Climate change: the existential threat of the century. Discuss the opportunity for the governance professional to be part of the solution.

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The latest report of the Intergovernmental Panel on Climate Change (IPCC) makes clear the scale and severity of the threat posed by climate change. Substantial and increasingly irreversible damage to ecosystems has already been caused. If we cannot change course, many people are likely to be exposed to life-threatening extreme weather and growing food and water insecurity.[1]

While it can be tempting to regard climate change as a matter for governments, it is clear that corporations have a significant role to play. The weighted average carbon intensity of the MSCI's All Country World Index for Scope 1 and 2 emissions is 154 tonnes of CO_2e per million US dollars of revenue.[2] Listed companies have vast carbon footprints and it has not gone unnoticed. The 2022 Edelman Trust Barometer ('Edelman'), surveying more than 36,000 people in 28 countries, found that 52% of people believe business is not doing enough to address climate change.[3] Nonetheless, trust in business remains relatively high. It is viewed as 'competent and effective' and a driver of positive change but failure to address climate change risks significant erosion of trust.[4]

The governance professional (GP) is uniquely placed to address the concerns identified in Edelman. It is often said that the GP should serve as the 'conscience of the company'.[5] This is a significant aspect of role, underpinned by the Chartered Governance Institute UK & Ireland's (CGIUKI) *Code of Professional Ethics and Conduct* and evident in the values component of *The Competency Framework for Governance Professionals*.[6] GPs who can excel in this area are perfectly equipped to safeguard and enhance public trust in their organisation. To continue to do so they must turn their attention to the intersection between governance and environmental and social factors. To drive the positive change referred to by Edelman, companies must act with purpose and tenacity, not least at the board and executive level. Purpose and tenacity are core competencies for GPs and deploying them appropriately will facilitate the same behaviours in the board room.[7]

The GP is well placed, by virtue of competencies and position in the organisation, to drive change and build trust. In doing so they can be part of the climate solution. But what practical steps can they take? This essay will discuss a range of ways in which GPs in listed companies can deploy their skills, expertise and influence to address a challenge that will be new to many. The focus on listed companies reflects the scale of their climate impact and potential to be part of systemic change.

Corporate Strategy

The GP plays an increasingly important role in the development, oversight, communication, and delivery of corporate strategy. They act as a bridge for the smooth passage of information between the board and executive, facilitating effective leadership, decision-making, and delivery of strategic

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[1] Carbon Brief, 'In-depth Q&A: The IPCC's sixth assessment on how climate change impacts the world'.
[2] MSCI, *Index Carbon Footprint Metrics*, p.1.
[3] Edelman, *Edelman Trust Barometer 2022*, p.33; Edelman, *The Trust 10*.
[4] *Ibid*, p.34.
[5] The International Finance Corporation, *The Corporate Secretary: The Governance Professional* (IFC, 2016) – refers to the role of 'conscience of the company' throughout.
[6] CGIUKI, *Code of professional ethics and conduct*, identifies 'integrity' and 'transparency' among the core principles to which members must adhere; CGIUKI, *Competency Framework* identifies 'Doing the right thing' as one of the 12 competencies. Under this the core values include 'acting with integrity', 'being transparent', and 'embodying the organisation's corporate conscience', p.19.
[7] CGIUKI, *Competency Framework*, p. 22.

objectives.[8] They must therefore be able to take a strategic view and assist the board in placing the organisation in its wider context. This requires a firm grasp of regulation; risk; and shareholder and stakeholder perspectives.

As our understanding of the threat posed by climate change grows it becomes more evident in each aspect of the wider context. Climate-related regulatory demands, such as the introduction of reporting on a comply-or-explain basis in alignment with the Taskforce for Climate-related Financial Disclosure for premium listed companies and the climate provisions of the proposed EU Directive on Corporate Sustainability Due Diligence, are increasing across industries.

Climate-related risks have also increased for many organisations. From multi-billion dollar stranded-asset risks in the fossil fuel industry;[9] to carbon pricing affecting carbon-intensive industries such as steel and cement; to power supply risk for technology companies with electricity-intensive data centres;[10] to flood and extreme weather risks which threaten property, production and supply chains. Despite this a recent report by PwC concluded that only 24% of FTSE 350 annual reports 'explicitly integrate ESG matters into their corporate strategy'.[11]

The GP must understand how climate risks apply to their organisation and work closely with the board and executive to ensure appropriate information, expertise, and time are available for consideration of climate factors and their incorporation in strategy. Just as they would with other strategically significant topics, GPs can gather and review relevant papers and reports, arrange briefings from specialist staff, and design suitable meeting agenda. Facilitating a thorough understanding of the strategic significance of climate change at board level may encourage exploration of the opportunities to mitigate risks and find sustainable solutions that can be delivered purposefully and effectively through corporate strategy.

