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## The long road to sustainability

When 3M delivers PPE to a hospital it does so in trucks assembled in Germany made from steel mined in Brazil and forged in India, using diesel refined from Saudi Arabian oil, driving on a national network of roads constructed from resource-hungry concrete and tar.

This complex and fragile supply chain has a vast impact on global resources – an impact that becomes local when products reach the end of their useful lives and become landfill.

As the COVID-19 is slowly brought under control, attention must switch back to the global crisis that the pandemic has temporarily sidelined: climate change.

Procurement decisions across all sectors are still typically made with a heavy emphasis on cost – because of the focus on the bottom line in the private sector and perennial funding pressures in the public and third sectors. But boards have a duty to consider the wider environmental and social impact of their activities. And the first step is to ensure that sustainability is a core value of their organisation.

The government could be doing more to support this by changing the default model of company purpose set out in section 172 of the 2006 Companies Act to require all companies to ensure that their business activities have a sustainable – or better still a positive – impact on society and the environment alongside benefits to shareholders. The NHS could also play its part by adopting sustainability as its eighth core value.

But until this happens leaders of all organisations should take the initiative. Many are: so far 307 councils have declared a climate emergency and committed to sustainability. So have many individual NHS trusts and universities. And many third and private sector organisations have adopted sustainability as a core value.

### Actions speak louder than words

Last week GGI became the 200th signatory of Terra Carta – a charter by HRH The Prince of Wales' Sustainable Markets Initiative about sustainability that aims to reunite people and planet, by giving fundamental rights and value to nature, ensuring a lasting impact.



Defining sustainability as a value is vital to bringing clarity and consensus about what sustainability means for your organisation. A clearly defined value statement will enable the development of an effective strategy to deliver on it.

Does your organisation back up its values with action? Does it have a sustainability strategy? Does its strategy deliver outcomes? Does it have a sustainability committee? Is there a designated sustainability champion on the board?

Sustainability can't be siloed. It must be the lens of central strategic thinking and decision making. This is how it interacts with governance. Sustainability in corporate governance is about considering environmental, social, human and economic impact in all decision-making, and focusing on long-term sustainable value creation rather than short-term financial value.

The South African judge Professor Mervyn King, famously known as Mandela's judge, and one of GGI's National Commissioners, says: "The directors must make a decision in the long term interest of the health of the company, rather than just in the wealth of the shareholders."

Sustainability underpins King IV, the internationally renowned governance methodology developed by Professor King on which GGI bases its approach. Key concepts of King IV include corporate citizenship, recognising sustainable development as inseparable from value creation, and good governance as fundamental to long-term value creation.

Good governance is about ethical leadership.

## Integrated reporting

"Look at the Integrated Reporting Council's six sources of value creation: human capital, lateral capital, financial capital, manufacture capital, relationship capital and social capital. These things are never in separate rooms – they're always integrated." - Professor Mervyn King

Most boards will have a clear definition of sustainability. Many will have incorporated it as a core value that shapes decision making. Far fewer will report on the impacts and outcomes.

Integrated reporting is reporting on all elements involved in an organisation's activities and the impact it has. It is reporting to the public rather than just the board or its shareholders.

The sustainability at the heart of King IV hinges on integrated reporting. Integrated reporting is all about inputs, outputs and impact; what are your inputs to produce your product / services and what are the outcomes and impacts? The outcomes and impacts are broken down by three areas of value creation: economy, society and environment.

Integrated reporting challenges the paradigm of siloed reporting by stressing that finance, HR and audit functions intersect and are better understood in relationship to each other. You can read more about this in our Coronomics Covid 100 bulletin.

Environmental, social and governance issues are only going to grow in importance. Boards should champion their organisations including information about their environmental impact and resource use in their integrated reporting – not just internally but externally too.

Boards would do well to work with their executive and management teams to establish what the metrics for this reporting should be and how to measure them.

# illuminations



Integrated reporting requires integrated thinking and helps to develop it. This enables a better understanding of the factors that affect an organization's ability to create value, which can lead to behavioural change and performance improvements.

For any boards that need support with this, GGI stands ready to help.

## Illuminations

- Boards must ensure sustainability is a core value and a strategic driving force of their organisation.
- Good governance is synonymous with sustainable governance; you can't have one without the other.
- All organisations should be producing publicly available integrated reports that incorporate sustainability impacts and outcomes.

If you have any questions or comments about this briefing, please call us on 07732 681120 or email [advice@good-governance.org.uk](mailto:advice@good-governance.org.uk)