Deloitte.

Facing the climate change challenge

The Chairs' perspective

Contents

Foreword

Let me begin by thanking the Chairs from across UK business, for sharing their views about the role of the Chair in responding to the challenge of climate change. Over 30 FTSE 100 Chairs participated. These Chairs also bring experience from a wide range of other roles across the private and public sectors. Although this document is based on their views, their individual contributions are confidential.

Climate change is a defining issue of our time; all parts of society have a role to play in tackling the threat; but there is a particular responsibility for 'big business' in providing leadership and driving change.

All the Chairs we interviewed are highly engaged with this issue, and are proud of their organisation's response. Many feel a strong personal commitment to protect the world for future generations, and they are well supported by their Board members and by management.

I hope that the comments in this paper will give you a sense of what the Chairs of other organisations are thinking. In spite of some differences in views, and within a context of other pressing issues (including geopolitical disruption and rising inflation) there is a broad consensus about the urgency of what needs to be done and the many ways in which Boards can ensure a rigorous and disciplined approach to deliver on ambitious targets.

If there is anything in this paper that you would like to discuss further, please contact me or your regular Deloitte contact. We shall be delighted to hear from you.

Stephen Cahill
Vice Chair | Deloitte LLP

Introduction by Chapter Zero

Board members hold a unique position, making sure that their businesses respond to the risks and opportunities created by climate change. This is essential to help ensure that companies are fit for the future and that global net zero ambitions are transformed into robust plans and measurable action. Clear climate governance ensures that companies can proceed with confidence in the journey towards meeting their net zero goals.

This research gives a sense of the energy and commitment that has developed in UK Boardrooms, to take action in addressing the climate crisis. Chairs have spoken openly about their sense of responsibility to their stakeholders in society: employees, customers, clients and future generations. This sense of responsibility drives commitment to act, but this alone is not enough.

The clearest advice offered by Chairs is the importance of climate education, to equip the whole Board to provide informed and proactive leadership, with a thorough understanding of how the business is affected by climate risks, and how the company can address its own specific climate impact.

Chapter Zero exists to support non-executive directors and Chairs for Boardroom action on climate. To find out more, and to access resources that will inform and support Boardroom considerations, please look at our website, or become a member.

Julie Baddeley
Chair | Chapter Zero Board

Chapter Zero
The Directors' Climate Forum

Executive summary

Boards are increasingly aware of the challenges involved.
They are putting governance structures in place to ensure that long-term targets are met, long after their tenure as Board directors has ended – and even though in some cases the technology does not yet exist to enable targets to be met.

There is an overall sense of direction among stakeholders, although there are some conflicting demands.
Everyone is agreed about the need for businesses to meet the challenge of climate change, but some investors would like to see this achieved without any net effect on overall commercial performance and the bottom line.

Government and business need to work together.
Chairs call on government to provide a clear direction, to encourage favourable market forces and set a coherent long-term energy policy. There is a strong desire to enable a just transition that protects the most vulnerable in society from the economic impacts of change.

Boards play a crucial part in facing up to the long-term realities of the challenge.
Boards are working closely with management, holding them to account for managing risk, meeting targets and reaching milestones. The Board has a unique focus on the long-term nature of the task, setting clear milestones that extend far beyond the tenure of the current leadership.

"All our stakeholders have a commitment to the climate change improvement – whether that's people who work for us, people we're trying to recruit, people we supply to, people who we attract as owners of the business – it's on everyone's agenda and therefore it's high on our agenda."

"It is very high on the company agenda and that's the starting point. In terms of the strategy, it is now baked into what we do. It's very much wired into the company – not just at Board level but also at the operational and managerial level, and will remain so."

"It's something we all have to address. It can't be addressed by just a few."

Creating a road map to net zero

Progress towards net zero

A reality check

With a clear target for reducing emissions over the long term, Boards are ensuring that companies have processes in place to measure and monitor progress along the way. While organisations are committing to action now, many are still working out the steps they should take to get there. Boards are keen to make sure that their organisation has a clear roadmap, with defined milestones. However, in many cases the roadmap is not yet fully developed, and the technology may not yet exist that will enable the target to be met.

