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Chair of the Future - The role of the Chair in climate transition

March 2024

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Foreword

Deloitte is committed to supporting the next generation of corporate governance. We are pleased to present "Chair of the Future 2.0—The role of the chair in climate transition", our review of the Board Chair's adaptation to challenges posed by climate change. This is the latest in a series of global Deloitte reports based on interviews with the Chairs of leading organisations worldwide.

Any uncertainty about climate change as an enduring part of the business agenda was eradicated in the past year. Across the globe, executives have faced several challenges resulting from the climate crisis – including economic uncertainty, geopolitical conflict, resource scarcity, and supply chain disruptions. The escalating cost of climate inaction underscores the urgent need for global shifts towards sustainability and net-zero emissions. Closer to home, Deloitte's turning point research presents a stark economic forecast, estimating that inaction could cumulatively reduce Indian GDP by US$35 trillion by 2070. On the other hand, economic opportunities presented by a systemic transition to net-zero emission could potentially boost the country's GDP by US$11 trillion in the next few decades.[1] These findings accentuate a critical juncture – for organisations, the Boards, and the Chairs. The shift towards net-zero emissions and increased sustainability is an environmental imperative as well as a strategic economic necessity. Corporations are thus positioned as both – beneficiaries of this transition and pivotal actors in catalysing the shift towards a resilient, low-carbon future.

The Chairs we interacted with for our previous edition highlighted that the subject of ESG and climate risk has been the elephant in the room, which is now fighting for the top spot on the Board's agenda. They called out climate change as a big transition risk, with an impact on long-term strategy as well as short-term compliance, as newer regulations are introduced.[2]

To deep-dive into this agenda, for this edition of the "Chair of the Future", we interviewed 28 Chairs of Indian corporations over the past year, with an almost equal mix of executive and non-executive Chairs. We observed that the Board's awareness and understanding

[1] https://www2.deloitte.com/in/en/pages/about-deloitte/articles/turning-point.html
[2] https://www2.deloitte.com/in/en/pages/about-deloitte/articles/Chair-of-the-future-India-perspective.html

of climate-related risks have grown and climate change has become an important part of the Board's agenda.

As CxOs adopt a climate change lens and focus on climate resilience, this report offers insight into how the Chairs, as custodians of the brand, may incentivise management and shape the Board's agenda to pursue short-term goals in line with their long-term sustainability mission. In the rapidly evolving corporate landscape, the role of the Chair is undergoing a significant transformation. Future demands are poised to redefine traditional responsibilities and expectations of the Chair, expanding beyond the conventional oversight and governance roles to encompass a broader, more proactive stance on sustainability, innovation, and ethical leadership. These expanded responsibilities reflect a deepening understanding of the interconnectedness of business success with sustainable practices and ethical governance.

Our report delineates the emerging facets of the Chair's role, emphasising the critical importance of vision, culture, trust, guardianship, and crisis management. These avatars could help the Chairs cultivate organisations that are successful in the face of the current climate crisis and also sustainable and responsive to the needs of a wide array of stakeholders. We strongly believe that by embracing these roles, the Chairs are steering their organisations towards long-term viability and resilience and shaping them to be at the forefront of addressing some of the most pressing global challenges of our time.

We are grateful to the Chairs who gave us the time to talk about their experiences. We hope you find value in this playback from your peers and insights from our shared journey.

Shefali Goradia
Chairperson,
Deloitte South Asia

Atul Dhawan
Partner,
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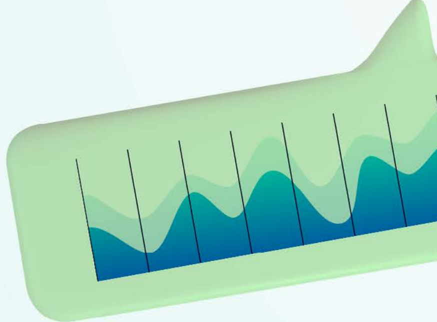
Climate change and business strategy

India has faced the repercussions of climate change experienced throughout the globe. The country is experiencing some of the most extreme climate crisis effects, including devastating heatwaves that impair agricultural productivity, and torrential rains leading to flooding and affecting infrastructure and communities.

The climate crisis represents multifaceted pressures on the corporate sector, demanding a comprehensive response that addresses the sustainability of business capital. Initially, physical capital, encompassing an organisation's infrastructure and assets faces direct threats from extreme environmental events, which can disrupt operations and inflict damage. Extreme climate conditions have the potential to diminish effective working hours, risking human capital. Inadequate attention to social and governance concerns can result in lower employee satisfaction and increased turnover. Furthermore, the degradation of natural capital, such as the depletion of essential natural resources threatens the foundations of numerous supply chains.

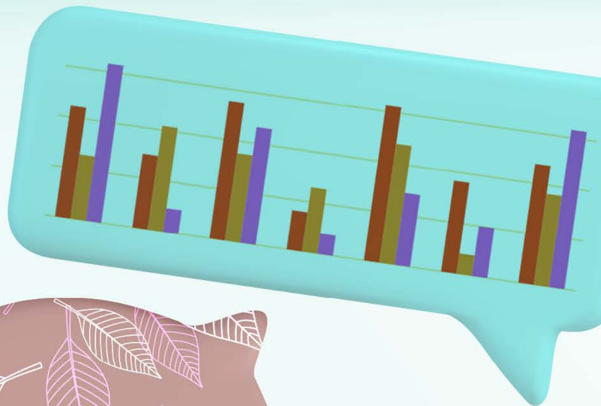
> **Climate is as important a stakeholder as shareholders, employees, vendors, and community. If you genuinely focus on all your stakeholders, the planet benefits.**

Various stakeholders propel the transition to more sustainable business practices. Consumers and B2B customers are conscious of the environmental impact of their purchasing choices, compelling organisations to adapt to sustainable business practices. Investors are demanding heightened accountability and transparent environmental reporting and realigning their investment portfolios to minimise climate-related risks. In addition, employees are becoming a driving force for change. Regulators and civil society exert additional pressure by implementing carbon pricing, setting national commitments, and fostering awareness about corporate responsibility towards climate action.



Amidst a year of continued uncertainty, disruption, and competing business challenges, Indian CxOs interviewed by Deloitte ranked “climate change” as a significantly higher priority, ahead of “economic outlook”, compared with global executives with 57 percent calling it a “top three priority”.[3]

Addressing the climate crisis in India involves nuanced responses from Chairs across different sectors, with distinct pathways for large companies versus medium and small businesses in charting out decarbonisation. Large corporations might bear direct economic losses due to the shift from profitable investments to more expensive low-carbon options. For medium and small businesses, the transition poses both challenges and opportunities. These entities often lack the financial and technical resources to invest in clean technologies directly. However, they can benefit from sector-specific policies and support mechanisms aimed at easing the transition to low-carbon alternatives.



