The Sustainability Board Report™

Sustainable Business Leadership in 2030

Four Scenarios

June 2021

Contents

Introduction

This report explores the future of sustainable business leadership. It seeks to understand what the future of sustainable business leadership might look like in 2030, including what factors will influence it.

Making sustainability a core business strategy is now commonly regarded as best practice. Indeed, there is robust evidence[1] to suggest that companies that embrace a sustainability agenda or strategy are more likely to thrive in the long term. From increased long term returns for shareholders, lower risk, and greater connection with incoming generations of consumers, it is clear that adopting a sustainable business strategy generates value.

But who will lead the agenda on sustainable business? Who are the players that might drive it? What systems and pressures will influence their actions? With this report, we want to showcase different opportunities and risks that lie ahead for leaders. We aim to provide a projection of the upcoming decade's ESG and sustainability narrative in an organisational context and prepare for future leadership challenges.

Scenario planning is a fitting methodology for this exploration that showcases multiple futures in a thought-provoking way. The approach taken in this report is inspired by the Oxford Scenario Planning Approach, which focuses on developing a small set of equally plausible scenarios of the future context to reframe current understandings.

These scenarios are designed to be not only plausible, but also relevant, and challenging to those who use them. Scenarios don't describe what will happen, or what should happen. Rather, they explore what could be. In doing so, they give rise to new conversations and options in the present.
The scenarios discussed in this report have been designed to stretch the thinking of leaders, enabling them to contemplate events they may consider less plausible. The ambition is to help leaders with their strategic planning processes and engender reflection and review on their approach to sustainability leadership in the here and now.

In addition to our own research, experts—business leaders, board directors and their advisors, as well as leaders from academia and civil society—were interviewed and asked for their perspectives of factors influencing sustainable business leadership in the future (2030). These factors were used to build a set of four equally plausible scenarios.

Two key factors provided the framework for the scenarios. The first is whether individualistic or systemic approaches to sustainability are favoured. And the second is whether pressure for action emanates from markets or society. This yielded the four following scenarios:

- ESG Intrapreneurs
- Idealist CEOs
- Leading Boards
- Governments and Stakeholders

[1] For a comprehensive overview we recommend the September – October 2020 Harvard Business Review: Making Sustainability Count, Reprint R2005B, https://hbr.org/2020/09/making-sustainability-count

Introducing our Scenarios for Sustainable Business Leadership in 2030

Four Scenarios of Sustainable Business Leadership in 2030

Individualistic

Executing the Sustainability Agenda

Market ← Pressure for Action — Pressure for Action → Societal

Systemic

ESG Intrapreneurs

Businesses cater to consumers or customers that are most concerned with their short-term consumption. Various individuals within organisations, advocate for their business to be designed more sustainably.

Idealist CEOs

The need for breakthrough solutions to address climate change and social issues creates a market with ample opportunity for innovative and visionary entrepreneurs and corporate leaders.

Leading Boards

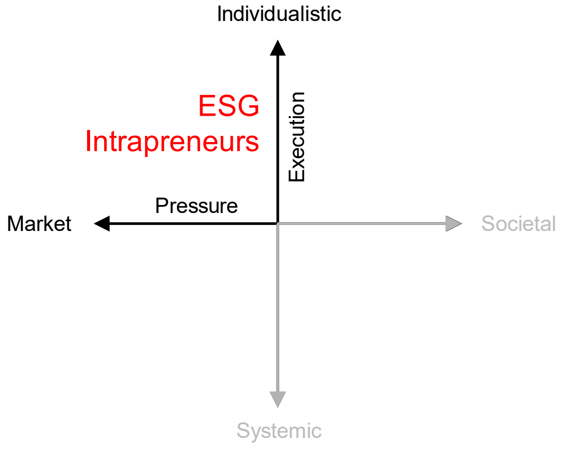
Shareholders pressure companies to implement tight governance around sustainability. ESG aligned board of directors, committed chairs and educated board members drive a sustainable strategy.

Governments and Stakeholders

Businesses are too slow to adopt a material sustainability agenda. Governments and other stakeholders proactively shape market rules and dynamics.