Boards are well aware that in creating a roadmap now, they are setting long-term plans for their successors to deliver, long after the current Board and Executive have left the company. There is a responsibility on Boards to take the long-term view, and ensure that their successors are in a strong position to meet the targets when the time comes.

Read more about the questions Boards can ask, on the decarbonisation journey.

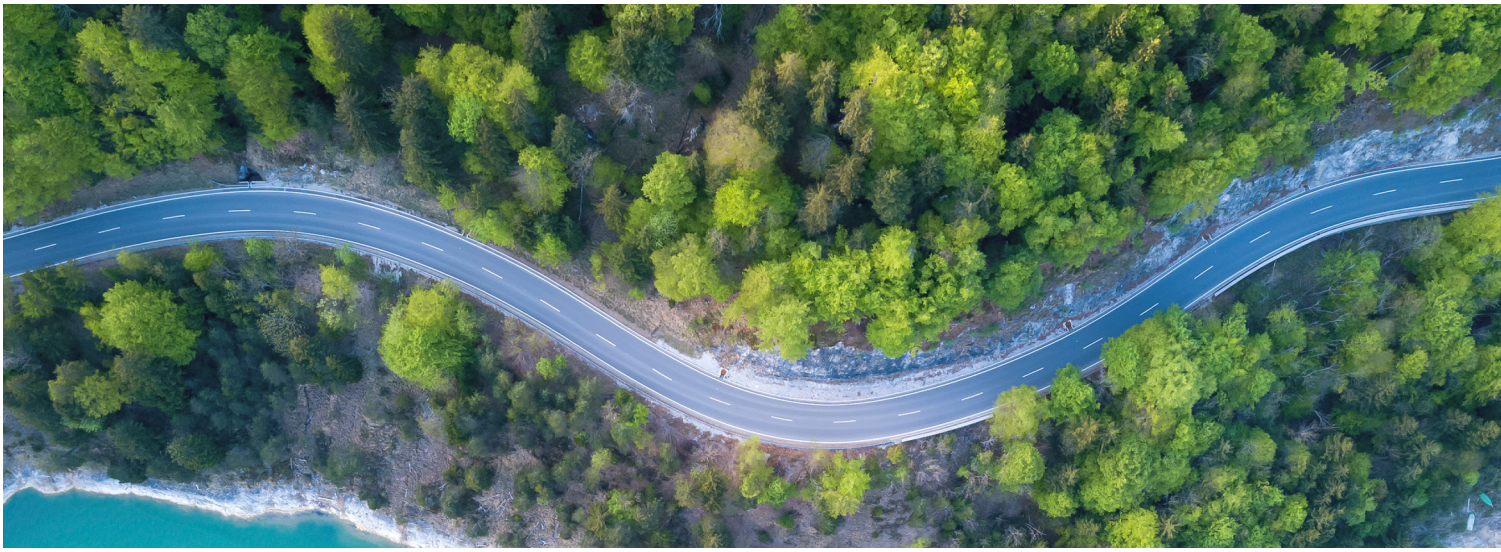
What we heard...

The long-term roadmap is often still unclear

"Most companies will find an initial reduction in emissions relatively easy. They won't find the further reduction anything like as easy."

"We've committed to Net Zero by 2050, obviously with a much tighter set of goals to get to 2030, and a recognition that 2050 is a goal – without a roadmap to get there yet."

"Our plan leading up to 2050 is less detailed, but has to be rigorous in terms of getting to a situation where the Board is comfortable to sign it off. A decent amount of detail has gone into it. Nothing we'd sign off as a Board is done on the basis of hope and good luck – it's done on the rigour and determination that we can get as comfortable as we can, given the time horizons. Inevitably, a 28-year time horizon is a long time."



Companies' rationale for their targets

One size doesn't fit all

The Chairs we spoke to explained why their companies have set targets to become net zero by either 2030, 2040 or 2050.

- **Net zero by 2030**. This target is often set by companies with a low carbon impact in their operations
- **Net zero by 2040**. This target may be set when a company has some confidence about controlling the extent of its Scope 3 emissions
- **Net zero by 2050**. Typically, this target is set by companies with a large environmental impact and complex Scope 3 emissions: Boards of these companies prefer to set a realistic target rather than to be perceived as 'greenwashing'.