[3] https://www2.deloitte.com/in/en/pages/operations/articles/Indian-companies-prioritise-climate-change-Deloitte-CXO-Sustainability-Survey-2023.html

> **Tactics to address climate change are industry specific. For a tech company, Environmental Social and Governance would fall under Corporate Social Responsibility. In large companies, such as mining, power, and automobile, it is a business risk. It is the biggest risk of investment. In a services company, it is a conversation but not a substantial risk.**

During our conversations, there has been a meaningful change in perception and awareness about climate change; the Boards have already begun questioning the steps their organisations can take towards improving their ESG capabilities. According to Deloitte's survey reports, 81 percent of Indian CxOs have said that their companies have increased sustainability investments from the previous year. Meanwhile, 68 percent of organisations are formally integrating ESG strategies and mechanisms into their operations; and 80 percent of them report their ESG efforts with the prevalent methods being sustainability reports (81 percent), followed by ESG reports (50 percent), and finally BRSR and integrated reports (44 percent).[4]

When it comes to stakeholders' expectations on climate change, Indian companies faced a moderate-to-high degree of pressure to act on climate change across various stakeholder groups. Compared with the global average, Indian CxOs are expected to report more stakeholder pressure from board members (78 percent), the government (72 percent), and shareholders (71 percent). The CxOs added that the changing regulatory environment and employee activism have increased their organisations' sustainability actions over the past year.

As far as climate action agendas are concerned, the Boards are expected to focus on increasing the efficiency of energy use, using more sustainable materials and energy-efficient equipment, and train employees and make operations/ supply chains more climate-resilient (in comparison with their global peers). Finally, in line with global sentiments, the Boards see brand reputation in addressing climate change, and innovation around offerings and operations as the top benefits of their current sustainability efforts.

Integrating climate change into their business strategy, Deloitte has captured four archetypes based on the depth of integration and levers for the adoption of climate risk mitigation and adaptation

[4] https://www2.deloitte.com/in/en/pages/about-deloitte/articles/ESG-preparedness-survey-report.html

practices. “Value maximisers” adopt a tactical ad hoc approach primarily for risk mitigation and public relations. These organisations lack dedicated resources for sustainability, resulting in fragmented initiatives and a customer perception that oscillates between neutral and irresponsible.

In contrast, the “corporate contributor” operates sustainability as an independent function, siloed within its strategy and primarily focuses on maintaining key stakeholder relationships. Although these organisations respond to market demands, they may not inherently align initiatives with their business purpose, leading to a neutral customer perception due to the unrecognised impact of their efforts.

Moving towards a more integrated approach, the “impact integrator” archetype embeds sustainability and climate action across its strategy, viewing it as a crucial input for exploring new market opportunities. This integration across various business units results in more cohesive, albeit still fragmented, initiatives using sustainability for marketing and risk mitigation, focussing on Return on Investment (ROI). However, unlike the “value maximiser,” the “impact integrator” achieves a positive customer perception due to the visibility and recognition of its efforts.

At the forefront of integration is the “social innovator” archetype (where sustainability is central to the business strategy).
This approach aims at creating socially conscious goods and services and fosters sustainable markets. The social innovator embeds climate change considerations into the fabric of operational practices and decision-making processes across business units. This deep integration garners authentic positive perceptions from customers, setting a benchmark for how businesses can meaningfully incorporate sustainability principles and climate action into their strategy and operations.

The Chairs acknowledge that varying priorities and motivations, operating models, and functional implementation have compelled organisations to adopt distinct business strategies in addressing climate change. First, an outside-in strategy underscores the adaptation to external conditions, trends, and stakeholder expectations to drive business decisions. This method prioritises understanding and responding to the external environment, including regulatory policies and investor demands for sustainability. The main risk with this approach is that climate change could get restricted to a bare minimum set of activities for compliance with regulations.

The inside-out strategy focusses on using a company's internal strengths and capabilities to meet market demands and address environmental challenges. This approach starts from within the organisation, looking at its resources, processes, and technology to innovate and holistically drive sustainable practices.

In the Indian context, the impact of climate change is both profound and multifaceted, and regulatory and market pressures are increasingly demanding sustainable practices. The choice between these strategies can significantly influence a company's resilience and competitiveness. Chairs can shape the boardroom agenda to navigate these factors and ensure business strategy balances internal capabilities with external demands to mitigate business risks such as regulatory penalties, market displacement, supply chain disruption or reputational damage due to an inadequate response to climate change.

Climate-integrated transformation: Profitability through sustainability

In the face of mounting climate challenges, corporate boardrooms are at a pivotal juncture, discovering that sustainability is an ethical imperative and a profitable pathway forward. Despite facing nuanced sectoral and fiscal capacity constraints, Chairs are responding to climate change with increased investments and integration of climate change considerations into business operations. This section explores the transformative power of such a climate-integrated approach within the corporate sphere, detailing how sustainability can drive profitability. From reimagining business models that prioritise sustainability alongside shareholder value to using technology as a catalyst for green innovation, the narrative underscores the beginning of a shift towards economic viability and strategic advantage of sustainable practices. It highlights the importance of fostering collaboration through corporate alliances and public-private partnerships and the crucial role of Chairs in embedding sustainability into corporate DNA through stewardship and governance. It delves into the need for boardrooms to intensify their focus on climate-related goals, highlighting that a strategic embrace of broader ESG principles is beneficial for the planet and enhances long-term shareholder value.

Reimagine business: A sustainable value map

The Chairs acknowledged the rising importance of addressing climate change concerns in business. However, they conceded that its impact in the boardroom was not as significant as needed for an effective transition to a low-carbon future.

> **“This topic is high on the agenda, but the impact they are making is not significant enough.”**

Extreme environmental hazards can risk damage to business capital. Therefore, climate change and sustainability must take centre stage in boardroom discussions. When the “Chair of The Future” holistically considers environmental, employee, shareholder, and social/public value creation, the organisation delivers sustainable value. The Chairs we interviewed recognised the importance of actively reimagining their position as decision-makers and expressed their commitment to moving away from purely delivering shareholder value.

As custodians of the brand, the Chairs can steer the leadership towards a strategic maneuver that involves accounting for returns on sustainable resources and ecosystems. It involves, in addition to revenue growth of sales and unit prices, experience and development of employees as well as operating margins, transparency of citizen assets and human rights, and asset efficiency of equipment and property. The Chair can help strike the right balance between sustainable value and economic concerns to reimagine business.

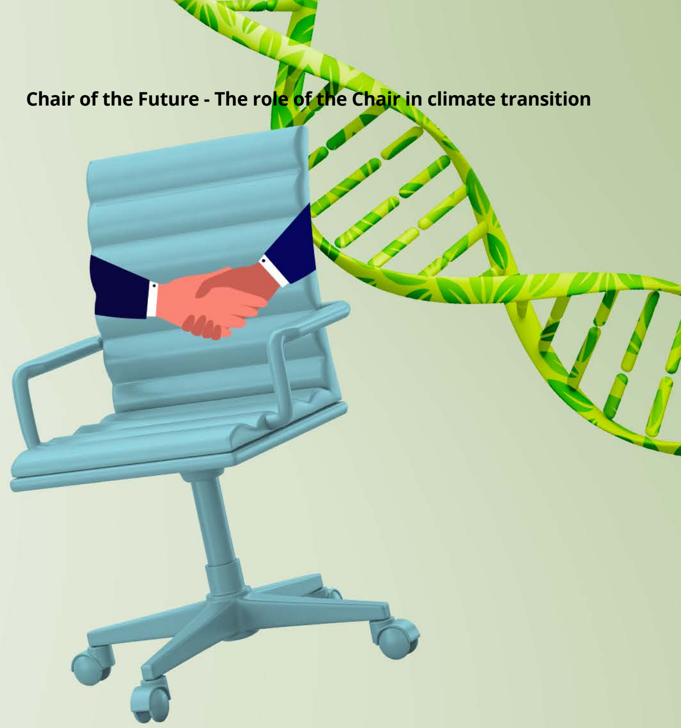
Incentivising climate goals: Aligning vision with action by using executive leadership for climate strategy

The leadership's vision has always played a crucial role in the company's operating practices. This top-down approach, in which the management's performance is governed by the Board, has long-defined conventional structures of accountability in large companies. As climate change risks escalate, the "Chair of the Future" must direct the leadership's focus to adaptation and mitigation strategies, incentivising alignment between individual and organisational goals towards sustainability. This involves empowering executives and establishing committees for climate action oversight, with genuine top-level commitment driving a comprehensive approach.