Scenario 1 – ESG Intrapreneurs

Scenario 1 – ESG Intrapreneurs



In 2030, businesses cater to consumers or customers that are most concerned with their short-term wellbeing and consumption. Long-term sustainable outcomes are left to chance by market dynamics. Investors demand ESG compliance of their businesses to satisfy statutory requirements. It has become best practice to talk a sustainability game, but few companies actually build their core business around it.

Various individuals within organisations, are concerned about society losing sight of a sustainability agenda. They see the potential for their company's products and services to be designed more sustainably, whereas still satisfying market demand for the business' output. ESG Intrapreneurs are eager to look beyond paying lip service to markets and mere compliance exercises. These individuals feel connected to a purpose their companies can have for society and feel obliged to continue their uphill battle to improve the business' positive impact and continue revenue growth.

The CEO and board support ESG Intrapreneurs. They ensure their ideas are heard and, to various extents, often incorporated in the core business strategy of an organisation. Shareholders require businesses to have these sustainability literate employees take strategic positions and deliver the ESG communication and reporting output that capital markets require in 2030.

Although leadership on sustainability is diffuse, some ESG intrapreneurs hold key roles in a business, such as that of the Chief Sustainability Officer (CSO) or Head of ESG. Their focus is on creating shared value. That is, products and services meet market needs whilst contributing to society with fewer negative externalities.

Key Implications

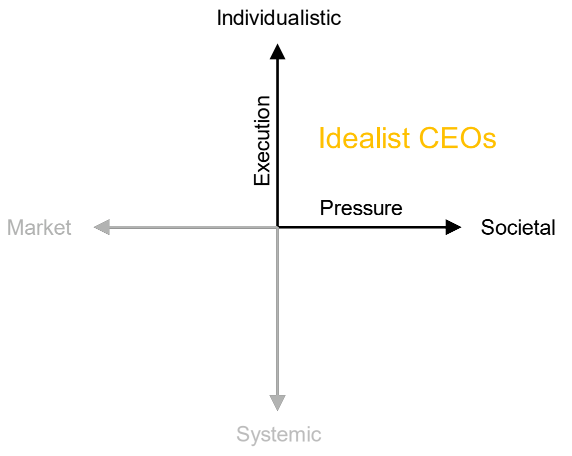
- Threat of green- and purpose washing as ESG Intrapreneurs design their approach mainly around market drivers
- Driving a sustainability strategy with tacit board and CEO poses challenges to scale up impact. Employees further down in organisational hierarchy might only have limited influence over the core business strategy.

Road to 2030

Key developments over the decade, currently shaping in the present

Scenario 2 – Idealist CEOs

Scenario 2 – Idealist CEOs



The Idealist CEO's business is a vehicle for change. Their organisations have global outlooks and are able to surmount political, social and economic hurdles. Able to straddle the public-private sector divide, Idealist CEOs engage with governments and civil society leaders to drive action on climate change and social issues such as inequality. They recognise that making an impact requires pushing the boundaries of traditional markets and expanding where populations grow fastest.

Idealist CEOs are sceptical of their boards, because they do not want to be told how to run their companies. They build corporate governance systems with unequal voting rights and dual-class share structures to distance their boards from decision-making.

In 2030, the need for breakthrough solutions to combat climate change and social issues, particularly through technology creates a market that provides ample opportunity for innovative and visionary entrepreneurs and corporate leaders. These leaders are better informed, take pragmatic approaches and focus on issues that matter to them.

These individuals only have one goal: make the world a better place. Their entrepreneurship is deeply rooted in their ethics and world view. They use their business savvy to attract vast amounts of capital. They develop 'quantum value leap' products or services that disrupt and change consumer behaviour and contribute to societal needs. The Idealist CEOs prioritise sustainable growth and value creation over profit. They recognise the need for capital expenditures and network effects in delivering impact. They report on their impact but reports and frameworks are not the core of their doing.

