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Challenges of integrating sustainability: Reflections from the board

CLIMATE AND ENVIRONMENTAL Governance

BY TEOH SU YIN

Discussions around corporate sustainability have shifted from why it is important to how it can be done.

There is an increasing focus on the role of the board in managing sustainability challenges such as climate change and human rights. Sustainability considerations are now clearly embedded in listing requirements and codes of corporate governance, and actively monitored by investors, analysts and civil society. By now, companies should have a strategy to address sustainability risks and opportunities, complemented by a solid implementation plan.

However, the reality is that many boards are still struggling to identify, integrate and monitor material sustainability issues. Through my own experiences at CIMB and discussions with other company directors, here are some common challenges and dilemmas faced by boards in driving sustainability.

Complexity of subject matter

Sustainability is a complex matter. In fact, this can be an intimidating subject matter for those new to the topic. As expectations of boards shift from shareholders to broader stakeholders' interests, we are required to understand and address issues that are often beyond the current expertise of board members. Concepts and issues such as Net Zero, transition risks, modern slavery and the mushrooming of environmental and social standards and regulations are now dominating board agendas.

Apart from understanding complex issues, the board and management are also faced with the practical considerations of how to integrate sustainability into business operations, including building sustainability skillsets and buy-in within management, prioritising resources, planning for different approaches and needs of various business units and complying with varying regional regulations and standards. To say that the "to-do" list is long is an understatement.

There is a limited pool of board candidates with sustainability expertise. This is not unique to Southeast Asian companies but a challenge faced by almost all boards. I have personally found that other resources and support are readily available. These can be found through engagements with industry peers, members of other boards and professional networks such as the CEO Action Network (CAN) and Climate Governance Malaysia (CGM). Non-governmental organisations that have been working on specific issues are useful resources too in supporting decision-making, whether one agrees or disagrees with their findings or approach.

Kicking the can down the road

Apart from the additional resources and expertise required to integrate sustainability into business operations, nerves are required! At times, these new initiatives are in conflict with existing practices. For example, this may involve walking away from business opportunities, disappointing existing clients or pursuing unexplored approaches that could pose additional risk to the business. At the same time, boards are also concerned about potentially being penalised for taking a longer-term approach at the expense of short-term returns, despite demands for more sustainable practices from investors. It can be a lonely path initially but it should not be for long, as most boards are having similar discussions.

In 2021, CIMB stopped financing new coal power plants and thermal coal mines, and became the first emerging-market bank to commit to phasing out from coal by 2040. The initial proposal to the board was to phase in "no coal" financing guidelines. However, following discussions on the impact on our clients, engagement with experts on the future of coal, and after much deliberation, the board decided on immediate implementation instead of a phased approach. The decision placed us ahead of the industry, and many banks in the region followed suit within six months.

Also, it is sometimes tempting for the board to commit easily to long-term targets, such as becoming Net Zero by 2050, with the thinking that current board members will be long gone by then. However, any credible long-term target must include realistic short- and medium-term milestones, including clear targets and accountabilities. For example, as part of the Net-Zero Banking Alliance (NZBA), we are committed to set targets for key sectors at the 2030 and 2050 horizons.

While the role of the board is to question and challenge policies, management needs to be trusted and empowered to implement the policies and guidelines. At CIMB, sustainability progress is linked to compensation: sustainability key performance indicators have been incorporated into collective scorecards across our business and, therefore, influence the overall performance rating and compensation of all divisions and almost all employees. Critics have argued that CIMB has yet to incorporate sustainability-related targets into the group's Long-Term Incentive Programme. Is this ideal? No. Is the group ready for it? Possibly. As discussed earlier, there is still much to do. All boards have to consider priorities along the company's strategic road map.

Embracing the healthy tension

One of the areas of intense internal debate is the expectations of stakeholders for companies to commit to higher standards than local laws and regulations. Discussions often centre around why there is a need to work toward higher standards, as long as we operate within legal limits. In my view, the question that board and management need to ask is "why not?", weighing the risks and potential cost to business — of both action and inaction — in the short, medium and long term.

No matter how worthy the cause, implementing any fundamental change comes with critics and challenges, both internally and externally. As an example, CIMB has developed and is in the process of rolling out a No Deforestation, No Peat and No Exploitation policy, which is particularly tricky for a regional bank with a large agriculture portfolio. Addressing concerns as to why the need to go above national legal requirements has required robust internal engagement and training, creating a healthy tension and discourse between the board and management. At the same time, we continue to engage with civil society and activist NGOs who work to push us to move faster.

Embedding sustainability principles, policies and strategies into an organisation is a long-term investment and commitment. I often have to remind myself that the sustainability journey is a marathon, not a sprint. Mistakes will be made, and gaps will need to be quickly identified and rectified as part of the learning process. Acknowledgment of shortcomings and persevering through challenges are key, and I am comforted that there is indeed growing determination among boards to address social and environmental issues to make a difference in ensuring a sustainable world. ■

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This column is part of a series coordinated by Climate Governance Malaysia, the national chapter of the World Economic Forum's Climate Governance Initiative (CGI). The CGI is an effort to support boards of directors in discharging their duty of care as long-term stewards of the companies they oversee, specifically to ensure that climate risks and opportunities are adequately addressed.