What we heard ...

a commitment to genuine action

"Our objective was to set out some yearly and periodic milestones, but ones which we can actually hit. It's too easy to do greenwashing and say we'll be there in 2030, when the reality is that most of the Board and management won't be around in 2030."

"If we meet our 2030 goals, then Net Zero becomes a real possibility. We'll have made a very significant reduction – it gives us more confidence to meet the targets which get us closer to the end goal. We want to get there as quickly as we can, but built on solid foundations."

Read more about setting Science Based Targets.

Read more about changes to business, markets and regulation, driven by ESG.

Scope 3 emissions
Still a long way to go

Reducing Scope 3 emissions is the big challenge for most organisations. Many companies are collaborating with suppliers to find ways of reducing them. Some companies are not as advanced, and may not yet have gone as far as they could to consider the environmental impact their suppliers may be having. In most cases, companies are still considering how to measure Scope 3, and will need to work with suppliers on the emissions reductions that will be required in the supply chain in the next ten years or so.

Chairs spoke of their concern that the companies in their supply chain, often outside the FTSE100, have fewer resources to achieve net zero targets, and many are likely to need government support to reduce their GHG emissions. Reducing emissions is also likely to add to cost, and SME companies may not be able to afford the increased costs associated with sustainable trading.

Some FTSE 100 organisations are already working with their supplier communities and wider industry groups, to support the action they will need to take, to transform their businesses in order to comply with the Scope 3 targets.

What we heard...
Scope 3 effects on companies' ability to hit targets

"90% of our emissions are in Scope 3."

"Our Scope 1 and 2 commitments only take us half way."

"The objectives we've set for Scope 1 and 2 are more ambitious and are more within our control. But when you get to Scope 3, clearly that's more challenging, because of the span of our supply chain and the reality of our business and the global footprint."

"We've made the 2030 commitment and we'll achieve it easily. Scope 3 is a different story."

What we heard...
The challenge for suppliers

"FTSE companies have skills, people, capital, experience – we should be able to manage this. If you're in the supply chain – looking to 2050 – the work they have to do, for a lot of SMEs, is huge, and they won't have the resources, knowledge, money to do it all."

"We're in a phase where companies are under enormous pressure to hit their bottom lines. On one side of the coin is, they want to be sustainable, but if they don't buy the cheapest, they can't afford to be in business."

"We've set some targets around encouraging our suppliers to have science-based targets. We've done that, and we have procurement codes, but we don't track it yet."

The role of government*

Unleashing market forces

The attitude of companies to government involvement appears to vary, from those that would welcome targeted funding and fiscal incentives, to those who prefer government to give business the freedom to act in responsible ways.

Companies value a regulatory and policy landscape that sends clear market signals in support of the achievement of net zero.

Chairs see the need for policy to promote renewable energy and increase the availability of energy from renewable sources, at a price that consumers can afford. They stressed the importance of policies directed at specific measures, depending on their business, for example:

- to help the transition to the use of electric vehicles, for example by extending and improving the re-charging infrastructure
- to address the challenge of reducing emissions from the housing stock, such as encouraging development and installation of air source heat pumps
- to accelerate innovation for sustainable air travel and freight.

Chairs were broadly accepting of the use of tax to discourage carbon emissions, and tax incentives to encourage suitable corporate behaviours, whatever these might be. When considering their supply chains, companies are conscious that smaller businesses will need financial support.

** Chairs we spoke to, from companies operating in multiple jurisdictions, discussed governments in general, rather than any specific national government.*

What we heard ...

The importance of policy

"After 2030 it's going to get more and more difficult to drive down carbon change, without an enabling policy environment. At the moment we can just about do it, and earn a return on the investment that we're making. But of course we're doing the easy stuff first."

"It's not all about money. This is about unleashing and enabling the capital that exists in the private markets to help with this transition. For that capital to be made available, it needs ... confidence in the playing field and in the shared commitment."

What we heard ...