Bringing Clarity to Standards

The GP is not only a bridge for information but a source of expertise. Experienced in interpreting, explaining and applying standards they can play an important role in navigating the multiple frameworks and standards that have emerged in the field of climate change. The GP can guide a board through these and help an organisation to improve its performance in the process. From using the Science Based Targets Initiative to establish greenhouse gas emissions reduction targets aligned with the Paris Agreement; to engaging with the Transition Pathway Initiative to improve the quality of management oversight of climate factors; to submitting responses to the Carbon Disclosure Project to demonstrate and give credibility to the climate approach; and adopting overarching sustainability reporting initiatives such as the Value Reporting Foundation's principles, framework and SASB standards and the Global Reporting Initiative's guidelines. By deploying experience of standards from other areas of corporate governance, the GP can help their organisation to identify and utilise the most relevant, recognised climate standards. This will enhance climate transparency and accountability to shareholders and stakeholders. Crucially, it will also offer a framework to drive improved performance on climate factors.

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[8] Kakabadse, A., Korac-Kakabadse, N., and Kahn, N., *The Company Secretary: Building Trust Through Governance*, (ICSA, 2014) p.7.

[9] Estimating the potential financial cost of stranded assets is complex; however, in its 'Low CCUS Case' (i.e. low adoption of carbon capture utilisation and storage technology) the International Energy Agency estimate that USD 90 billion of coal and gas power generation capacity 'could be stranded by 2030' and 'USD 400 billion by 2050'. This is a worst case scenario for the holders of these assets but demonstrates the potential risk exposure if warming is limited to 1.5 degrees. See IEA, *Net Zero by 2050 – A Roadmap for the Global Energy Sector* (IEA, 2021) p.98.

[10] For example, Meta Platforms, *Form 10-K*, FYE 2021, Item 1A. Risk Factors – identified disruptions, outages and increased energy costs as risks arising from climate change.

[11] PWC, *Climate change in FTSE 350 annual reports*, p. 3.

Monitoring & Oversight

Successful delivery of strategy requires robust monitoring and oversight. As climate becomes more prominent in organisational strategy, oversight mechanisms must evolve accordingly. GPs possess the experience and skill to address this need. Some companies will choose to assign the board explicit responsibility for climate oversight.[12] Others will adopt new governance structures. For example, some energy companies have assigned oversight of climate to the board and to a supporting safety and sustainability committee.[13]

In some cases shareholders have taken action where oversight of climate was assigned to committees with responsibilities so wide ranging as to risk diluting their attention. At its AGM in 2020, US oil giant Chevron faced a shareholder resolution calling for the creation of a dedicated board committee on climate risk. Though the resolution was unsuccessful 8.2% voted in favour, against the recommendation of some proxy advisors.[14] The requisitioning of such resolutions highlights that appropriate governance, monitoring and oversight, aligned with risk exposure, is critical to shareholder confidence in the ability to effectively set and deliver a climate strategy.

Corporate Reporting

Organisations might integrate climate in corporate strategy, utilise appropriate standards, and put in place sound monitoring and oversight mechanisms but the impact of these changes will be limited if they are not communicated effectively. Climate reporting requirements are increasing. As in other aspects of corporate reporting, this presents an opportunity to those who exceed minimum requirements and embrace the chance to communicate a compelling approach and demonstrate effective management of climate risk and pursuit of solutions. It can tell the story of what has been achieved during the year and describe a coherent strategy which strives to achieve ambitious climate targets in future. By measuring progress and plotting a future course, reporting can play a part in facilitating systemic change. Investors are allocating capital to companies that effectively manage their climate impact and offer solutions. This is a key means of driving widespread solutions to climate change and it relies on the disclosure of consistent and reliable information by companies.

The GP plays a critical role in the annual report and public disclosures, which are the logical places to disclose an integrated climate strategy. The role of the Audit Committee in ensuring strong integration of climate in corporate reporting is growing as the impacts of climate change come to bear on financial statements and risk assessments. The GP can therefore play a dual role to support this aspect of an organisation's climate approach by: (i) drafting clear and transparent disclosures, and (ii) supporting the Audit Committee to develop the expertise and processes to integrate climate considerations in its regular business.

