In collaboration with
Deloitte

The Chairperson's Insights into Climate Action

Highlights from interviews with chairpersons on boards

BRIEFING PAPER

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Shining a light on key issues and questions for boards tackling climate change

This paper provides a summary of key highlights from interviews with 16 members of the World Economic Forum's Community of Chairpersons, on climate action held in late 2021. It is part of an ongoing series of thought leadership designed to enhance climate competence and steward climate action by board directors across the globe.

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Strategy

Do you understand where your company stands in its climate governance journey and how you will need to evolve?

There are three broad stages to taking climate action, understanding the "why", the "how" and the "how fast". Many boards are still at the stage of understanding "how". The hardest part of taking action is making the decision – once it is made it becomes a question of execution.

Pivoting the business towards climate and sustainability requires an increasing speed and collaboration of boards to shift portfolios and instil a culture to think differently.

Risk and opportunity

How aware is your board of the risks and opportunities presented by climate change and climate action?

Many boards are still grappling with understanding the risks posed by climate change and are particularly focused on transitional risks such as regulations and investor pressure. It is important that boards are aware of all the risks and are treated the same as any other risk.

Boards also need to be tuned into opportunities presented by the crisis and consider how they can reposition to new growth areas.

Although on a downward trend, greenwashing remains a large risk. Many companies are making commitments without understanding how they will be achieved. To avoid perceived greenwashing, businesses need to follow through on commitments.

Setting consistent reporting standards and disclosure frameworks is the first step to ensuring that risks and opportunities are managed appropriately.

Stakeholders

Do you understand your stakeholder pressures and the trade-off decisions they face?

Negative publicity is seen as the biggest motivator of change for the majority of companies. Sources of pressure vary by geography and sector, but it is increasing on all fronts.

Chairpersons also have a role to play in placing pressure on their stakeholders (such as governments and suppliers) to be proactive.

Board engagement with stakeholders (such as investors or governments) is needed to feed into decision making and obtain meaningful outcomes.

Board competence

Does your board hold the right diversity of capabilities to competently engage on climate and act decisively?

Overall, there is a lack of knowledge of what others are doing, with climate competency often viewed as a “nice-to-have”. However, this varies massively by sector, geography and ownership model.

Chairpersons have a critical role in educating their boards and broader networks.

Board operations

How is climate risk and action embedded in your board operations and governance structure?

Culture and climate cannot be delegated. Establishing a structure so that climate issues are regularly brought on the board agenda, such as by regular board tutorials, appointing an expert or sub-committee, is vital.

The chair and chief executive officer (CEO) relationship is also critical. Chairpersons assist the CEO in keeping an outward-looking view and vision for the long term. At the same time, chairpersons can support the CEO to influence the board to take action.

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Strategy

Do you understand where your company stands in its climate governance journey and how you will need to evolve?

Understanding where your company is on its climate governance journey

Chairpersons broadly outlined that a high-level process to change involves understanding:

- Why must we pay attention?
- How will we change?
- How fast can we, and do we want to, change?

Chairpersons considered that many companies are still understanding the "How", some are still coming to terms with "Why", but this group is becoming smaller.

Chairpersons need to set the expectation that directors stay on top of global trends. Chairpersons noted it can take a number of years for the board to make the decision to act, but once it is made it, it is just a question of execution.

Increasing speed and collaboration

Chairpersons identified a need for increasing speed and collaboration, noting:

- It is a fight to stay relevant.
- Once the board has passed the point of "Why" and "How" it is then the process of working out how to go faster.

The key question for strategy is: what is the timing to step away from key business? If the timing is right, market share will grow, but there is a fear of moving too early.

Boards need to decide if the company should lead or be a fast follower. Both are valid approaches, but they are mutually exclusive and require clarity to act in line with strategy.

A key challenge is taking action without all supporting information and data. Decision-makers waiting for hard data will act too late.

Thinking differently

A big challenge for chairpersons is to get "*people who understand the pace of change, embrace the change and be willing to take enough risk to execute*".

