Reviewing Corporate Purpose and Changing Direction

*Prof. Colin Coulson-Thomas

The business and wider economic and social environment in which companies operate is beset with multiple challenges and related opportunities. Scientific breakthroughs and developments in various technologies are creating new possibilities for corporate structures, working practices, business models, commercial offerings and cooperation across functions, organisations, sectors and countries. Governments are finalising their positions for COP 26 and many IOD members may be getting ready for the institute's forthcoming 22nd WCEM. What more can directors and boards do to ensure that corporate purposes, priorities, capabilities and strategies are reviewed and companies can be responsible collaborative partners in the collective action needed in relation to the environment and climate change?

In an uncertain world, boards are expected to provide strategic direction, focus and prioritisation. With mankind facing inter-related and existential threats resulting from its own activities such as loss of bio-diversity and global warming, our prospects depend upon whether a critical mass of directors step up and join a vanguard of responsible leaders, or whether they continue to persist with unsustainable activities and/or move more slowly as default laggards. As shared concern and pressure for change grows, will enough boards seize a rare and precious opportunity to align corporate and stakeholder interests and priorities, and have a significant and beneficial environmental, economic and social impact?

Recognising the Importance of Purpose and a Need for Review

There has rarely been such an opportunity for directors to make a difference. Debates within some corporate boardrooms could now be as important as those around many Cabinet tables. Wherever collective responses, collaboration and new relationships are required, directors and boards need to decide who to engage and act quickly. There may be supply chain and business partners, regulators, customers and other stakeholders that should be involved, particularly if a change of direction is contemplated. When addressing certain challenges and seizing opportunities requires collective effort, focus and prioritisation can seem daunting tasks. Tackling them by deciding what to concentrate on and which capabilities to develop or secure access to and agreeing a way ahead can be greatly helped by a shared purpose.

The purpose of a public body may be established by an enabling statute, but ought to be consistent with safeguarding the public from an existential threat such as climate change. The constitutions of companies may differ across jurisdictions, but they usually contain an objects clause or equivalent that sets out what the entity has been incorporated to do. In the past companies have sometimes been formed for quite specific purposes and directors should take care not to engage in ultra vires actions. However, for many companies these provisions have been drafted to cover a wide range of possible activities. Directors may find they have considerable freedom to decide what a company should do. There may be many areas in which corporate capabilities might be relevant and commercial activities at an acceptable level of risk could cover their costs and generate positive cash flows.

Some companies may already need to rethink what they are about because of factors such as pressure on margins, falling demand, declining sales or the emergence of better

alternatives. Others may be profitable but stuck in a groove. Perhaps they are less fashionable than used to be the case or find it difficult to recruit people of the same quality as those who leave. Directors may sense the life cycles of existing activities are on downward curves. People might appear less engaged than before. What the company is about may not seem the priority that it used to be. Calls are not returned as quickly. Maybe the world is moving on and people have other preoccupations. Could a revised purpose, change of direction and re-positioning re-engage and inspire people and give new meaning and vibrancy to their lives?

Assessing the Degree of Change Required

Is a yank on the wheel or a touch on the tiller required, a rapid but fundamental review or a modest refresh and reorientation? While incremental change may enable some progress to be made in addressing certain challenges, if collective action is to be effective in confronting existential ones within available windows of opportunity, more radical or step change and innovation may be needed. Many boards must now make a critical assessment. Is there still enough time left for a company to pursue a cautious approach of steady and cumulative adaptation, mitigation and accommodation? Alternatively, is a more ambitious strategy of breaking with the past and innovation to create a more sustainable and alternative future now required? Both involve risk, but might the latter offer more hope? It may involve going out in front and leading rather than following or travelling with the herd. More leaders might be needed to keep the herd moving, catch up for lost time and stay ahead of gathering storms.

It is becoming ever more apparent that certain existential challenges represent threats to individuals, organisations, communities and societies, as well as the natural world within which they all operate. Survival may depend upon whether enough potential victims are willing to change to a sufficient degree. Carrying on as before might not be an option for any group. In the past not all these interests and their priorities may have been aligned, but this might well be more possible and likely going forward. For example, the increasing frequency of extreme weather events can impose costs upon a wide range of people and institutions and cause extensive disruption of their activities. There are implications for public and private finances and personal, business and general taxation. It may be that economic, environmental, social, psychological and other influencing factors might all support a shared desire for more responsible and sustainable activities and lifestyles.