> **The tone at the top is the biggest driver. The Board needs to start asking the right questions, giving this matter enough importance so that barriers around time, knowledge, and commitments disappear, so that committees around risk management, etc., are formed and given enough power. Change has to be incorporated into the Board processes - 'duty of care'.**

Incentivising ESG goals through corporate boardrooms is pivotal for addressing climate change effectively. Leadership commitment, particularly from the CEO and executive team, is crucial in this endeavour. The Chairs believed that implementing policies for CxO or executive sponsorship and buy-ins may align individual and organisational interests.

> **The CEO's compensation should have one component related to ESG performance.**



Increased collaboration:
The power of strategic corporate alliance and public-private partnerships in enhancing sustainability impact

The Chairs believed that the environmental inquiries by the Board, usually driven by regulatory or compliance requirements, do not actively seek specific metrics about climate change or sustainability. Regulations are also constantly evolving and in the absence of a comprehensive framework, sustainability reporting leads to a “self-evaluation conflict” and the industry belief that the resultant “rating” may be synthetic (as it does not reflect the true sustainable value of the company).

The Chairs advocated public-private partnerships and fostering a community of corporations that can enhance trust, standardise ESG practices and contribute to more effective climate action and long-term sustainability goals. For example, climate-related collaboration across the supply chain unlocks opportunities for value creation.

Chairs underlined the need for organisations to collaborate with peers and develop a framework for sustainability commitments. The Chairs perceived this “coalition of corporations” as an opportunity to build trust and partnerships amidst the climate crisis. By forging community roles and responsibilities, corporations can work together to overcome the lack of standardised frameworks.

> **This cannot be done by companies alone. We need a public-private partnership.**

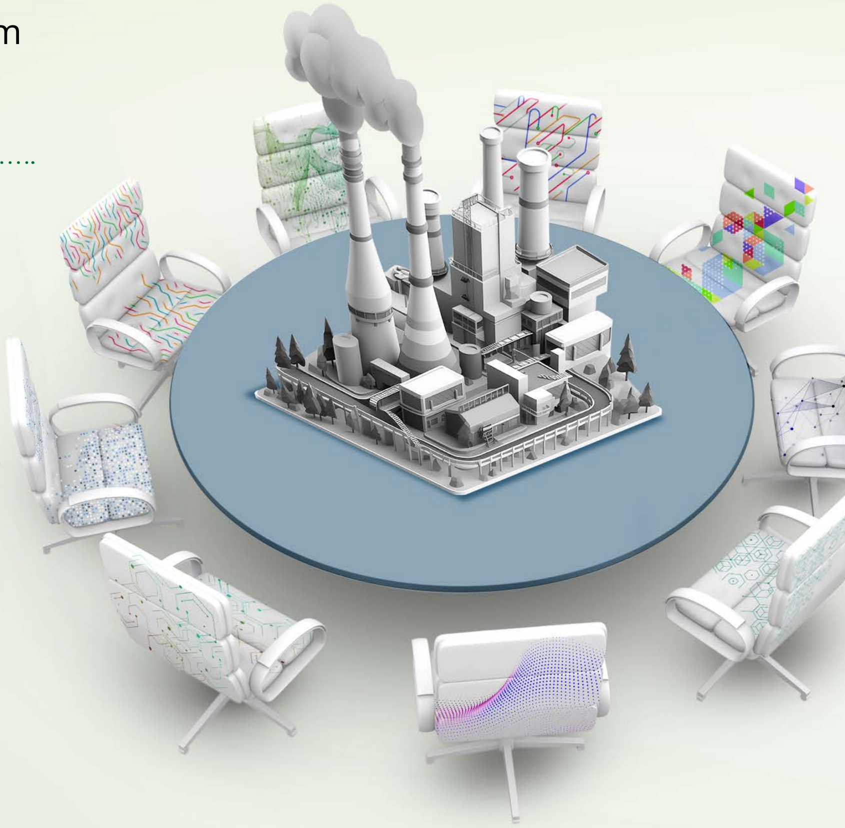
Overall, increasing collaboration for climate action within corporate boardrooms leads to more robust and standardised sustainable value frameworks and governance, aligns companies with broader sustainability goals, and can create shared value that benefits all stakeholders in the long term.

Technology as an enabler: Driving innovation through investment in green technologies

Technology is a key enabler for addressing climate change, driving innovation, and achieving sustainability targets with greater cost efficiency. The adoption of advanced digital tools and investments in greener technologies can improve buying economics, cost efficiency, and process synergy, which facilitates the financing of green initiatives. Chairs must steer their organisation to invest in cleaner, greener technologies that have a significant impact on capital expenditure and offer long-term benefits by unlocking new opportunities.

> **Technology is increasingly becoming a crucial enabler for corporations to address climate change. Today, sustainability initiatives are driving innovation and reducing costs at a faster pace than ever. The Chairs across industries recognise the urgency to meet 2030 sustainability targets, which involves identifying and addressing gaps with technological solutions that enhance efficiency and reduce environmental impact.**

As corporations decarbonise, the Boards play a pivotal part in the governance of strategic investments in technology that can drive climate-integrated initiatives. They are in a unique position to ensure that these initiatives are economically viable and align with the company's climate roadmap. This necessitates continuous adaptation and education on the latest technological advancements and overarching sustainability trends to ensure that the Board's decision-making is informed and aligned with best practices.



Boardroom impact and scrutiny: The need for in-depth examination and integration of climate risk mitigation and adaptation

Due to the competing demands on the Chair's schedule, boardrooms are challenged by limited engagement on climate change and ESG issues. The situation is further exacerbated by a general lack of climate-related expertise within boardrooms. The Chairs must restructure agendas to prioritise the need for dedicated ESG committees, deep dive into climate risk and sustainability strategy (during board meetings), and integrate environmental and social governance into core business strategy.

> **The Boards spend an hour or two on climate change strategies. So, unless we push for deep dives, it won't happen. One big reason is the lack of ESG capability on the Board. I am seriously thinking of pushing for deep dives on climate change discussions in two out of four meetings.**

The "Chair of the Future" will call for the Board members, and particularly CxOs (often the primary drivers of the discussion) to champion these topics, ensuring that they are included and given the critical attention they demand for the long-term health and accountability of the corporation.

> **The key is to think of ways to get the CEOs to bring this topic to the Board meeting agenda.**

The Chairs we interviewed identified material risks associated with climate change as only the starting point. Setting clear objectives to mitigate these risks and closely monitoring progress is essential to ensure that these issues are not siloed from the broader business strategy.