Key Implications

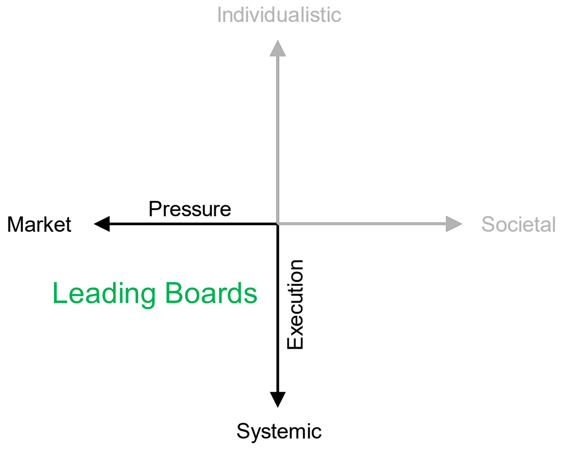
- Large scale impact and narrative change through undeterred focus by passionate individuals
- Idealist CEOs can pose a cluster risk to the business and corporate governance (e.g. through unequal voting rights)
- Risk of low financial profitability and overspending due to lack in oversight

Road to 2030

Key developments over the decade, currently shaping in the present

Scenario 3 – Leading Boards

Scenario 3 – Leading Boards



In 2030 inclusive capitalism and long-term thinking is the dominant paradigm on the market. Driven by ESG activist investors, who are concerned about long term profitability and the viability of business models, implementing corporate governance that is focused on sustainability, is the prevailing best practice. As such, asset owners including pension funds, insurance companies, endowments, etc., pressure asset managers to implement tight governance around sustainability and ESG. Individual CEOs can't be trusted, and the board is deemed the custodian of a business' purpose.

Boards of directors take on full supervision and active involvement in the sustainability and ESG strategies of their businesses. The chairs ensure that all sustainability requirements are embedded into corporate governance.

This includes having a sustainability committee at board level, or material sustainability issues being a core component of another committee's agenda. On these committees, at least 30% of directors have ESG literacy and proven sustainability competence. Fiduciary responsibility now includes risk mitigation of climate change and other sustainability issues.

The breadth of responsibility of board directors has changed significantly. They not only govern their businesses but are also very involved in guiding the CEO on core business strategy and its ESG aspects. Further, they closely communicate with shareholders to satisfy their demands for ESG compliance. The CEO's performance is judged not only by financial success but also by the realised total societal impact of the business.

Key Implications

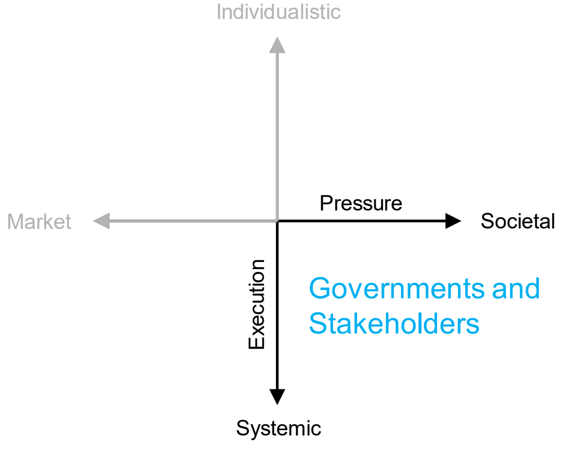
- A more involved board that co-creates business strategy is less reliant on any individual CEO, and their long-term performance or capability
- Systemic approach to sustainability leadership tends to be faceless
- Boards are influenced by asset owners' ESG agendas
- Blurred lines between management and governance

Road to 2030

Key developments over the decade, currently shaping in the present

Scenario 4 –
Governments and Stakeholders

Scenario 4 – Governments and Stakeholders



In 2030, societies around the world take a tough stance on businesses that do not exercise sustainable leadership. People are concerned about climate change and economic opportunity that extends beyond employment. They want business to pay fair taxes and eliminate their carbon footprint. Most importantly, governments take a more proactive regulatory approach and intervene to address market externalities, penalising businesses who fail to do so. But all stakeholders that are part of a business ecosystem pressure businesses to provide more sustainable products or services. Consumers won't buy from businesses who haven't adopted an authentic sustainability narrative. Employees won't work for businesses that do not foster inclusive and meaningful environments. Suppliers are worried for their reputation and the negative externalities of their supply chains.

The European Union is leading from a policy perspective in the West adopting a top-down approach, with the United States using a more business friendly approach, involving companies in dialogue on new regulations. China is developing an alternative narrative with government being the innovation driver and businesses the facilitators and delivery engine of ESG state policy.