Board members with a CEO background may not have the skills that are required now. Chairpersons believe there is a need to think differently, noting that boards need to:

- Move from inward-looking technical thinking to an outward-looking ecosystemic focus. This is a critical step to operating with a view of the full value chain.
- Change from having a "sustainability strategy" to having a "sustainable strategy" that embeds sustainable thinking into all strategic endeavours.
- Make sure directors are not all from the same sector as this leads to management becoming myopic and inward-focused.

Changing portfolio

Chairpersons noted that there is opportunity in crises and emphasized that boards should not waste the current crisis to make significant changes. In their view, boards should:

- Aim to be leaders in investment and to be ahead of the curve on growth.
- Push management on the level of commitment and take away any options to turn back. By selling cash flow assets, "the stepping stones were taken away"– there was no way back.

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Risk and opportunity

How aware is your board of the risks and opportunities presented by climate change and climate action?

Risk focus

Chairpersons noted that many boards are still grappling with understanding the risks posed by climate change, recognizing that:

- Boards often do not understand climate risk, especially how it might impact supply chains.
- The focus of boards is currently mostly on mitigation and not many are yet thinking about adaptation.
- Transition risks are taking precedence over physical risks at this stage.
- There is a need to understand and balance the risk in the business portfolio.
- Climate risk is just one of many risks; it should be treated in the same way as all risks.
- There is potential that boards are not informed enough to make the best decisions on climate risks.
- Boards need wide risk awareness to have a strong understanding of other arguments and analysis.

Opportunity

Chairpersons noted that their focus on future proofing and opportunity has transformed their entire business, emphasizing the opportunities of new products and services.

Chairpersons recognized that change happened once the board saw the opportunity. Although this is hard, there is a need to bring the plan from the brain to the heart.

Chairpersons suggested that boards should be asking:

- How do we reposition towards to growth areas?
- How do we help others to transition to our commercial benefit?

Greenwashing

Greenwashing is a major risk highlighted by several chairpersons, although they noted that it appears to be decreasing.

Chairpersons acknowledged that there are a lot of commitments made, yet there are still plenty of discussions on understanding the "How", indicating that many businesses are making commitments without understanding how they will be achieved.

To avoid greenwashing, chairpersons noted that:

- Businesses need to demonstrate clear follow-through on commitments.
- If the business is taking action because “you should”, it will not be a committed strategy. Effective climate action has to be wanted.

Disclosures and standards

Chairpersons agreed that standard setting is critical and is starting to come together, noting that:

- Businesses need common reporting standards to enable transition.
- In the first instance, companies need to start disclosing. The next step is quality disclosure.

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Stakeholders

Do you understand your stakeholder pressures and the trade-offs they must make?

Stakeholder pressure

Chairpersons acknowledged that negative publicity is the biggest motivator of change for the majority of companies.

The source of greatest pressure varies significantly by geography and sector but all dimensions of stakeholder pressure are increasing. Chairpersons provided different examples of stakeholders applying pressure (by stakeholder type and in order of impact), including:

– First community, then employees, customers, investors.

– First employees and then clients.

– Investors, employees and prospective employees.

– Younger employees.

Investors demand huge change and then also demand no change in dividends in the short term. Chairpersons called out this behaviour and noted they cannot have both. Trade-offs are required and will likely impact all stakeholders.

Chairpersons also suggested that investors in Asia are less focused on the "Environment" and are more focused on "Social" and "Governance".

Pressure back on stakeholders

Chairpersons also highlighted the role of boards in putting pressure back on their stakeholders:

– Companies have a role in educating clients to help them make informed decisions.

– Financial companies have a role in “becoming a factor of change” for companies they finance.

– Some governments are lagging behind and it is the role of companies to help them catch up.

– Chairpersons can play a vital role influencing their networks to put pressure on stakeholders to also take action.

Stakeholder engagement

Chairpersons noted that boards and their companies also have a role in engaging their stakeholders.

– Chairpersons and boards have a strong role in influencing finance by engaging with investors to understand their trade-offs and telling the story in a way that can be heard.

