Leading Climate Strategy From the Board

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Many boards fail to walk the talk when it comes to fighting climate change. Here are some straightforward solutions for directors.

With the Glasgow Climate Pact, nearly 200 countries agreed to strengthen their targets for cutting greenhouse gas emissions. As a result, companies around the world must act – and their boards must show leadership. How have directors coped with climate change to date? How is the issue already integrated into corporate governance and management processes? And what practical steps can boards take to make real progress on addressing climate change?

These were the questions that INSEAD and Heidrick & Struggles set out to answer through a recent global survey of 300 board directors. We focused specifically on climate change, rather than the broader sustainability or ESG angle. Our rationale was not only that climate change would be top of mind in the run-up to the 2021 United Nations Climate Change Conference (COP26), but that the more specific the findings, the more practical the advice we could offer boards.

Our results revealed one stark fact: With respect to climate change, there is a vast gulf between what many directors *say* and what they *do***.** Nevertheless, we also found reasons to be optimistic, concerned and alarmed.

Reasons for optimism: Climate change is moving up the agenda

In 2021, climate change was a fixture on most board agendas. Some 75 percent of our respondents believe the issue is “very” or “entirely” important to the strategic success of their companies. Furthermore, 63 percent report that their board has a clear understanding of the risks and opportunities that climate change presents to the business. In addition, 60 percent claim that they and their fellow directors are “very” or “entirely” aligned on the importance of the issue and what to do about it.

Practical implications

The implications of these findings are simple. The three-quarters of directors who grasp the strategic importance of climate change should continue to devote time to the issue and ensure that their executive teams do the same.

For the remaining quarter of boards, it is time to take action. New regulation is coming, corporate governance codes are changing and activist investors are reshuffling boards. Acting on climate change is becoming part of companies’ licence to operate.

However, since 72 percent of directors are “very confident that their company will meet its climate change goals”, we find *ourselves* becoming sceptical. Are these goals ambitious enough? Is this confidence misplaced? Our doubts are heightened in light of further findings from our survey.

Reasons for concern: A lack of targets and inadequate reporting

The first and most obvious goal is to reduce carbon emissions. Yet, 43 percent of our respondents’ companies are not yet working to meet such targets (although some are in the process of setting them).

Of course, this is not entirely boards’ fault. Our survey found that only 50 percent of directors are satisfied with current reporting to the board on climate change.

Practical implications

Boards need to insist that executives set ambitious and realistic decarbonisation targets, while ensuring a balance with overall business goals.

Boards should also insist on better reporting. Alongside updates on overall decarbonisation performance and the impact of climate change on the entire portfolio, directors should demand some specifics. What are the likely effects of climate change on a given product or facility? What is the risk of that facility becoming a worthless “carbon-stranded” asset?

In order to evaluate such reports, boards will almost certainly need to educate themselves. In fact, 85 percent of those surveyed say that their board needs to increase its climate knowledge. Our survey reported that 46 percent say that their board does not know enough about the financial implications of climate change for their business. These percentages are cause for concern in themselves, but when combined with our final set of findings, they start to ring very loud alarm bells.

Reasons for alarm: Climate expertise is not sufficiently prioritised

We will simply let our findings speak for themselves:

- 69 percent of respondents say climate knowledge is not a formal requirement for joining, or staying on, their board
- 65 percent report it is not a formal requirement when recruiting a new CEO
- 74 percent say climate change is not (or is only slightly) integrated into executive performance metrics
- 49 percent state climate change is not (or is only slightly) integrated into the company’s investment decisions.

Practical implications

The good news is that there are many easy measures that boards can implement as we stipulate in our recommendations. However, the question remains: Why have so few acted already?

Stopping a vicious cycle

One uncharitable interpretation of our findings could be that boards are only paying lip service to climate change. However, it is far more likely that directors are paralysed by the complexity and scale of their climate and wider ESG responsibilities. The most compelling explanation is perhaps that boards are caught in a vicious circle: People with climate expertise typically lack board-level business experience – and vice versa.

Below we offer some straightforward recommendations. They are not intended to apply to all companies, some of which are further along the road than others, but are all based on proven, real-life examples of practices that accelerate progress.

Include climate change in the board's competency matrix.

According to our survey, almost all boards think they lack knowledge when it comes to climate change. Yet fewer than a third specify such a requirement when recruiting new directors or evaluating existing members. So, an obvious first step is to define the skills and experience that will plug the gaps. In the end, the goal is to ensure the whole board understands what climate change is and what it means for their business.

Add more relevant voices to your boardroom.

It is time to balance traditional board qualifications with new knowledge and mindsets. This will safeguard your company's ability to create value over the long term. New requirements go far beyond the traditional ones. If boards do not add ESG-savvy directors, they must find other ways to inject knowledge, from external specialists to advisory boards to crash courses at business schools. The existing directors who want to learn should be supported in their efforts.

Change the board processes and dynamics.

A new responsibility of the chair is to ensure that climate change is being addressed. This leading role is theirs, as it is chairs who control agendas, manage dynamics and set the overall tone of any board. There is an imperative for chairs not only to update the agenda, but also to ensure that the dynamics of the board are inclusive. Everyone's perspective should be heard, and everyone should be comfortable speaking up.

Tie your climate change strategy to a social and organisational purpose, as well as to specific operations.

Organisations anchored to a meaningful purpose react faster to change. They can attract and retain committed employees and customers. They're also more effective at meeting the higher expectations society now has for corporations. Boards and executive teams that put climate change at the heart of their purpose can significantly accelerate their progress.

Integrate climate change objectives into executive compensation and search strategies, especially for the CEO.

Overseeing executive performance and recruiting new CEOs are fundamental board duties. It follows that climate change should become fully integrated into these activities. Just as board members need to continuously examine their own succession plans, they must do the same for their CEOs.

Boards that take on these recommendations will give themselves, their organisations -- and the world -- a better chance at meeting the climate change challenge.

Click ***here*** *to access the full report.*

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