more companies to benefit from a continuous cycle of improvement?

Strengthening the Role of Independent Directors and Increasing Board Committee Agility

What role could independent directors play in relation to sustainability and ESG? For example, could they monitor the extent to which managers consider the interests of broader stakeholder groups and a wider public good when taking decisions (Islam et al, 2023)? An investigation of the impact of corporate governance factors such as board size, busy directors, independent directors, CEO duality, and women on the board on the performance of banks found their contribution to be complex and varied rather than straight-forward (Tahir et al, 2024). A study of how corporate governance affects the business performance of Indian state-owned enterprises (SOEs) and non-state-owned enterprises (non-SOEs) has found that factors such as board attendance, board meetings, board size, board independence and women directors do not have any significant impact on the firm performance of SOEs other than appointment of the independent directors and board attendance, but they are significantly associated with the corporate performance of non-SOEs other than board meetings (Tanwer and Garg, 2024). How might boards better identify the relative contributions of different aspects of corporate governance to the achievement of certain objectives?

Newly appointed independent directors may be less effective at controlling management, including real-earnings management (REM) and manipulation to improve apparent performance, than more experienced colleagues (Asad et al, 2024). However, they can often bring a fresh perspective on the meaning, relevance and implications of purpose and contemporary areas of stakeholder concern. Within the cohort of independent directors there should be sufficient experience of a company and its board to hold executive directors to account. The appointments of independent directors should ideally be planned to ensure a mix of more and less experienced directors, as those who have served longer and on multiple boards, without being over boarded, may be better able to control management and certain REM practices (Asad et al, 2024). In what arenas might the contribution of independent directors be especially helpful? Are there certain committees that would particularly benefit from a more independent element and fresh thinking?

Boards sometimes overlook the contribution that committees can make to their overall effectiveness. What role could they play in developing board policies, ensuring effective performance in certain areas, and monitoring and/or reviewing compliance? Where do they feature in capacity building initiatives? How aware and representative of different stakeholder groupings and interests are current board members? Is account taken of gaps and possible committee memberships when independent directors are appointed? A study of Italian listed companies found that putting non-executive board members on remuneration and audit committees may enhance a firm's financial stability (Lagasio, 2023). What more could an audit committee do to improve the quality of external audits which might benefit investment returns (Abbott et al, 2024)? How might audit and risk management committee effectiveness be enhanced in the new digital economy? Board committees can give directors access to a wider range of inputs and provide a link between board and management. Could they be better structured? Is their composition appropriate? Do they learn from best practices?

When considering the composition of board committees, the personal qualities of individuals can be more important than their categorisation. A Spanish study suggests that independent directors may have a negative effect upon innovation as measured by the number of firm patents, but this might be mitigated by greater gender and nationality diversity (Sierra-Moran et al, 2024). A literature review suggests that while specific characteristics of the audit committee, board of directors, size of audit firm, chief executive officer and chief financial officer can influence the timeliness of financial reporting, the appointment of an audit committee chairperson with accounting expertise and public accounting experience can improve financial reporting timeliness (Rosly et al, 2024).

Care may need to be taken to ensure matters for which a board should retain responsibility, address and be held accountable are not delegated to a committee. What are the pros and cons of ad-hoc and permanent committees for supporting the work of a board without compromising directorial oversight? Can they enable a wider range of experiences and skills to be harnessed? A study of 3,896 firms across 45 countries has found that governance arrangements, and a sustainability committee, environmental, social and governance-based compensation policy, sustainability external audit, transparency, and board independence are among the factors that can positively impact the consumption of renewable energy (Makpotche et al, 2024). Should there be a board committee for sustainability, governance, ESG, green audit and/or artificial intelligence (AI)? Technologies are merging and present governance challenges as more people move or retreat into virtual worlds (Dowson, 2024).

