

CLIMATE GOVERNANCE: A PRIMER ON BOARD'S ROLES

The Earth's climate stands at a precipice. Unchecked by human action, rising temperatures threaten to unleash a cascade of devastating consequences, impacting every facet of our world. Within this crisis, however, lies a transformative opportunity. Companies that embrace responsible climate governance, navigating both risks and opportunities, will thrive in the coming decades.

This imperative falls squarely on the shoulders of board members. Their decisions today will define not just the future of their companies, but potentially the well-being of our planet and its inhabitants.

Why Climate Governance Matters Now for Board Members

Ignoring climate change is no longer an option. It's a matter of fiduciary duty, financial prudence, and ethical responsibility. Board members face a confluence of factors making climate governance an immediate priority. (Refer Diagram 1)

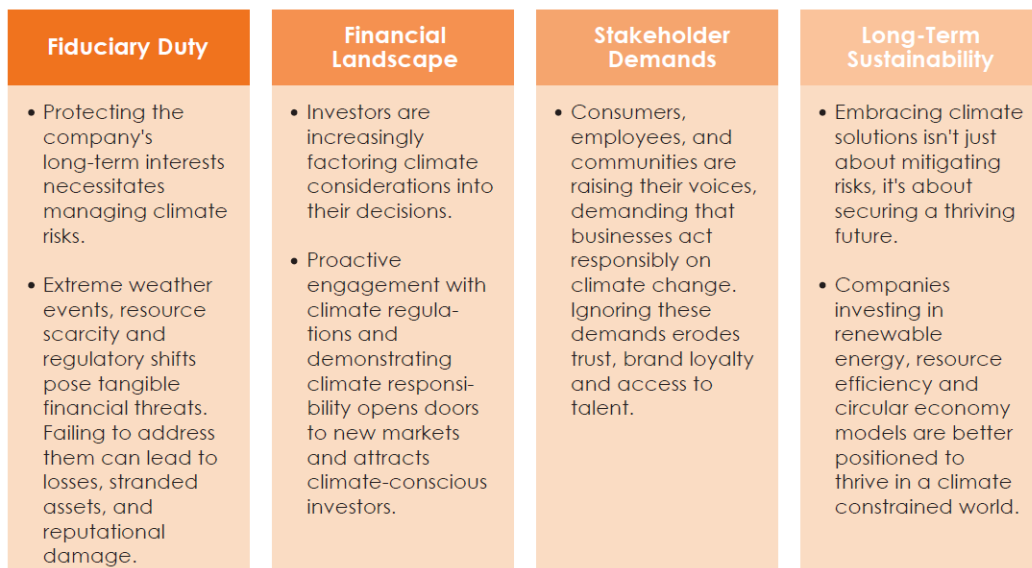


DIAGRAM 1

Beyond these compelling reasons, board members who champion climate governance become changemakers. They drive the transformation within their companies, setting industry standards and influencing systemic change.

Steps for Effective Climate Governance

Given that climate change has become a key determinant of a company's long term success, board members should undertake the following steps to establish effective climate governance:

(1) Cultivate Climate Expertise:

- Educate yourselves on climate science, risks, and opportunities by actively participating in workshops, seminars, and conferences.
- Stay informed by engaging with reports from institutions such as the Intergovernmental Panel on Climate Change (IPCC), the Carbon Disclosure Project (CDP), and the World Bank.
- Appoint directors with specific climate expertise, including scientists, engineers, and sustainability professionals, as diversity of viewpoints enriches decision-making.

(2) Integrate Climate into Strategy and Risk Management:

- Conduct a comprehensive climate-related risk assessment. Frameworks like the Task Force on Climate-related Financial Disclosure (TCFD) can help identify, measure, and disclose potential risks and opportunities across operations, supply chains, and financial portfolios.
- Embed climate considerations into strategic planning and decision making by aligning the business goals with long-term climate targets, such as net-zero emissions.
- Conduct scenario planning to assess impacts of different climate pathways. This helps build resilience and informs adaptation strategies.

(3) Implement Robust Governance Structures:

- Establish a dedicated board-level climate committee or task force. This committee can oversee climate strategy, monitor progress and provide guidance to management.
- Clearly outline roles and responsibilities for climate governance and ensure adequate resources and expertise are allocated within the company.
- Review and update climate governance practices regularly to keep pace with evolving regulations, standards, and stakeholder expectations.

(4) Engage with Stakeholders:

- Be transparent and accountable for actions taken by maintaining open communication with shareholders, employees, and communities about climate strategies and progress.