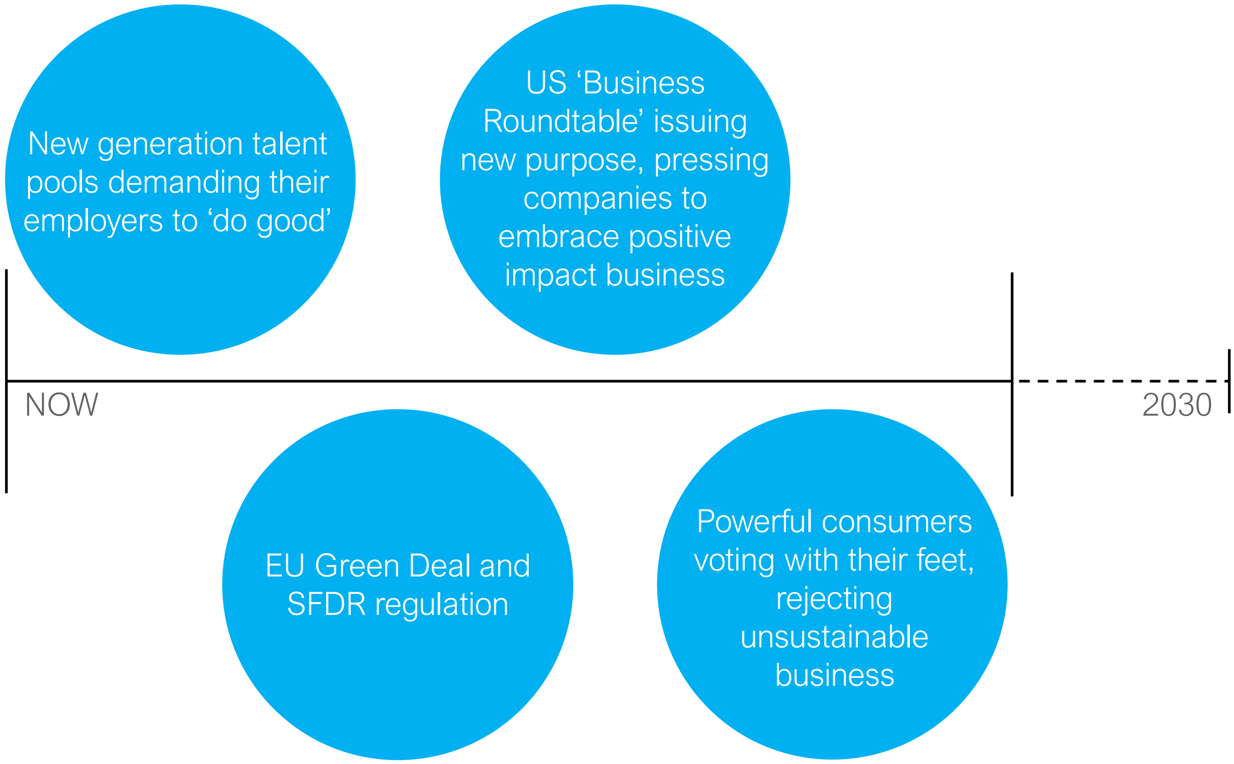
Either way governments and stakeholders are pushing businesses to align their core business strategy to material sustainability issues of 2030. They become the quasi leader of sustainable business.

Key Implications

- Businesses are incentivised to adopt to policies faster, so governments take a more reactive role
- Risk of 'fall from grace' if societal concerns are not addressed proactively enough and embedded into core business strategy

Road to 2030

Key developments over the decade, currently shaping in the present



Interview with Andrew Kassoy, CEO and Co-Founder of B Lab

We sat down virtually with Andrew Kassoy of B Lab – the nonprofit behind the B Corp movement - to get his scenario of sustainable business leadership in 2030 and his vision of what it takes to get there.

This interview was conducted as part of our interview series with leaders whose input led to the development of the four scenarios.

TSBR: What do you believe sustainable business leadership will look like in 2030?

AK: I believe the core of sustainable business leadership in 2030 will be stakeholder governance.

I think 2030 is an excellent date to pick, because there is a set of concrete sustainability goals (UN SDGs) to which business needs to be a major contributor. It is hard for me to imagine business being a contributor to meeting those goals, and therefore being sustainable, without stakeholder governance. This means that companies are accountable for creating value for their stakeholders by considering systemic issues like inequality and climate change. If businesses are not accountable for those issues through a form of governance, then it will simply be an exercise in disclosure, reporting or marketing that will not enable us to actually achieve those sustainable development goals by 2030.