In favour of carbon pricing

"It's becoming increasingly obvious that a properly structured carbon pricing mechanism, that sends clear market signals, would unleash a tidal wave of innovation. There would be a huge economic incentive to go out and develop new technologies that reduce greenhouse gas emissions."

"I think this is one of the biggest deficiencies that we have in the climate transition – that governments are not playing a more prominent role. They talk about low emissions, but I think there is a gap between ambition and reality. They need to up their game in terms of regulations and carbon pricing and so forth, to stimulate the transition to go faster."

What we heard ...

The case against government intervention

"Governments should set the context, and then they should let the market get on with it."

"I'm not a big fan of the government doing more than setting emissions standards and tax policy."

What we heard ...

A call for Boards to engage directly with government on this issue

"I would like Boards to be more politically engaged than they are. Typically, we wait for government to deliver regulation. Some of us lobby government to influence policy. Generally speaking, there is not a lot of involvement by Boards in the policy-making cycle. I think there should be. I think Boards ought to become more politically active."

Shareholder balance

Competing demands for profit and climate action

A battle of priorities

Chairs' observations are that shareholders in general expect improvement in business performance, but at the same time expect progress to be made in managing climate risks and improving sustainability. Some shareholders who call for climate action are not always willing to accept the cost of it. A number of Chairs described various reactions of some investors to climate costs: they recognise the need for action to deal with climate change but at the same time do not accept that this will have any impact on the bottom line.

Some Chairs commented that it was important to balance the differing interests of stakeholders, which meant managing climate risks and moving towards carbon reduction whilst doing this 'in a commercial manner', keeping costs 'manageable' and still 'keeping everyone on board'. Not all shareholders are investors for the long term.

Boards ensure that communications with investors spell out the long-term business benefits of capital investment in meeting net zero targets and in mitigating climate risk.

Read more about navigating stakeholder trade-offs.

What we heard...

a range of investor reactions

"On the one hand you have investors telling us they're keen to see us taking a bold stand on addressing climate change and on the other hand you get the kneejerk reaction: this involves capital expenditure so therefore the share price should go down."

"I think we'll have a slightly strained response from our institutional shareholders because the governance side will say this is something that needs to happen, and the normal fund manager won't like the fact that it's reducing the returns that we're likely to get."

"The long-term investors get it. The others will duck and dive."

What we heard...

how Chairs might tell the story

"Balancing stakeholder interests is what Chairs do on almost every topic. It's the art of the possible – moving it as fast as you can, while bringing all stakeholders, (in particular investors), along on the journey."

"Traditionally, companies have invested for regulatory, legal and safety reasons – none of these make a return, at least on the surface. However, you end up with a much safer facility, with fewer accidents. These are excellent long-term returns and gives a longer licence to operate."

Read more about financing your Net Zero transition.

The opportunity vs the threat

A race to adapt and lead

Many companies recognise that the energy transition creates commercial opportunities. Many have identified an opportunity to be a leader in their industry in relation to all things relating to climate change and ESG, and are already developing product and service innovations which will enhance their competitive position.

What we heard...

out of adversity comes opportunity

"Companies that can get there early, and who can demonstrate leadership will be well received by consumers and governments. There's certainly an opportunity associated with being early and being innovative – it's not all bad news by any means."

"Once our strategy was aligned around it – everything we do is an opportunity."

"There are opportunities – but if it's badly handled it will be a threat."

A mutual endeavour

Roles of management and the board

A test of the working partnership

We found that in all companies, the Board works closely with management on the issue of climate change. We did not hear from any Chair who was unhappy with management's approach.

An initial role for the Board has been to come up with the agenda for reducing GHG emissions, setting the direction for change, and defining the degree to which the company seeks to be the industry leader in driving change.

The Executive comes up with the ambition and a plan for implementation, for approval by the Board. This calls for active involvement of the Board in oversight of the Executive's proposals, to ensure that they meet the Board's overall agenda and ambition. One Chair described this process as "*a very organic development between the Board and management.*"

Following Board approval, some management teams have established specialist groups such as a Climate Change Steering Group that includes subject matter experts to help drive effective action.