Certain challenges such as climate change threaten fundamental human desires for safety, security and fulfilment. In the absence of an economic imperative, how many people would want to work on activities that pollute the environment, reduce biodiversity or contribute to global warming? Would they rather pursue a cause they believed in? Different aspects of life are sometimes compartmentalised. Available hours are allocated in varying amounts to work, family and leisure activities. Sometimes there is misalignment or even a tension between different roles. People may experience work-life balance issues or find themselves working for financial reasons on tasks that are either unrelated to their values, priorities and concerns or conflict with them. Might repurposing in the light of common problems and shared concerns and changing direction give their lives more unity and meaning?

Potential for a Unity of Purpose

Hitherto, many developments have advantaged some groups while disadvantaging others. Vested interests have regularly sought to protect a status quo and prevent change. Boards have often had to balance contending interests of different stakeholder groups and various factions within them. Some political systems have evolved to provide mechanisms for allowing electors to vote on different manifestos and choose between alternative visions and programmes for the future. In others, particular interests have secured a monopoly of power and the ability to impose their views upon others. Democratic mechanisms for discussing options and determining a way forward might secure a consensus or a majority that is widely considered legitimate. This may take time. While differences of opinion may still exist within a ruling clique, totalitarian and authoritarian Governments may have the potential to change direction more quickly by central diktat, coercion and enforcement.

Some contemporary existential challenges may not affect all generations in the same way. Covid-19 kills mainly older people and those with particular vulnerabilities. Measures to protect them may disproportionately inconvenience younger generations. In relation to environmental challenges, older people might wish to continue consuming natural resources and enjoying lifestyles that could be sustainable in their lifetimes, but which may trash the futures of younger generations. Sections of the latter sometimes seem particularly keen to address bio-diversity and other challenges with longer-term implications. Generational differences are sometimes apparent within families and between the levels of hierarchy in organisations and/or those with directorial, managerial and ownership roles in companies.

Where there are people, there may always be a risk of divisions, factions, schisms, rivalries, competing views and different degrees and levels of conflict. However, certain existential challenges such as global warming are largely neutral in their negative impacts, creating a wide range of common interests alongside any remaining differences. Wild fires, flood water or rising sea levels might affect and inconvenience people with diverse backgrounds, cultures, nationalities, religions and political views. Greater numbers of poor people may need to be evacuated because there are more of them and some victims

may be less able to cope and recover than others. However, no social or corporate stakeholder group may be immune. As tipping points are passed, might more issues unite us rather than divide us?

Engaging Stakeholders and Securing Alignment

A combination of inter-related and common challenges with associated and potentially shared opportunities for innovation, transition and transformation may have created unprecedented possibilities for aligning interests, objectives and priorities. Could they be a catalyst for bringing people together to review, re-purpose, re-prioritise and re-invent, and for innovation, enterprise and entrepreneurship? Should more directors and boards be actively reviewing how corporate capabilities, know-how, relationships and networks relate to contemporary shared challenges and/or sustainable development goals, and scoping collaboration, co-creation and collective action across functions, organisations, communities and countries?

Many companies have a wide range of capabilities that are not necessarily used to their full potential or always in arenas where they could have the greatest impact. Boards of some moderately successful companies may not have felt it necessary to undertake a fundamental review of corporate aspirations, activities and priorities for some time. Day after day people have done what they have been trained to do, making incremental changes within an existing framework of strategic direction, objectives, policies, rules and applicable regulations. Some enterprises have found that such complacency and order can be swept away by events that were once unexpected or rare, but which might now be encountered with greater frequency.