> **There is a need to identify material risks, put an objective towards them, and then monitor them. Climate change is intricately tied to business strategy, not separate from it. It needs to be integrated with it.**

Be the first in line: Prioritising climate change and broader sustainability agenda at the highest level of corporate governance

Most of the Chairs advocated for the establishment of dedicated risk management and sustainability committees within boards— a reflection of the deliberate shift towards embedding climate change and sustainability considerations into the core of corporate governance. This integration ensures that environmental stewardship and social responsibility are not just compliance tick boxes but are central to the company's strategic vision and operational execution.

> Across many boards, one thing I've seen is to equate CSR and ESG, which I don't agree with.

The Chairs also touched upon the need to advocate for a delineation between ESG and CSR and enhance governance by steering the leadership to appoint Chief Sustainability Officers (CSOs). The CSO and sustainability committees play a crucial role in risk management, operational efficiency, and legal compliance. They can promote a sustainable and inclusive workplace culture and position the company for long-term success. This offers numerous advantages for corporations, Chairs, and board members in general, which is especially relevant due to the institutionalisation of ESG regulations, such as the Business Responsibility and Sustainability Report (BRSR) at an organisational level.

> The CSO is the thought leader who evangelises the latest thinking, course corrects, and supports in defining corrective actions.

A designated CSO will impact the boardroom dynamics and the responsibilities of members, marking a shift towards climate integration at the highest levels of corporate governance. It brings a focussed, strategic leadership lens on climate risk mitigation and adaptation that directly influences boardroom agendas, discussions, and decisions, driving innovation and strengthening the position of the Chair.

By elevating ESG considerations from operational or mid-management levels to strategic boardroom discussions, this shift will allow Chairs to oversee the broader sustainability agenda. It places a responsibility on the Board to monitor progress towards goals and hold the executive team accountable for delivering on commitments.

Moreover, prioritising sustainability at the highest levels of corporate governance directly affects the Chair's responsibility as a custodian of the brand and torchbearer of enterprise trust. This may lead to board members championing sustainability initiatives, influencing corporate culture and stakeholder perceptions, and ultimately, enhancing shareholder value through sustainability-led growth strategies.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Tenets of change

The Chairs play a crucial role in steering principles of foundational change by elevating climate change discussions in boardrooms and reimagining business models for long-term sustainability. They are also emphasising the importance of incentivising climate goals, fostering collaboration, using technology, and integrating climate risk mitigation into core business strategies. These efforts align with a broader transformation within corporate governance, where the shift is anchored in several key tenets that collectively redefine the role and responsibilities of the Boards amidst environmental challenges. These tenets emphasise the importance of elevating climate change considerations to the highest levels of decision-making, blending traditional business acumen with a deep understanding of environmental issues, and recognising the nuanced balance between short-term costs and long-term benefits of sustainability initiatives. They highlight the critical role of the Board in advancing the sustainability agenda and ensuring the company's resilience and future profitability. The Chairs have identified the need to incorporate the perspectives of younger generations into the boardroom for aligning corporate strategies with the values and expectations of future generations. Together, the principles outlined in this section represent the foundational changes necessary for boardrooms to lead in the transition towards a climate-resilient future, demonstrating a strategic response to the global call for environmental stewardship and social responsibility.

Access to the right expertise: Building awareness and embedding climate-related insights into boardroom agenda

Climate change as a reality is sinking in, but the Boards do not have the bandwidth to think or talk about it. This is because people do not understand "how is their company going to be affected."

Increasing the awareness and understanding of ESG in corporate boardrooms is essential for navigating climate-related risks. The Chairs acknowledge the need for specialised knowledge on regulations, physical risks, and strategic planning for a low-carbon economy. Awareness of climate change and its impact enables Chairs to anticipate legal, operational, and market shifts, fostering resilience, innovation, and sustainable growth in an environmentally conscious business landscape.

Increasing the awareness of climate-related issues is a pre-requisite for aligning boards on the climate agenda rather than simply adding climate experts on the Board. In some organisations, the Boards can include members who understand both the business at hand and the broader ESG context. The Chair will then be adept at interpreting how sustainability affects business operations, supply chains, and market demands.

> **If companies take necessary steps, one director with exposure to this subject can help encourage interactions on this topic (since today the issue is lack of familiarity on the topic). So, a change of board composition to have knowledge of sustainability will help and I see this already happening.**

A nuanced appreciation for regulatory landscapes, such as carbon emissions and renewable energy mandates, is also crucial. This does not necessarily require board members or Chairs to have climate expertise but to have the capacity to understand the significance of these factors and seek appropriate expertise as necessary. In essence, our interviewees acceded that the Boards must be equipped with business acumen and an informed perspective on climate change and sustainability. The Chairs, with increased awareness and support from climate experts, can ensure that the company's strategic planning and long-term investments are mindful of the transition to a low-carbon economy, protecting the company from financial repercussions, such as stranded assets. They can evaluate and guide the company's innovation trajectory, focussing on products and services that minimise environmental impact and open new market opportunities.

> **If well-run, the right thing to do for the Boards is to appoint a committee of experts in the field to report to the Board and share reports monthly or quarterly. It is important not just due to regulatory enforcement, but also as the morally sound action to take as responsible citizens.**

Advocates: Weighing short-term costs vs. long-term benefits

Adopting long-term climate strategies enables organisations to stay competitive and align with evolving environmental standards, consumer expectations, and regulatory landscapes, securing stakeholder trust and loyalty. This forward-looking approach allows organisations to mitigate climate risks, innovate, and adapt to regulatory changes, ensuring operational continuity and profitability.

Integrating long-term climate strategies requires navigating a balance between the immediate financial outlays and the eventual strategic advantages for corporations. The short-term costs associated with adopting sustainable practices can be significant. Investments in green technologies, overhauling production processes, and achieving compliance with emerging environmental regulations require substantial capital. These expenditures can strain the company's current financial resources, potentially affecting its competitiveness, especially if the returns on these investments are not immediately apparent. Moreover, the Chair's effort to shift corporate cultures and operational paradigms towards sustainability can encounter resistance, adding to the challenges and costs of implementation.

> **They are not looking at the bigger risk, which is required to anticipate impact and come up with new/better business models.**