AI Momentum and the Boardroom

What role should a board play in relation to the 'G' or governance element of ESG to drive the others, including sustainability, and how might a board itself become more sustainable? Are different models of corporate governance appropriate for certain types of organisations? For example, would hybrid organisations with institutionally diverse boards benefit from a protective board structure and relational leadership processes that, together, prevent distracting cognitive and emotional conflicts and foster attentional engagement of both the board and senior managers to multiple goals (Pache et al, 2024)? Much depends upon the nature of an entity, its purpose and stage of development, the selection of directors, and their aspirations, commitment and development to remain current and relevant. An Indian study has found that increased digital literacy and technological proficiency among SME board members and decision makers may enable corporate governance arrangements to better match Industry 4.0 requirements (Dhone and Perumandia, 2024). How might they become better enablers of imagination and innovation?

Governance arrangements sometimes create a potential that is only realised through what directors and boards do. Boards with the same or a similar governance structure may display very different aspirations, perspectives and behaviours. What priority are boards putting on both progress towards and the achievement of 'net zero' sustainable development (NZSD) goals? In many cases, is it enough and what should the next steps be? What role can boards play in ushering digitalization in the new world economy and in relation to areas such as AI, machine learning, blockchain, the metaverse, and/or augmented reality with an effective cloud data governance framework? Whether these technologies help or harm us can depend upon how they are used, by whom and for what purpose, and how we interact with them. Our respective futures could be inter-twined (Harding, 2024). Humans and deep fakes may become ever more difficult to distinguish, with consequences for fraud, while a merging of human and AGI may increase susceptibility to manipulation (Dowson, 2024). Are directors curious, open-minded and ready to learn and engage? Will they adapt to accommodate digital support? Have boards recognised potential risks and downsides, and the possible use of the same technologies by bad actors (DSIT 2024; Shadbolt, 2024; WEF, 2024c)?

According to a scientific report published ahead of 2024 AI Seoul Summit, expert opinions differ on the pace and direction of general-purpose AI development, progress on fundamental challenges such as causal reasoning, and whether there will be a loss of human control (DSIT, 2024). How aware are boards of the ethical challenges and cyber and technical risks of AI adoption (Shadbolt and Hampson, 2024)? AI applications and systems themselves may not be resilient. Over time as more and more data on which an AI model or application is trained is itself generated by previous generations of the model or it's applications, might this lead to the collapse of the model (Shadbolt, 2024)? AI models can fail, and AI applications can produce gibberish when they are trained on synthetic AI generated data, as errors accumulate and/or are amplified (Shumailov et al, 2024). Improving our collective understanding of the capabilities and inner workings of general-purpose AI systems, associated risks and their mitigation should be priorities (DSIT, 2024). Is this possible with the current age composition of many corporate boards? How might it best be achieved?

The adoption of digital technologies and greater interconnectedness are increasing the vulnerability of many organisations to cyber-attacks (Coulson-Thomas, 2024b). At what point might a combination of AI and quantum computing enable bad actors to overcome encryption? How might communications and transactions then be protected? Often many companies are reacting to challenges and need to take a more strategic approach to cyber security (Gaillard, 2024). Despite the fears surrounding emerging AI technologies, CEOs know their businesses should be investing in them to stay competitive. While there are both accelerators and inhibitors, global generative AI momentum has created a new focus on productivity (Kumar S, 2024). A Cognizant survey of 2,200 executives across 23 countries and 15 industries has found that enhancing productivity is the greatest strategic priority for generative AI adoption (Cognizant, 2024). IBM's 2024 C-suite Study, which surveyed more than 2,500 CEOs from 30-plus countries and 26 industries found more than two-thirds felt the potential productivity gains are so great that "they must accept significant risk to remain competitive" (IBM, 2024). Will fears of being left behind overcome risk aversion?