People tend to focus only on the role of business to drive stakeholder capitalism, but we need a similar and aligned change in the fiduciary duties of investors. Business is so driven by the behaviour of capital markets that I don't see that we will have sustainable business leadership unless it is aligned with the interests of investors.

TSBR: How important do you think frameworks like the UN SDGs are going to be in driving sustainable business leadership? Do you think ESG frameworks are essential to use, and what potential risks do you think come with them?

AK: That is why I am so focused on stakeholder governance.

I think there are a couple of issues with the way many people think about ESG.

One of them is that many people see ESG as a reporting exercise. They focus on transparency and reporting, but the information in itself is not helpful unless it is a result of action taken.

A challenge with data and reporting is that it has driven many people to a compromise where there cannot be any trade offs. The compromise is to report on certain ESG things that are financially material. Which is nice, but there are plenty of externalities businesses create that, if they internalised these things, they would be less profitable, at least in the short term.

So, part of creating corporate stakeholder governance, where companies are actually accountable for considering these factors, is that they would have to do something about the externalities they create that are not necessarily financially material, but are societally or systemically material.

TSBR: Expanding on your notion of stakeholder governance, can you pinpoint certain stakeholder groups who will get us there? Those that exercise pressure on the business.

AK: There are a number of groups that could get us there, probably in combination.
One is employees of companies – they are increasingly demanding of their leaders. In the war for talent, companies will have to satisfy their workers if they want to be successful.

Second, there is an increasing number of long-term investors who recognise, either because of their values or because they have long-term financial interests, that they need the companies they invest in to be more sustainable. They recognise that, because they are universal owners, most of their returns are attributed to the performance of the whole economy – and an entire market does not perform how an individual company does.

TSBR: Do you think we will see more proactive governmental regulation, or will we see more regulation as the result of business inaction on sustainability issues?

AK: I think it is going to be some of each. Obviously, there are many attempts to regulate the individual behaviour of all kinds of businesses, like minimum wages or carbon tax. But there is also a strong movement of people who recognise that we need a higher floor on the expectations of business.

We need to change their fiduciary duties, and we need to address the legal idea that has been perverted over time that the duty of the directors of organisations is to maximise value for their shareholders. That is both a cultural and a legal problem, and I think government is not going to fix the cultural problem – they will try to fix the legal problem. For example, in the UK, a new law was proposed called the 'better business act', which would make all companies in the UK responsible for considering the interest of their stakeholders, and for their systemic impacts.

What is important is that it needs to be explicit in law. Other than a few heroic leaders, you cannot expect individual companies to make changes that go much beyond financial materiality.

TSBR: Talking about 'heroic' leaders – In an organisational context what is the role or who is the person, or system, driving change?

AK: I think those dynamics are changing in a sense that there is just increasing pressure on CEOs from all of these different stakeholders to make significant changes. Often CEOs are not that well equipped, because these kinds of ideas are not institutionalised in the business. Obviously, culture matters too. When I think about systems change, there is no one thing that has to change - it's multiple. Cultural change is about changing the narrative, but if the rules are contrary to the narrative, then all that is going to happen is 'greenwashing'.

I cofounded and lead B Lab, a network of organisations stewarding the B Corp movement, which is all about economic systems change and creating a community of credible leaders (B Corps) who show that they can do business in a different way. They set an example for others to follow. People think in stories and narratives, so when they see those examples, they want to follow.
If change is institutionalised because we have changed the rules so that the board has to act in a fundamentally different way with everybody keeping an eye on them; and the investors in the company have a different set of fiduciary duties requiring the board to act in a different way; and they have to report on it so their performance is transparent; then you don't have to rely on any one leader. You have a system that is functioning differently.
In the end, I don't see a scenario where much changes without that.

Conclusion & Recommendations

Leaders can use the scenarios to identify patterns in their current leadership and strategic trajectory. That is, they can fast forward and visualise sustainable business leadership in 2030 and consider pivots to their prevailing approach in the present.