When all or most areas of corporate operation and whole supply chains and communities may be affected, there could be a common interest in coming together across functions and organisations to look for ways of achieving greater resilience and quickly developing more sustainable ways of operating, working and living. Sudden appreciation of a changing reality and what could happen leaves many companies lacking the capabilities to respond. Their boards and people may be more open to questioning, co-operative exploration and partnering. Insights and ideas may be sought more widely than before, as working parties and project groups are set up to undertake blue skies thinking, consider adaptation, mitigation, innovation and transformation options and scope possible ways of operating more sustainably.

Swimming against the Tide

Alert directors are sensitive to emerging concerns and when warnings from isolated activists who raise them and their detractors give way to an emerging consensus in different places that might quickly lead to a tsunami of calls for action. The awakening may take some time. There might be evidence to collect and scientific debates to resolve. While prudence may suggest caution until a likely wind direction becomes clearer, one cannot wait too long to change. Those who carry on as before might find conditions become less benign the longer they delay. As more people become convinced of the need to move in a different direction they may find themselves swimming against the tide.

Better customers may stop ordering. Valued people may leave. Suppliers might have other priorities. Previously loyal people may begin to express disquiet. What has been long accepted or taken for granted might be challenged. People who seemed established and stable and who could be relied upon may appear unsettled and insecure. Perhaps they face questioning at home. The mood of colleagues may change. They might seem brooding and less certain. Once ebullient personalities may now come across as diffident and introverted. Doors stay shut as people review personal and family finances and make more private calls. Sometimes the longest fuse leads to the biggest bang. An enterprise may be swept away.

Effective directors read body language and pick up the moods of an organisation's people and partners. They initiate conversations with those most in tune with what is happening outside of the boardroom and in the changing external context in which a company operates. They seek opinions from different stakeholders. They have informal conversations and explore options and timescales for developing and implementing changes. They may test the water with a chair and chief executive before suggesting reviews, but importantly they monitor external developments and opinions for signs of an acceleration of pace in order to avoid missing the boat. They also have the courage to act while there is still time.

Working with the Grain

While many incentives and promotions still encourage damaging and unsustainable activities that need to be stopped, time is running out. There may be unused individual, corporate and collective ability to apply available solutions and potential to innovate and create and adopt additional ones, but some boards still delay action. They may say they lack understanding and/or data to provide justification. However, they fail to insist on the assessment of the current and rapidly escalating negative externalities of corporate operations and activities, or embrace social and environmental as well as financial performance criteria that might supply it. They resist pressures to be more open and transparent. They do not learn from indigenous people and others for whom living in harmony with nature is a way of life.

As tipping points are approached, some corporate leaders have taken the initiative. They are working with the grain of aligning influencing factors such as the human desire to survive and social, economic and political pressures for change that are

gaining momentum. Over a half of the world's GNP is already thought to be at risk. Lead indicators such as fires, floods and droughts may get worse before they begin to improve. Is it already too late for reformist laggards to make a difference? Ahead of COP 26, the latest UN Climate Change NDC Synthesis Report concludes that Nationally Determined Contributions analysed are well short of what is required. Urgent action from the biggest emitters of greenhouse gases is needed. Some pessimists are not bringing children into the world due to the risk of them having a horrific future as global warming escalates. Others are hopeful that determined action from decarbonising and sequestering carbon to the regeneration of nature might yet save the day.

Whether or not laggard directors, boards and Governments will work with the grain of rapidly evolving opinions and the natural world may determine whether our prospects are bleak or bearable. Survival and building a desirable, fulfilling and sustainable future will require more than catching up and token gestures such as planting some trees. We have abused nature which is revered in Indian ancient wisdom. It could become an ally, but minimal resources are invested in protecting, sustainably managing and restoring natural ecosystems such as seagrass and other forests, wetlands, mangrove swamps and salt marshes. Such natural infrastructure can appreciate in value while helping us to tackle certain challenges, unlike much human infrastructure that depreciates over time or material products that end up as junk or rubbish. The need for enlightened and responsible leadership is acute. There is a historic opportunity for an alignment of shared interests and collective impact. Corporate re-purposing and changes of direction need to happen more widely and quickly.

Prof. Colin Coulson-Thomas holds a portfolio of leadership roles and is IOD India's Director-General, UK and Europe. He has advised directors and boards in over 40 countries.