While most global businesses are seeking productivity gains with their generative AI use cases, the end goal is less about cost-cutting and more about fuelling growth, and inhibitors like talent acquisition, technological infrastructure, consumer perception and the perceived immaturity of current generative AI solutions threaten to stand in the way (Kumar, 2024). Three quarters of businesses surveyed by Cognizant were looking to create new income streams, which suggests a focus upon revenue growth rather than the reduction of negative externalities or progress towards net zero (Cognizant, 2024). Strategies to increase successful adoption of generative AI include ramping up a new talent strategy, shoring up consumer trust and boosting technological infrastructure and organisational agility (Kumar, 2024). Will future exponential improvements in the performance of AI bring us closer to singularity and a merging of AI and human intelligence also available to bad actors ((Kurzweil, 2024)? How should boards and corporate governance handle the ethical, security and other challenges of an unprecedentedly wide spectrum of potential benefits and possible negative consequences?

Ensuring and Enhancing Board Resilience

With boards facing numerous challenges and related opportunities is an uncertain and volatile operating context their resilience and ability to simultaneously cope with multiple and inter-related issues should be a prime concern of both directors and stakeholders. How conducive of resilience are current governance arrangements? How many crises can contemporary processes and systems cope with at any one time? There is some evidence that a focus on organisational resilience might benefit socio-economic and environmental sustainability (Xu et al, 2024). If significant changes are anticipated, expected or required, the importance of social sustainability should also not be overlooked. A Chinese study suggests it might benefit from sustainable energy technologies such as solar and hydroelectric, eco-innovation, economic growth, industrialization and modest inflation (Chien et al, 2024). Trust and mutual respect can also be conducive of harmony, and a healthy level of social stability that welcomes critical thinking, discussion and debate. What more do boards need to do to earn the trust and respect necessary for collective responses to contemporary existential threats?

The impact of corporate governance arrangements can depend upon the behaviours of those in leadership positions, including the effort they put into fostering ethical behaviour (Hassan et al, 2024). This can affect trust, allegiance and commitment. What do boards need to know and do in relation to the role ethics can play within a corporate culture and more responsible and sustainable behaviour? As awareness of the responses required to cope with damage to eco-systems and existential threats such as climate change increases, the continuing allegiance of people with options should not be assumed, unless they agree with an organisation's purpose. In an age of crises, with mounting pressure on the earth's finite resources, more stakeholders may expect boards to adopt a planetary perspective and display planetary thinking (Blake and Gilman, 2024). How might boards nurture long-term value and perspective in a contemporary global setup? Reluctance to do enough to cope with pressing existential threats can be difficult to reconcile with a longer-term perspective. Lack of action now is already denying many species and their ecosystems expectations of tomorrows.

It is difficult to envision a secure and sustainable future unless more determined collective action is taken to address global warming and climate change. We are getting ever closer to the goals set in the Paris Agreement on climate change, which refers to long-term temperature increases over decades, not over one to five years (WMO, 2024b). The speed with which global warming is occurring is unprecedented (Milman and Ahmedzade, 2024). As reported earlier, climate scientists are pessimistic (Carrington, 2024). Should more directors and boards 'bite the bullet' and accelerate climate action (Coulson-Thomas, 2024a)? What are the greatest obstacles to faster progress and how might they be overcome? Do enough directors have the courage, energy and commitment to engage, collaborate and act?

Stakeholders and senior executives may be more willing to support bolder and more courageous action than some boards realise. Of 4,702 CEOs participating in PwC's 27th Annual Global CEO Survey, 40% seemed ready to accept lower hurdle rates for climate-friendly investments (PwC, 2024). As certain threats loom ever closer, extreme weather events multiply and more negative externalities are recognised, what constitutes an acceptable action, and a tolerable or excellent outcome may change. Should corporate purpose, board strategic business priorities and how risks are managed be reviewed? Will unsustainable growth ambitions be reined in? When confronted with wicked problems, boards may have to make choices and decide what to give up, and whose interests to ignore or override to achieve better collective outcomes (Head, 2022). What needs to change for more boards to give addressing global risks and confronting existential threats a higher priority? Who is currently exploring the unprecedented opportunities that accompany them and scoping the capabilities, resources, collaborations and funding required to pursue them?