Depending on one's individual context one can use the scenarios in different ways. A business school might want to review their learning materials about business leadership. How will the factors described in the scenarios potentially affect lessons in the future?

Policy outfits and market observers such as think tanks might want to incorporate sustainability led leadership narratives into their portfolio of issues.

Law makers may want to understand what factors drive a business in the upcoming decade. How can governments most effectively contribute to foster sustainable leadership that their communities need?

Heads of HR might want to prepare for policies that cater to ESG intrapreneurs. This could include, for example, understanding what organisational development strategies a business must have in place to support these employees. What re- and upskilling opportunities does an organisation have to provide? What does a career path have to offer for sustainability minded employees, besides traditional implications such as salary and job titles?`

Board directors might want to think about how the board would handle an Idealist CEO, and how to harness the energy of these leaders and work constructively with them.

They might also consider how the nomination committee would most effectively plan for CEO succession. What are the board's next best alternatives in case the CEO becomes too disruptive? Also, how much influence does the board exercise in the corporate strategy process?

ESG investors need to rigorously assess the make-up, character and know-how of the boards of their investments. They will want to review the governance frameworks and structures, including the presence of dedicated sustainability committees and competent directors. How can investors further enthuse boards and elevate the strategic direction of the company? Will it pay off in the long term to sacrifice or divest certain business lines that are not in compliance with a new ESG narrative?

CEOs might want to plan for the scenario of demanding societies where governments and stakeholders lead. Business strategy must account for the perpetual need for innovation and reinvention of product and services to cater to the needs of the wider organisational ecosystem. What is it that society needs from business leaders to remedy the past and fix the climate crises and social issues such as inequality?

Conclusion & Recommendations

We also identified positive behaviours of sustainable leaders that are plausible across multiple scenarios. These behaviours are already exhibited by some of today's sustainable leaders or those on a trajectory to sustainable leadership. They are, for example: Forming coalitions, actively listening to stakeholders' needs, thinking holistically and long term, and having the courage to stand up to sustainability detractors.

Lastly, regardless of what future one is considering, all scenarios need a strategy. It is important to translate actions and initiatives into a well-articulated and clear corporate strategy to systematically engage with the future.

Contributors

Frederik Otto
The Sustainability Board Report

Nicolas Alexander
The Sustainability Board Report

Tias van Moorsel
The Sustainability Board Report

Helle Bank Jorgensen
ESG Competent Boards
The Sustainability Board Report

Steven Matchett
Editor (Independent)

Professor David Grayson CBE
Cranfield School of Management,
Institute of Business Ethics

Jeannette Lichner
Non-Executive Director, Senior
Advisor and Executive Coach

Bart Blommers
Egon Zehnder

Professor Mike Rosenberg
IESE

Susan Hooper
Senior Board Member and Chair

Dottie Schindlinger
The Diligent Institute

Andrew Kassoy
B Lab

Special Thanks to

Professor Trudi Lang
Saïd Business School
University of Oxford

Lioncat Films

About Us & Contact

The Sustainability Board Report is a privately funded not-for-profit project developed by a group of individuals passionate about sustainability leadership. We believe that business can drive meaningful change.

We aim to showcase different dimensions of good corporate governance and the importance of sustainable corporate leadership. By drawing out best practice and changes over time, our reports also aim to help organisations learn from their peers and competitors and understand the changing landscape.

Our findings and research are based on proprietary methodologies. Before drawing conclusions, we take academic papers and thought leadership into account. We aim to combine theoretic concepts with actionable recommendations on business level.

We encourage a dynamic ecosystem of guest- contributions and advice. Please contact us if you would like to join the conversation, or simply provide feedback.

For all enquiries regarding this report, please contact us directly via email.

contact@boardreport.org

www.boardreport.org

Headquarters
20-22 Wenlock Road
London, N1 7GU
United Kingdom

Research Hub Singapore:
296 Beach Road
Singapore, 199599
Singapore

Photo Credits

Cover
Ricardo Gomez Angel

Page 6
Antenna

Page 8
Joel Muniz

Page 9
Reimond de Zuñiga

Page 11
Valdemars Magone

Page 12
Damir Kopezhanov

Page 14
Dane Deaner

Page 15
Katie Moum

Page 17
Ryoji Iwata

Page 21
NASA

Page 27
Gauravdeep Singh Bansal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