Composition, Induction, Training & Development

It is clear that expectations of directors are changing. Alongside traditional expectations – of industry experience, financial expertise, and strategic leadership – climate-related knowledge, skills and experience have come to the fore. The FRC's *Guidance on Board Effectiveness* notes that board evaluations should consider whether the mix of skills, experience and knowledge on the board reflect the context of the company - its strategy, challenges and opportunities, and principal risks.[15]

[12] National Grid, *Annual Report and Accounts 2020/21*, p. 61.
[13] For example, Shell's Safety, Environment and Sustainability Committee; and BP's Safety and Sustainability Committee.
[14] Chevron Corp, *Form 8-K* (27 May 2020), agenda item 5 voting results.
[15] Financial Reporting Council, *Guidance on Board Effectiveness 2018*, s. 113.

Companies have begun to acknowledge this by explicitly identifying climate competencies in the board skills matrix.[16] When climate competencies do not appear to be adequately addressed in board composition, shareholders have begun to act. At the 2021 AGM of Exxon Mobil a proxy challenge was successful in electing three directors against the board's wishes in a contest that frequently focussed on the company's climate approach. In 2022 ISS, a proxy advisor, is seeking to increase the accountability of the directors of companies with significant greenhouse gas emissions. Companies that are failing to take 'minimum steps' to address climate change may face recommendations against the chair of the board or other responsible directors.[17]

The GP supports the board chair and nomination committee in their efforts to craft an optimal board composition and can facilitate the inclusion of climate considerations in this process. They can also influence how climate is addressed in board induction, training and development – facilitation of which is a key component of the role.[18] By incorporating climate material in board induction, training and development, in alignment with the materiality of the risk and opportunity it presents to the organisation, the GP can play a key role in supporting effective board decisions and action on climate.

Shareholder and Stakeholder Engagement

The *UK Corporate Governance Code* builds upon the directors' duty to have regard to the company's key stakeholders, wider community and the environment by including effective shareholder and stakeholder engagement in its Principles and Provisions.[19] The growth of formalised investment stewardship has reshaped the topics on which institutional shareholders seek to engage. Growing activism at company AGMs and the rise of so-called 'Say-on-Climate' resolutions make productive and proactive engagement between the secretariat and shareholders even more important. The GP is a key point of contact for these shareholders and has the opportunity to support productive engagement by collaborating with colleagues to ensure that messages from the board and executive are clear and informative. The GP is uniquely placed to inform engagement about climate governance, having insight into how the board and each of its committees contribute to the climate approach.

Other stakeholders are also finding their voice on climate issues. Employees have become increasingly vocal advocates for corporate climate action.[20] *The Guidance on Board Effectiveness* identifies the company secretary as 'well placed' to engage with the workforce about wide-ranging concerns.[21] The evidence of Edelman suggests that views on companies' climate response should be an increasingly significant part of the GP's stakeholder engagement.

Conclusion

The governance professional is equipped, with the skills, experience, and position within the company, to play a meaningful part in the solutions to climate change. They can contribute to change within their organisation and support systemic change through effective communication with stakeholders and investors. It will be necessary to adapt and build new knowledge, as it will be for all individuals and organisations seeking to play a role in mitigating the impacts and solving the causes of climate change. The threat of climate change warrants the attention of all who can contribute to addressing it. While organisations can play a significant part in this we ought not to forget that some may have a

[16] Severn Trent, *Annual Report and Accounts 2020*, p. 83.
[17] ISS, *International Climate Proxy Voting Guidelines: 2022 Policy Recommendations* (ISS, 2022), p. 8.
[18] FRC, *Guidance on Board Effectiveness 2018*, ss. 81-82.
[19] FRC, *UK Corporate Governance Code 2018*, Principle D, Provisions 3-6; and *Companies Act 2006*, s. 172.
[20] For example, Amazon employees raised concerns of 'insufficient action on the climate crisis' and formed an advocacy group, Amazon Employees for Climate Justice (https://abcnews.go.com/Business/357-amazon-employees-public-stand-climate-change-past/story?id=68560857, accessed 12/3/2022).
[21] FRC, *Guidance on Board Effectiveness 2018*, s. 85.

bigger influence on other social and environmental factors. The means by which governance professionals can be part of the solution to climate change can also allow them to be part of the solution to other social and environmental challenges. The more that governance professionals and companies can address their external impact and contribute to solutions to social and environmental issues, the more sustainable and valuable they will become.

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