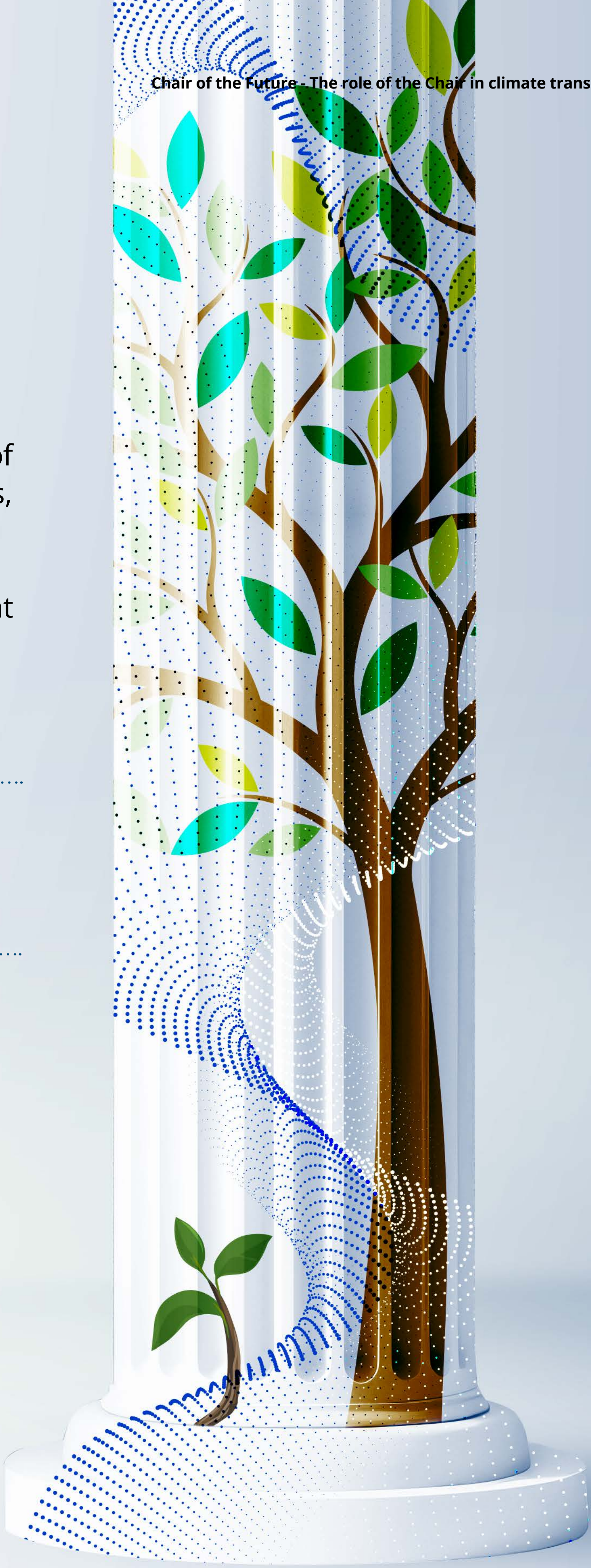
Corporations that prioritise immediate financial performance over long-term sustainability and risk mitigation often target minimal compliance with current environmental regulations, limited investment in sustainable practices or technologies, and a reactive stance towards social and governance issues. The trajectory for these companies might involve potential risks, including increased vulnerability to regulatory changes, environmental risks, and shifting consumer preferences. As regulations become stricter both domestically and internationally, and stakeholders increasingly favour sustainable practices, organisations may face escalated compliance costs, penalties, or a loss in market share to more proactive competitors. In addition, they may encounter challenges in attracting investment and talent, as both investors and professionals are increasingly drawn to organisations with strong ESG commitments.

> **This parallels the argument surrounding quality when it emerged as a concept years ago. Initially seen as an added cost, the benefits ultimately outweighed the expenses. Quality is essentially free because its advantages offset its costs. Similarly, with sustainability, the integration presents new revenue opportunities while reducing costs.**

Conversely, the long-term benefits of embedding sustainability into corporate strategy are increasingly undeniable. From a risk management and governance perspective, the Chairs that proactively address climate change through boardroom agendas are better positioned to mitigate the physical risks it poses, such as the disruption from extreme weather events. These disruptions can lead to significant financial losses, not just through direct damage but also through the ripple effects on supply chains and market demands. A long-term sustainability focus also enables innovation and new business models that are resilient to the effects of climate change, ensuring business continuity and profitability in an evolving market landscape.

> **We are dependent on water and an agri-business, so climate change has a bigger impact on business continuity. Particularly for us, a lot of our distilleries are in water-stressed areas. We have comprehensively put goals in the 10 year action plan for inclusion and impact in three areas primarily–sustainability from grain to glass, championing diversity, and encouraging responsible drinking.**

In terms of regulatory compliance, proactive anticipation and adaptation by the Chairs to environmental regulations can avoid future costs, penalties, and forced changes to operations. Being ahead of regulatory curves allows the Chairs to benefit from subsidies, tax incentives, and other financial mechanisms designed to encourage sustainable practices and build a safeguard against potential future liabilities. Moreover, establishing trust and loyalty with stakeholders—customers,



investors, and the broader community—enhances a company's market position and brand value. The trajectory for long-term focussed Chairs is geared towards resilience and adaptability, capitalisation of opportunities for growth in green markets, enhanced brand value, and competitive advantage. These strategic investments in sustainability can lead to the enhancement of the company's financial performance, risk mitigation, and a strong market position.

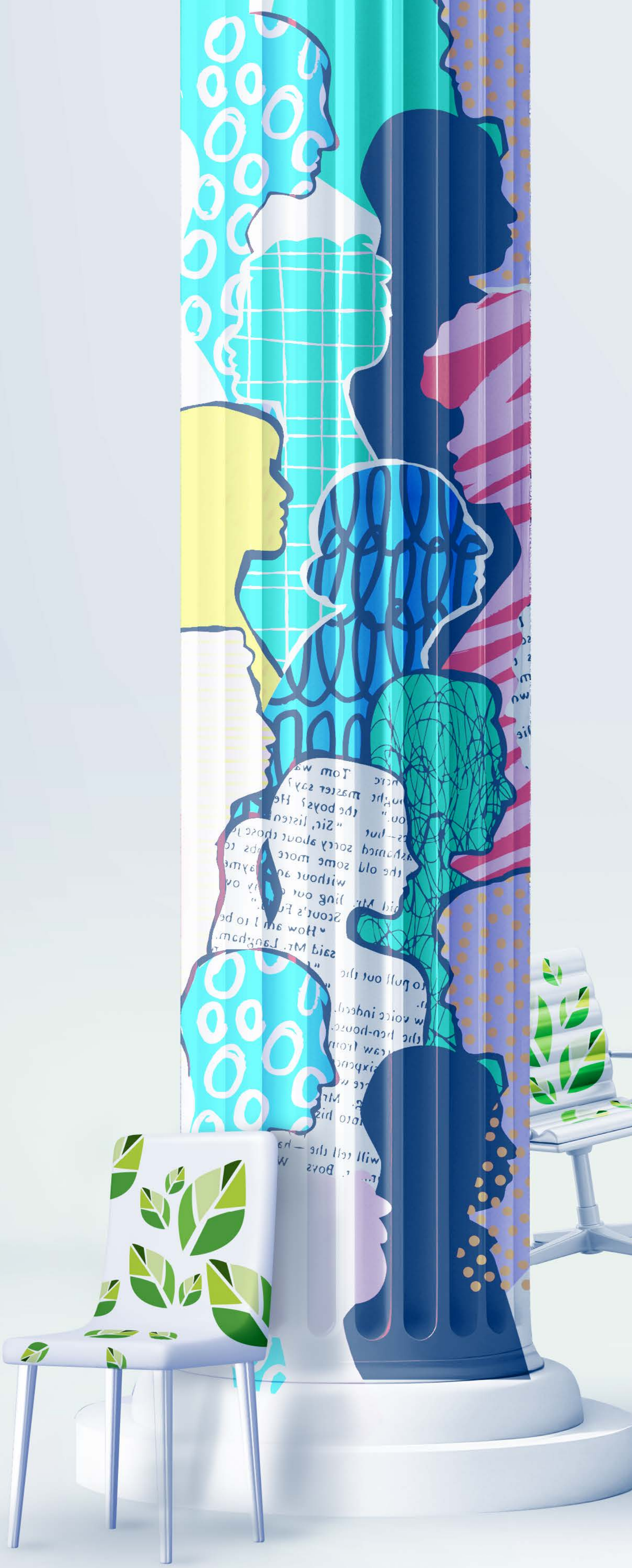
> **Emphasis on examining choices at both macro and micro levels to ensure meaningful impact.**

Board diversity: A case to include younger members, on a rotational system

Younger board members bring a heightened awareness of environmental issues and a commitment to sustainability, aligning with the demands of consumers, employees, and investors for responsible business practices. Their fresh perspectives and innovative approaches help bridge the generational gap in leadership, ensuring that the Chairs adapt to current challenges and anticipate future expectations, fostering a culture of accountability and strategic ESG integration.