– Companies must have a plan backing up the commitments – weaknesses will be exposed.

However, engagement with stakeholders must not be a “tick box” exercise; strategic debate is needed to feed into decision making to obtain meaningful outcomes.

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Board competence

Does your board hold the right diversity of capabilities to engage on climate and act decisively?

Current state of competence

Chairpersons noted there is a lack of knowledge among boards on what others are doing and the practical solutions, indicating that:

- A view remains that taking climate action is always costly and value-destructive.
- Climate competencies are still seen mostly as a "nice-to-have".
- While competence and focus vary massively by sector, geography and ownership model, in general:
  - Heavy-emitting industries are far more aware and engaged with climate issues.
  - European boards have shown more focus on the issue due to high policy and community pressures.
  - Public companies are under more pressure from investors compared to private and family-owned companies. For private and family-owned businesses, the vision for change has to come from within.

Regional variations

Chairpersons noted that board competency varies by region:

- In Europe, there is broad board agenda to make the world fossil free and in doing so build a strong company.
- In Asia, there is limited awareness or concern about climate issues. However, with recent net-zero targets by governments, including China and Japan, there is some knowledge of the need for emissions targets. Large global companies with operations in Asia are starting to engage, but others have no idea where to start.

Education

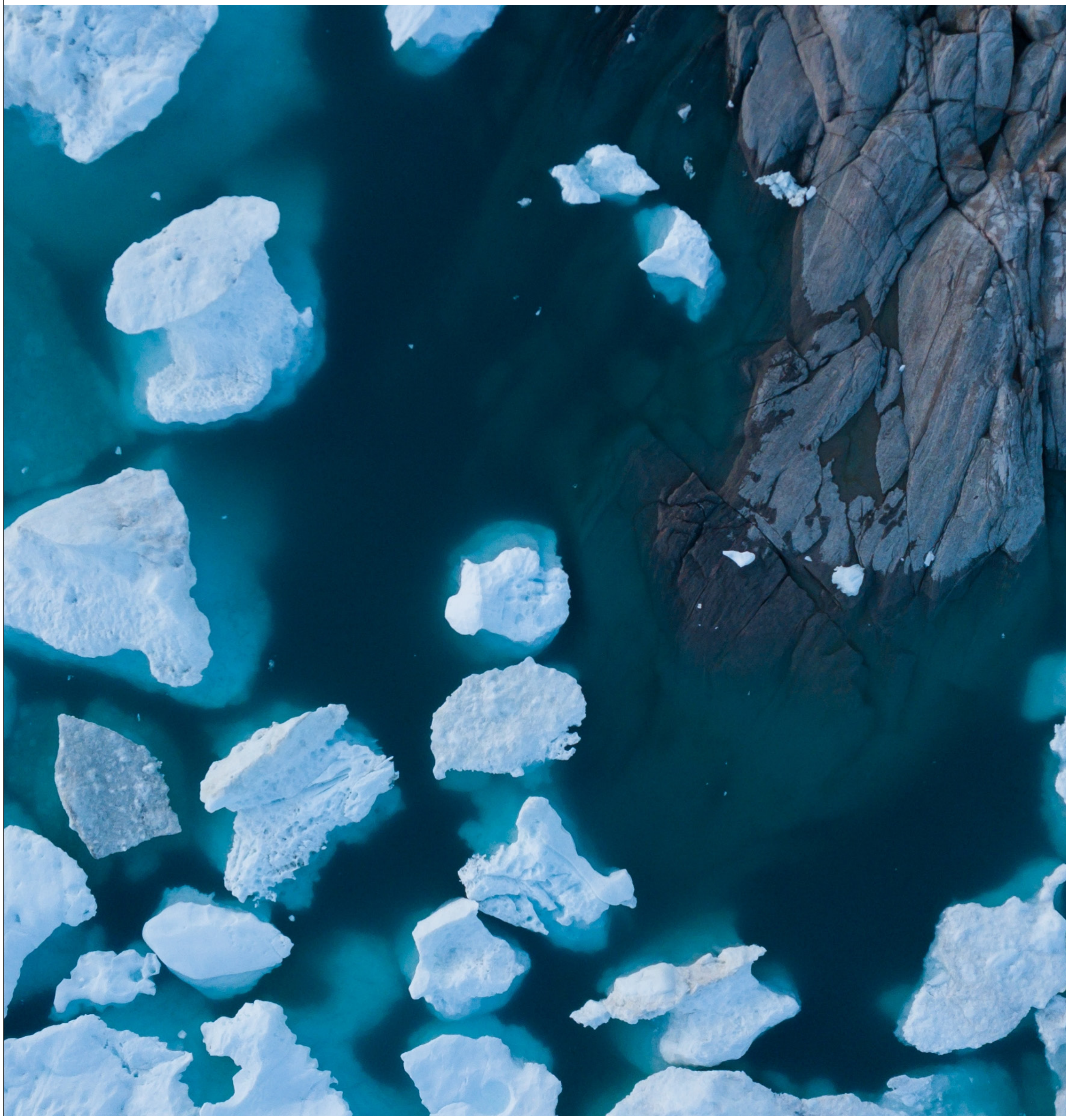
Chairpersons suggested that board members must be a board member first and then may bring expertise in specific areas, noting that companies need to be careful in making board appointments based on specialist expertise alone. As such, chairpersons recognized their role in driving competency:

