CLIMATE VOICES

# Company boards don't get climate risk or opportunity

by Helena Wayth | Mar 05, 2021

## Despite public assurances and lofty goals, most companies do not comprehend what is at stake in the climate era.

It appears British CEOs and their boards of directors did not get the climate memo. The U.K. is preparing to host what many believe will be the most important United Nations climate conference (COP26) ever, with nations developing roadmaps on how they plan to reduce greenhouse gas emissions to meet their net zero goals and the goals of the Paris Agreement by 2050. However, many of the U.K.'s top companies are woefully unprepared to explain how they will do their part. While more than 110 countries representing 65% of global CO2 emissions have committed to becoming net zero by 2050, only 19 FTSE 100 companies have pledged to the same time frame.

Far more concerning, however, is the fact that most companies, and their boards, despite well-organized public efforts to reassure shareholders, do not understand the full impact, both of opportunity and risk, of climate change on their businesses today — and tomorrow. This reflects a defensive focus on reputational risk over proactively seeking strategic opportunities to ensure the long-term sustainability and value of their companies.

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Last month a comprehensive study by environmental law charity Client Earth found over 90% of the 250 largest U.K. listed companies' financial accounts and associated audit reports made no reference to climate-related factors. Since January, many of the U.K.'s top listed companies are also in non-compliance for not meeting Task Force for Climate-Related Financial Disclosures (TCFD) despite a U.K. government mandate that companies disclose material climate-related risks, impacts and financial implications.

"A handful of firms are doing the right thing, but the vast majority still have their head in the sand," says Daniel Wiseman of Client Earth. "Current disclosure practices indicate that many firms appear to be either ignoring or denying the systemic impact of climate change and how the zero carbon transition will affect their business. Regulators, auditors and investors are letting them get away with it."

While a few of the largest listed companies are doing the initial heavy lifting, small-cap companies cannot be complacent. Not only will they be competing for green capital, but many also sit within larger company value chains and will need to take responsibility for their contribution to Scope 3 greenhouse gas emissions.

U.K. companies are hardly alone. Most of the world's publicly listed companies are shockingly unprepared to meet escalating climate risk. Much of the blame is being directed at boards whose job is to understand the wider operating environment and oversee the many risks — and strategic opportunities — companies face. According to a recent study by NYU Stern's Center for Sustainable Business, boards do not have sufficient climate risk oversight. Their analysis of 1,188 board directors found inadequate expertise in financially material ESG matters. The study also found industries with environmental issues did not reflect that materiality on their boards, nor in some cases within select committees.

**Building board capability**

So how are boards supposed to balance climate risk while being able to meet other fiduciary responsibilities? Considerations include having at least one member of the board with climate risk-related experience or forming a climate sub-committee.

But this may not be enough for activist investors who are concerned about "ESG box-ticking," the lack of performance alignment on ESG matters, and unsatisfactory leadership on climate matters. Swedish activist investor Cevian Capital made clear this week in a tough statement challenging existing board practices. Fund manager BlackRock has warned against appointing a "single climate expert" and instead expects the whole board to have sufficient fluency in climate risk appropriate to the company's business model to provide oversight of these risks and opportunities in strategy and operations.

What is really needed is an entirely new approach to leading a company. Today, corporate boards are not demanding management make the critical changes to their core business strategies necessary to manage the increasing impact of both climate risk — but also to take advantage of new business opportunities. This is particularly worrisome because at a moment when time is running out to mitigate global warming, the normal business cycle of a company to change direction takes at least three to five years to fully implement.

Given the length of company planning cycles, why is there a dangerous sense of complacency for boards to act? One reason is boards have neither the expertise nor experience to act on climate. A critical next step is for boards to fully understand the scope of their organizations' climate and biodiversity impact and where the points of transformation are across their business value chain.

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Table stakes is a rigorous application of climate and nature-related disclosures that explain the evolving impact of costs, liabilities and opportunities on a company's financial profile in a way that will allow the board and management to better identify climate risks — and also opportunities.

Against this, boards can then assess if they have the relevant capabilities, resources and management teams to oversee this transition. This will help companies move beyond the confines of current accounting and reporting for compliance's sake to tangibly manage climate risk and invest in new opportunities. In this way, financial targets, business models and day-to-day operations will incorporate climate impact.

Such a transition would enhance the quality of engagement with investors and shareholders — potentially opening up new sources of capital — and mobilize all stakeholders in the value chain to understand their role and play their part.

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In short, nothing less than a fundamental economic transition will be required to achieve net zero emissions, and every organization will need to adjust its business model and senior executive talent. "This could turn an existential risk into the greatest commercial opportunity of our time." Mark Carney, former Bank of England governor and U.N. special envoy on climate action, declared last year.

In the run-up to COP26, boards have an unprecedented opportunity to show their stakeholders that they truly understand their responsibility and are ready to confront climate challenges and opportunities with more than token box-checking gestures.


Written by

**Helena Wayth**

Helena Wayth is the founder and CEO of sustainability consultancy A Bird's Eye View advising clients on purpose, strategy and governance. Prior to this Helena held senior leadership roles at L'Oréal and Unilever working across countries, sectors and cultures. In more recent years Helena worked with several International NGOs at a strategic, programme and community level. She sits on the Board of two International Non-Profits, PATH and Practical Action, which focus on developing and scaling solutions for global health and technology equity to create systems change.