> **Today there is a lack of outcome and impact-based discussions at the board level, primarily due to the age of board members. Younger board members, however, are more inclined to raise these crucial questions.**

According to the Chairs, younger people are expected to prioritise sustainability and responsible corporate behaviour, which resonates with the growing demand from consumers, employees, and investors.



> **Younger people have a good understanding of the environment and the impact of business. If I go to lower-aged groups (the 20s and 30s), their understanding of the environment is quite elevated.**

This demographic can bring fresh perspectives, questioning the status quo and encouraging innovative approaches to complex problems. Their insights and awareness can be invaluable for fostering a culture of accountability and driving the strategic integration of climate factors into the Chair's business planning and operations.

> **The younger generation cares more and understands better, but they are not yet part of the Boards. Hence, we currently see a lack of action.**

In addition, younger people can help bridge the gap between current leadership and future decision-makers. The Chair's adaptation to today's challenges ensures readiness for tomorrow's expectations. By bringing younger voices to the table, the "Chair of the Future" can ensure that its charter is enlightened and corresponds with the values of the next generation of leaders, customers, and investors. This can lead to more outcome and impact-based discussions and decisions, providing an enterprising stance on sustainability issues that will shape the business landscape in the future.

The representation of this demographic on the Board ensures that the younger generation's voice is heard and actively shapes the governance of a company. The alignment with the concerns and expectations of a significant segment of consumers, employees, and future leaders is crucial for maintaining the relevance and competitive edge of a Chair.

Boards and their Chair may consider the introduction of rotating roles to include younger members and offer a dynamic and flexible approach to governance. This provides opportunities for diverse experiences and viewpoints to contribute to decision-making processes, ensuring that the Board's composition reflects the evolving landscape and remains at the forefront of emerging trends. It cultivates a vibrant governance ecosystem that is both responsive to the present and anticipatory of the future.

Board agenda reframe

The report previously set the groundwork for a transformation within corporate boardrooms, emphasising the urgent need to address climate change and integrate sustainability into core business strategies. These principles underscore the importance of elevating ESG considerations, balancing short-term costs with long-term benefits, and integrating younger perspectives to align corporate strategies with future expectations. Building on this foundation, this section highlights the practical implications illustrating how climate change and ESG concerns are reshaping boardroom agendas. This marks a shift beyond risk management and regulatory compliance. The discussion highlights the importance of incorporating a climate change perspective and explores the role of capital allocation in driving sustainable practices. Beyond the foundational steps of risk and compliance, the narrative explores the factors for companies to adopt a more holistic and forward-looking approach, using sustainability as a strategic advantage to attract investment, and for innovation, market expansion, and leadership in the transition to a greener economy.

Lead the sustainability agenda: Building a profitable and climate-resilient future

> **Based on my experience, I believe managements perform, and boards govern. It does not matter how many times we meet; my biggest job is to hold the CEO accountable. So, we just need to identify the measures we will be taking. Conversations with the Board are very critical. When you speak, find out if their agenda is crafted well, and features topics, such as climate change.**

The Chairs, with increased awareness and a long-term focus, can commit to sustainability as a strategic imperative. The Boards can also support the sustainability agenda by encouraging an ecosystem play: to support innovation or solutions across the ecosystem and achieve the sustainability agenda and goals.

The effectiveness of a corporate sustainability agenda is greatly amplified when supported by board members who are committed to addressing climate change and ESG concerns. While investment in sustainability may not provide immediate financial returns, it is essential for ensuring the company's resilience and profitability in the future. At present, investors may primarily focus on immediate financial metrics, but there is a growing awareness that long-term sustainability is critical to an organisation's ability to deliver returns.

> **The Boards should allocate 75 percent of their time towards forward-looking initiatives.**

The Boards that prioritise shareholder value over sustainable value may overlook the importance of sustainability projects due to their deep-rooted nature and the current economic pressures, such as high inflation. However, unlike immediate threats, such as cybersecurity, the risks associated with climate change manifest over a longer period, which can neglect strategic planning. The consequences of inaction on climate issues can be just as catastrophic to business continuity in the long run.

Hence, the Boards need members who understand the strategic, and not just tactical, importance of the sustainability agenda to spearhead initiatives that align with it. These members would push for integrating ESG considerations into all aspects of business decision-making, ensuring that the company thrives today and is also sustainable and adaptable to future environmental conditions and market shifts. This forward-thinking approach is about positioning the Chair as a leader in an evolving business landscape where sustainability becomes a defining factor for success.

Adopting a climate change lens: Changing perspectives

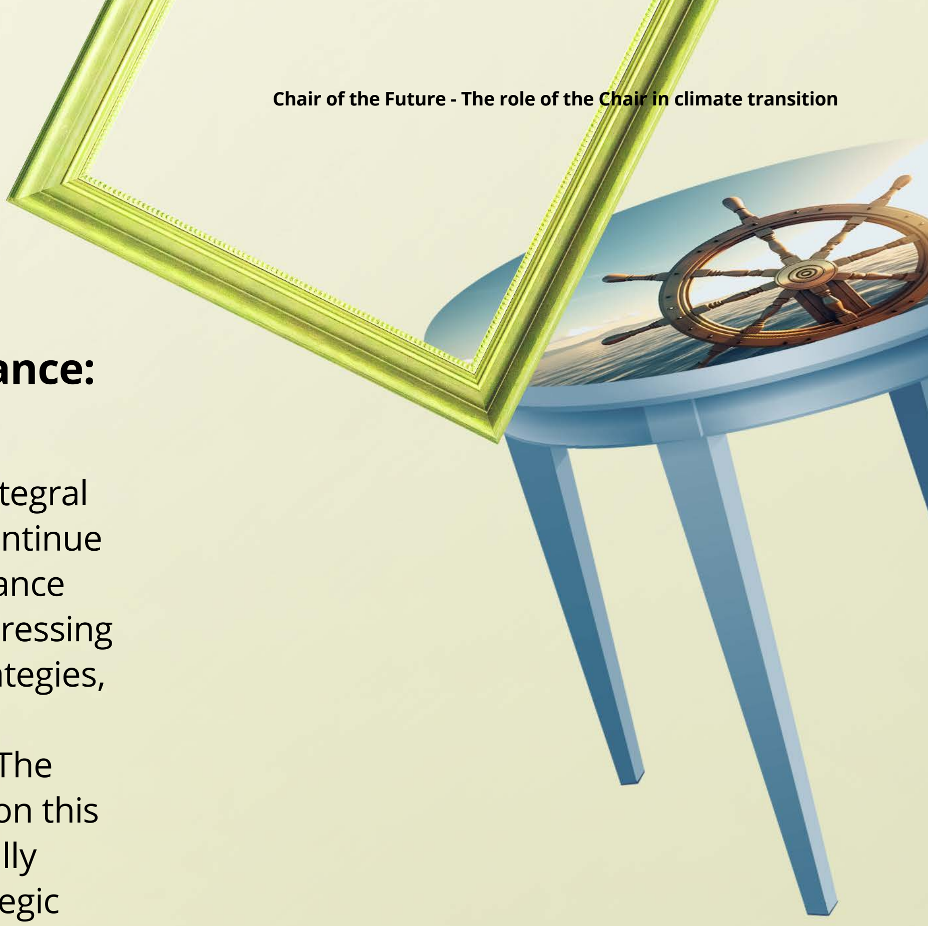
Adopting a climate lens in corporate boardroom agendas is increasingly recognised as a responsible move and a strategic imperative for long-term business resilience and success. The Chairs who emphasise climate change within the company's governance model, allow for the anticipation of shifts in regulatory landscapes, consumer behaviours, and market opportunities, safeguarding the company's future positioning and profitability.