Achieving Sustainability by Turning Existential Threats into Lifestyle Opportunities

Given global risks, existential threats, international geopolitics and ongoing and future possible developments, how might we re-energise regeneration, sustainability and transition to preserve and accelerate progress, protect and enhance gains, and inhibit or prevent backsliding? How might common delaying tactics be overcome (Coulson-Thomas, 2024a)? Should the purpose of companies and institutions be changed to confront global risks and existential threats, better ensure our collective survival and advance the common good (Mayer, 2021)? What can be learned from enterprises with high sustainability rankings (Strand, 2024)? If negative externalities persist despite corporate governance arrangements or because of them, and corporate activities are not sustainable, to what extent is external intervention and legislation required (Rönnegard and Smith, 2024)? Might they have unintended consequences in some locations and circumstances? What alternatives might be possible and practical when some Government policies preserve and even increase negative externalities and the harm which they cause rather than reduce them?

Actions already being taken to cope with risks, threats and challenges such as global warming are already having an impact. For example, it has been estimated that increased levels of excess deaths in Europe because of last year's record global temperatures would have been much higher in Europe had it not been for adaptation measures to protect vulnerable populations (Gallo et al, 2024). Delays can be expensive and lead to much higher future costs. As the number and ferocity of extreme weather events and heatwaves increase, the World Meteorological Organisation stresses the importance of providing early warning and guidance in communications on practical steps to take in order to cope (WMO, 2022). At the level of communities and societies, collective and shared responses can be relatively cost-effective, especially at an international level. For example, the WMO action plan 2023-2027 would cost just 50 US cents per person per year to strengthen disaster risk knowledge and management, observation and forecasting, dissemination and communication of warnings, and preparedness and response capabilities (WMO, 2022).

Many boards could do more to understand challenges facing companies from a CEO perspective and better support them, including on their learning and development journeys (Maor et al, 2024). How do they compare with other CEOs who have been identified as performing well in areas such as being bold and courageous, aligning the organisation, engaging the board, connecting with stakeholders, recognising their strengths, leading through others and maintaining balance (Dewar et al, 2022)? How might colleagues, executives and others be helped to achieve greater, more equitable and longer-lasting impact (Noel, 2023)? If boards fail to adapt, cope, and tackle negative externalities and existential threats, Governments might intervene (Rönnegard and Smith, 2023). Care needs to be taken to ensure that legislation, regulations, rules and/or governance changes to address one issue does not create other problems. For example, could acting in concert rules to address attempts to take control inhibit or prevent shareholder activism on a specific issue such as the need to increase climate-related corporate action (Puchniak and Umakanth, 2024)?

Boards may need space and bandwidth to consider the full ramifications of inter-related and complex global risks and explore related opportunities. Directors should not forget that preparation for better coping with them requires lead times (WEF, 2024c). For example, pandemic risks are ever present. As human populations rise and become more mobile, they may further damage ecosystems and encounter other species and pathogens for which vaccinations might not be available locally (Sullivan, 2024). Resources are unlikely to be sufficient to cope with all eventualities. Choices will have to be made. If good people do not step up, bad people may step in. If momentum in actions to address existential threats is not maintained, and in many areas increased, much of the progress already made may be wasted. More needs to be done and quickly in multiple arenas. Without good governance and greater sustainability, a bitter heritage rather than the fruits of civilisation may be passed to future generations. Indian ancient wisdom reveres nature (Baindur, 2015). Living in harmony with the natural world offers healthier, fulfilling, less stressful and more inclusive lifestyles. Could revisiting its roots inspire India to become a pioneer post-industrial and sustainable society?

Further information

Details of the 2024 London Global Convention on Corporate Governance and Sustainability, including the agenda, can be obtained from the events section of the website of the organiser: India's Institute of Directors (www.iodglobal.com)

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