- Collaborate with industry peers and policymakers to develop comprehensive solutions and address systemic challenges.
- Engage in responsible climate advocacy and support science-based policy proposals. Use your voice to advocate for effective climate action at all levels.

(5) Measure and Report on Progress:

- Set clear climate goals and targets, aligning them with scientific benchmarks and international frameworks.
- Track and report on progress towards achieving these goals, using standardised metrics and frameworks for clear and comparable reporting.
- Regularly assess the effectiveness of climate governance practices and make adjustments as needed for continuous improvement, ensuring ongoing efficacy.

Board's Strategic Approaches to the Integration of Climate Action

In order to ensure the integration of climate action into the company's core strategy and objectives, board members should utilise and implement the following assessment methodologies and action, both internally and externally:

(a) Practical Tools for Boardroom Implementation

The implementation of climate action within the boardroom involves the strategic use of practical tools to evaluate, plan, and enhance climate resilience within organisations.

- **Climate Scenario Planning:** Tools like the Network for Greening the Financial System (NGFS) scenarios help boards assess the potential financial impacts of different climate futures. By using these scenarios as a foundation for climate scenario exercises, it enables strategic planning and prioritises climate-resilient investments.
- **Science-Based Targets Initiative (SBTi):** Setting science-aligned emissions reduction targets provides boards with a clear roadmap for climate action. This commitment demonstrates leadership and attracts climate-conscious investors.
- **Climate Governance Assessment Tools:** Various frameworks like the Climate Governance Initiative (CGI) assessment tool help boards evaluate their current practices and identify areas for improvement. Conducting regular assessments ensures continuous progress and aligns with evolving best practices.

(b) Engaging Beyond the Boardroom

Board members can amplify their impact by engaging with various stakeholders:

- **Investors:** Actively engage with investors on climate risks and opportunities, demonstrating transparency and aligning with their expectations. This fosters trust and ensures access to capital for climate-related initiatives.

- **Management:** Provide management with clear guidance and support for implementing climate strategies. Hold them accountable for achieving climate goals and embed climate performance metrics into executive compensation.
- **Employees:** Empower employees to champion climate action within the company. Create platforms for employee engagement, such as green teams or sustainability initiatives, to leverage their creativity and commitment.

(c) Leveraging Collective Power

Board members can also drive systemic change by collaborating with industry peers and policymakers:

- **Industry Associations:** Engage with industry associations to advocate for stronger climate regulations and develop collaborative solutions. Collective action within an industry can amplify impact and accelerate progress.
- **Policymakers:** Support science-based climate policies and advocate for regulations that incentivize sustainable practices. Board members' voices carry significant weight and can influence policy agendas.

Case Studies: Boardroom Leadership in Climate Action

Board members in various companies played an essential role in leading its company towards combating climate change. For instance:

- **Unilever:** This global consumer goods giant embedded climate considerations into its core business strategy, setting ambitious goals for sustainable sourcing, emissions reduction, and responsible product development. Their board actively championed these initiatives, leading to significant progress and industry recognition.
- **Ørsted:** Formerly known as Danish Oil and Gas (DONG) Energy, Ørsted undertook a radical transformation from fossil fuels to renewable energy. The board played a crucial role in this shift, driving strategic investments, navigating regulatory hurdles, and shaping a vision for a sustainable future.
- **Engie:** This French energy company actively engages with both investors and climate activists, demonstrating transparency and collaboration in addressing climate action. The board ensures the executives' actions and goals align with the company's climate objectives through integration into the remuneration policy of the Chief Executive Officer and all executives.
- **Sime Darby Plantation Berhad:** This world's largest producer of certified sustainable palm oil has prioritised climate action by incorporating climate-related issues as a regularly scheduled agenda item in all meetings. The board has additionally established a board sustainability committee to support them in carrying out their oversight responsibilities in line with Sime Darby Group Berhad's primary sustainability objectives, which include combating climate change.

- **Sunway Group:** As a conglomerate committed to advancing the United Nations Sustainable Development Goals, the board drove the development and management of green buildings certified under international standards such as LEED and Green Mark, emphasising a focus on sustainable development.

Conclusion: A Call to Action for Boardroom Leadership

The climate crisis demands bold leadership, and board members are uniquely positioned to guide their companies towards a sustainable future. By embracing climate governance, they not only mitigate risks and unlock opportunities but also fulfil their fiduciary duty and contribute to a better world. The steps outlined here provide a roadmap for action, but the journey starts with a commitment to learning, engaging, and taking decisive action. It's time for board members to step up, lead the way, and become catalysts for the necessary transformation.

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