Organisations with Chairs that prioritise climate change are better able to mitigate risks associated with new regulations and can more effectively navigate the transition to a low-carbon economy. This approach can also lead to cost savings through increased operational efficiencies, such as energy conservation and waste reduction. In addition, it can stimulate innovation, leading to the development of new products and services that meet evolving customer demands for sustainability. Focussing on the triple bottom line—people, planet, and profit—ensures that organisations can meet their social and environmental responsibilities while achieving financial success.

> **About five to seven years ago, coal-fired products accounted for 50 percent of the turnover in our business. Today, it is less than 20 percent.**

Moreover, a climate-focussed agenda aligns with the values of an emerging base of consumers and employees who prioritise environmental stewardship. This alignment enhances brand reputation, customer loyalty, and employee satisfaction, which are critical components of a company's social capital and competitive advantage.

Incorporating a climate lens into the corporate agenda enables the Chairs to avoid future risks and also capitalise on the growing economic opportunities presented by the global shift towards sustainability.



Regulatory risk and compliance: A starting point

Compliance and regulation are an integral part of the Board agenda and will continue to be so. Regulatory risk and compliance measures, while foundational in addressing climate change within corporate strategies, are the initial steps towards a more integrated and proactive approach. The Chairs caution that focussing solely on this aspect can limit a Chair's ability to fully engage with the broader, more strategic opportunities that a comprehensive approach to sustainability can offer.

> **“Once it's mandatory, it won't be seen as a cost anymore. Instead, the focus will shift to the best way to meet the requirements.”**

The Chairs must adapt their boardroom agendas to focus beyond compliance to protect their organisations against future climate risks. This will necessitate a leadership transformation towards sustainability, digital, and ESG expertise including a comprehensive governance review, targeted leadership assessments, and the integration of climate considerations into succession planning and the operations of board committees. A proactive approach emphasising climate-integrated strategy and transparent reporting, positions companies to navigate climate challenges effectively and capitalise on opportunities in a transitioning economy.

Capital as a driving force: Ensuring long-term impact

The Chairs also called out a shift in the agenda to recognise capital as a metric and as a key driver in addressing climate change. This shift, which is governed by the Board, is essential for aligning investment decisions towards climate risk mitigation and adaptation measures that increasingly influence market performance. Incorporating the insights from the 2023 global study by Deloitte and The Fletcher School at Tufts University, enhanced sustainability governance—the collective responsibility of the Chair and the Board— reinforces the narrative that sustainability and climate action are not peripheral issues and central to corporate value creation and risk mitigation. The Chairs that integrate robust ESG metrics into the organisation's governance and reporting demonstrate accountability and transparency. These traits resonate with the investor community and can lead to a more favourable trading position.

> **"The investor community needs to understand that companies that are focussing on ESG parameters are trading better compared with those that are not. It is essential that the right ESG metrics are made part of the reporting—and these measures need to be understood by the people. In that context, I like BRSR no matter how detailed it is, because it brings the right measures upfront."**

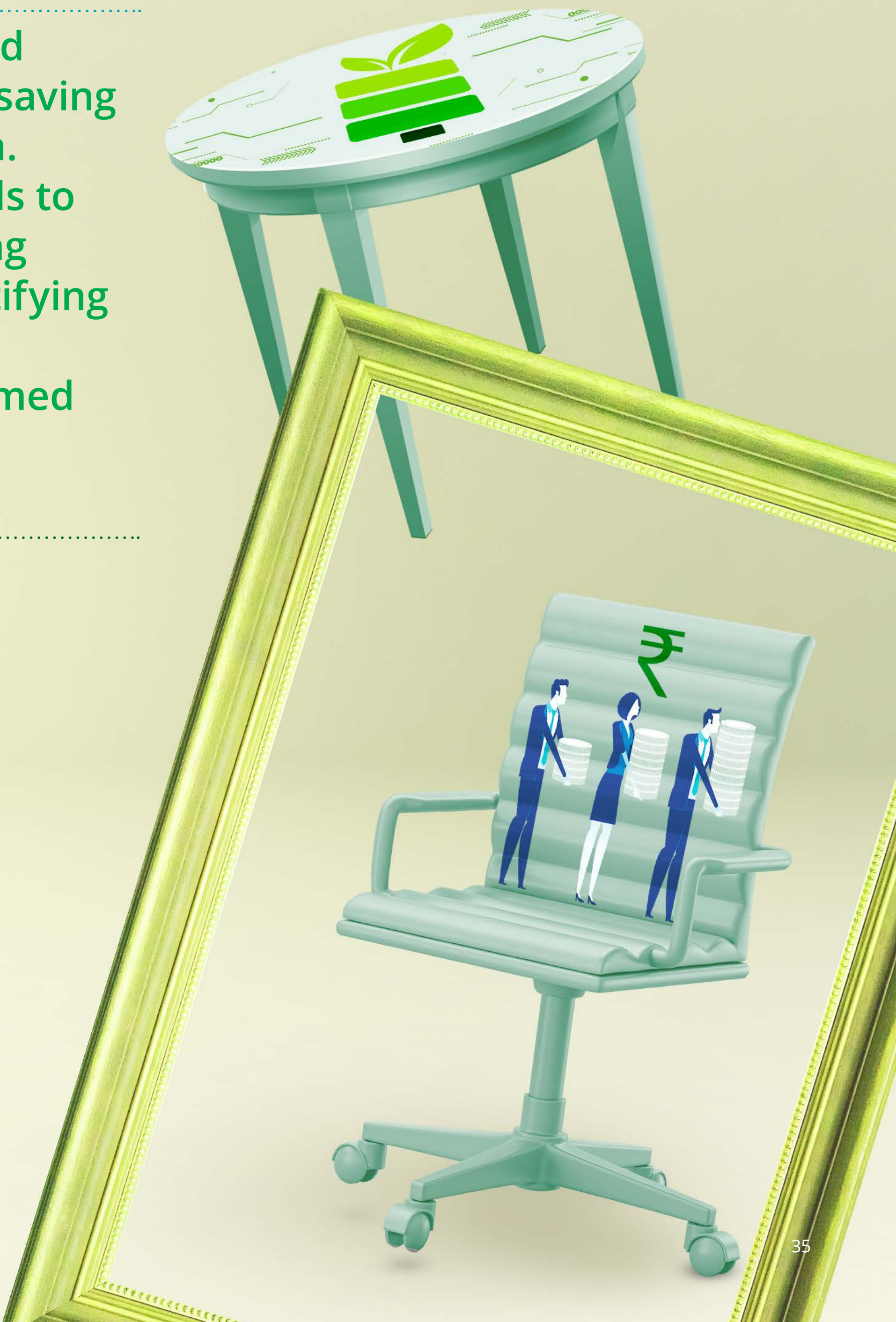
This approach also appeals to investors who are scrutinising the long-term effects of a company's actions on the environment and society. By illustrating the economic rationale of sustainability measures, such as energy savings, and their payoff over time, organisations can make a compelling case for investment.