- It is important to get people on the same page, same mindset and agree on the issues.
- Chairpersons can educate their boards and executives through knowledge shares/tutorials outside formal board meetings. This can also involve getting internal and external speakers.
- Education must be more than a “tick box" exercise; it needs to run deep and be committed to driving competency.

How a coalition can help

The chairpersons considered that a coalition of chairpersons focused on climate could help education, noting that:

- Basic education has to happen as a foundation.
- Chairpersons should not assume a level of understanding. There is a need to get everyone to the same place regardless of the starting place.
- Education programmes should be substantive and avoid being political or preaching.



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Board operations

How is climate risk and action embedded in your board operations and governance structure?

Role of the chairperson and board

Chairpersons recognized the need to make sure the CEO is keeping an external world view and challenge their assumptions.

Often the CEO is too busy addressing immediate issues. An independent chair can step back and ensure that longer-term issues such as climate are getting coverage.

Chairpersons can help the CEO and management in shaping the argument so the board can hear it. Chairpersons suggested that:

- The board acts as a bridge between the 5-10-year strategic view and the annual tactical view of executive management.
- Trust and mature dialogue between the chairperson and CEO is critical.

Board structure and composition

Chairpersons also emphasized that “culture and climate cannot be delegated”, suggesting that the way climate capability is brought on to the board can vary depending on the company’s current needs . For example, there are options to:

- Appoint a climate expert on the board to support raising the broad knowledge of all board members. If experts are involved, the board should consider how skills are transferred for shared responsibility.
- Establish a sustainability sub-committee or full board engagement.

Chairpersons also identified key gaps and issues, in that:

- Board effectiveness reviews often do not include climate.
- Corporate governance needs to leave space for individual leadership and for diverse voices to encourage healthy debate.

Nominations

Chairpersons indicated that the nominations committee is essential to get the right people, and suggested that:

- Appointments need to shift from “who has the most skills” to those “with the most curiosity”.
- Boards need leaders who look beyond the organization’s borders. Diversity of thinking, including age and cognitive diversity, is critical to be able to negotiate complex issues such as climate.
- Candidates for boards are starting to be hired on potential rather than on demonstrated experience.

Overall, chairpersons agreed that an effective CEO who is deep in climate is rare; instead, boards should be looking for someone who is open and inquisitive.

Executive remuneration

Chairpersons also recognized the role of executive remuneration, noting that:

- There is a big variation in current state of remuneration and the likely future step is towards executive remuneration linked to climate.
- It is seen as a critical step, but for some it is not a near-term step.

Views on executive remuneration ranged from climate must be part of remuneration, some considered at least 10%-20% of remuneration, while others considered it is not on the agenda at all.

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World Economic Forum's Community of Chairpersons

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