> **"Our investors are also looking very closely at impact trackers. There are therefore many dimensions of climate change that impact all our firms. It has always been a part of our ethos."**

A prerequisite is investment in sustainability measurement and compliance solutions for accurate, reliable, and comparable disclosures. By providing high-quality disclosures, the Chairs can effectively quantify, and factor varied sustainability measures into business decisions, highlighting cost savings, and value creation and risk mitigation in a language that resonates with investors.

> Simply telling investors and shareholders that energy saving is important is not enough. We must prove that it leads to financial returns in the long run. Identifying and quantifying arbitrage opportunities is essential for making informed business and investment decisions.

By engaging directly with investors, organisations can navigate the complexities of the sustainability landscape, providing clarity and building a strong case. In conclusion, recognising capital as a driver for climate action within the boardroom agenda ensures that the Chairs contribute to a more sustainable future and protect their companies from future climate change related risks.



Future demands shaping the role of the Chair

The reframing of the boardroom agenda paves the way for a deeper exploration of the evolving role of the Chair in navigating these challenges and opportunities. Following in the footsteps of the avatars outlined in our first report, this section explores how climate related challenges are molding the Chair's responsibilities into a multifaceted leadership role with a focus on ESG principles. As vision provocateurs, the Chairs are tasked with steering their boards towards strategic ESG integration, emphasising innovation in sustainability, and setting transparent, measurable goals. They also emerge as culture and talent cultivators, fostering leadership and a workforce committed to ESG initiatives.

As trust torchbearers, the Chairs are pivotal in stakeholder engagement, advocating for sustainable practices and ensuring transparent reporting. Moreover, their role as guardians of long-term ESG integrity involves rigorous compliance and oversight, guiding sustainable investments to enhance environmental and social value. Finally, in facing crises through an ESG lens, the Chairs are the compass for navigating immediate challenges while safeguarding the company’s ESG objectives, ensuring resilience and adaptation. This comprehensive approach illustrates the Chair’s critical role in integrating climate change considerations in corporate strategy.

Vision provocateur for Environmental, Social, and Governance leadership

- **Strategic ESG direction:** Lead the Board in challenging and supporting the CEO and executive team to integrate climate change and ESG considerations into the company's long-term strategy. This includes encouraging innovation in sustainable products and services, setting measurable ESG goals, and ensuring progress is reported in a transparent manner.
- **Innovation and sustainability:** Advocate for investment in R&D that focusses on climate solutions, such as sustainable materials and energy-efficient technologies. Ensure this innovation aligns with the company's sustainability goals and contribute to industry standards for environmental stewardship.

Culture and talent cultivator with a focus on Environmental, Social, and Governance

- **Leadership in sustainability:** Oversee the development of the CEO and executive team with a strong emphasis on ESG initiatives, ensuring they have both theoretical knowledge and practical experience in integrating ESG factors into business decisions.
- **Workforce engagement:** Promote a culture of environmental stewardship, social responsibility, and ethical governance at all levels within the organisation. This includes fostering a diverse and inclusive workforce that can contribute innovative and effective ESG strategies.

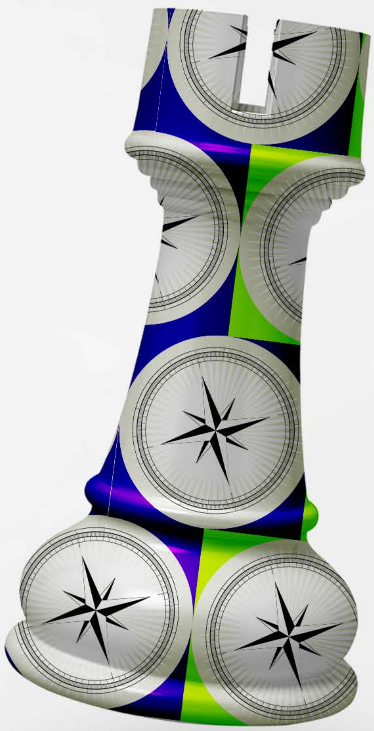
Guardian of long-term Environmental, Social, and Governance integrity

- **ESG compliance and oversight:** Maintain vigilance over the company's adherence to environmental and social regulations, striving to set industry standards. Monitor and report on ESG metrics, ensuring the organisation's governance structures are ethical and transparent.
- **Sustainable investments:** Guide the Board in overseeing investments in sustainable technologies and practices, ensuring these initiatives contribute to the company's long-term environmental and social value.

Trust torchbearer through Environmental, Social, and Governance advocacy

- **Stakeholder engagement:** Act as the organisation's representative in societal interactions, demonstrating how sustainable practices enhance long-term value creation. Engage with shareholders, stakeholders, and industry groups to address broader sustainability challenges collaboratively.
- **Transparency and reporting:** Ensure that the company's commitment to sustainable operations and ESG focus is communicated transparently to stakeholders, linking these practices to financial performance and risk mitigation.

Crisis compass with an Environmental, Social, and Governance lens



- **Crisis management leadership:** Provide direction during crises, ensuring that immediate actions consider the mid- and long-term effects on the company's ESG objectives. Enhance risk management strategies to address potential ESG-related crises and ensure transparent communication with stakeholders regarding ESG impact management.
- **Resilience and adaptation:** Post-crisis, lead the review of the company's response strategies to strengthen resilience against future ESG-related challenges, optimising the company's preparedness for ESG risks.

The Chairs recognise that climate-related risks— and the broader ESG implications— must be woven into the fabric of business decision-making. As leaders, they must navigate a complex and critical landscape to steer their companies towards sustainable practices and long-term resilience. Their leadership is essential in navigating the evolving demands of sustainability and ensuring that companies remain adaptable in the face of climate-related challenges. This will require the "Chair of the future" to assume not one but multiple personas.

About Deloitte's Chair of the Future

Given the critical role of the Board Chair as a change agent, Deloitte India launched a programme in 2022 to understand the roles, responsibilities, and attributes of the Chair of the Future. The programme entailed interviews, conducted by Deloitte Chairs, of a number of leading independent Board Chairs. The first report resulted in interviews of 35 Chairs of Indian corporations and demonstrated common trends across different industries.

For the next chapter of this project, Atul Dhawan, Chairperson, Deloitte India, interviewed 28 Chairs of Indian corporations (both executive and non-executive Chairs). They provided great insights, not only limited to their views on what the Boards of today are currently addressing, but also on the role of the Chair itself, and how it can elevate the Board to the next level—to become the Board of the future.

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