The role of the Board then moves on to monitoring, to check that the company has the right strategy, has the necessary capabilities, and is taking the right actions for an end target that is many years away, but for which there are intermediate milestones.

What we heard...

cohesive teamwork

"The Net Zero ambition came from the CEO and the team, based on the groundwork that the Board had laid. We have upgraded the ambition a bit since then, but again on the initiative of the team. In my mind it's the right thing to do as management have a deeper understanding of what is operationally possible and the cost benefit of that."

"Companies are run by management. The Non-Executive Chair's role is to support, cajole, keep people honest, to give them encouragement and to push through the right behaviours. The CEO has to own it. The Chair has to ensure the CEO thinks it's important."

"Management's job is to implement, to get it working and to get the reporting in place. The wiring that goes on is extraordinary when you're under this kind of pressure. You can't just sit in the boardroom and say right, we're going to cut the emissions intensity of our activity by 25%, and not work out how it's going to happen."

"The Board has been actively involved with management in assessing the risks and opportunities around climate change, in developing the policies for the near-term and long-term, and in setting the targets. It's an iterative, dynamic process."

"In no sense has the Board been pulling management – it has been a mutual endeavour. In some respects it has been the Board questioning whether management has been too pushy or aggressive in terms of commitments – because we are committing our successors, and that's a serious thing."

Board composition

Infusing climate knowledge throughout the Board

The question of the need for climate change experts on the Board is a matter of debate in many organisations at the moment. Most Chairs agree that all Board members should have some knowledge of the subject, in addition to their particular area of expertise. This broad knowledge can be supplemented where necessary by input from external advisors.

Some Chairs questioned the value of having a specific climate change expert on the Board, preferring to appoint Board members with a broad understanding of a range of business issues. Some Chairs expressed the view that specialist expertise is beneficial for management teams, and the Board needs general breadth of knowledge, to ask the right questions regarding a wide range of topics.

It is also possible that views about Board composition may change. One Chair told us: *"There are expectations from some investors that you should have ESG experts on the Board. We're debating this internally as well. We have a competency profile that we use for recruiting new Board members. At this stage we don't have a column that says 'ESG expert' – but we're debating it … it's a current topic."*

What we heard …

the case for collective responsibility

"Climate change is such a fundamental issue and will change the way we do business in so many respects, that there is an obligation on any thoughtful director to educate themselves, in order to contribute effectively to the debate."

"You do have to be careful taking Board seats up, if their only skillset is climate."

"The expertise needs to lie in the collective capabilities, awareness and motivation of the Board, of management and of the broader team as well."

"I'm a real believer in collective responsibility and accountability. If you bring an expert in, you end up deferring to them. An expert would skew the discussion – you would over-emphasise one area and under-emphasise others. You can always bring an advisor in."

What we heard …

where expertise is to be found

"The expertise will sit in the Executive, enhanced by consultants, and possibly over time with a specialist small Advisory Board."

"Probably we will need someone on the Board with specific skills in the future − especially when we get into stress testing and forecasting, where this will be significant for capital and to the business."

"We need to have more younger people on Boards, more reflective of the people we serve. They are streets ahead of us in terms of knowledge, and commitment and belief."

"We're bringing external people in to educate the Board, to get the Board more sensitised, smarter and more capable of engaging in the dialogue."

A separate Board Sustainability Committee?

Recommended for companies with significant climate impacts

We found differences in the views of Chairs about the need for a Board committee for climate or broader ESG. There was strong support for setting up a focused Board committee, in order to give ESG issues an appropriate amount of attention. Without a separate committee reporting to the Board, there would be a risk of losing focus among a very busy Board agenda.

Some Chairs, particularly of companies that have relatively little direct climate impact, prefer to keep ESG as the responsibility of the Board as a whole, without the need for a separate committee.

In other companies, ESG has been added to the remit of an existing Board committee, such as a 'Risk and Sustainability Committee'. Some Boards use their Risk Committee to look at the detail and the Audit Committee to review public disclosures: both committees report back to the Board.

Read more about the Audit Committee's role in climate governance.

Boards with an ESG Committee

c.**50%** of FTSE 100 and c.**30%** of FTSE250 companies have established an ESG/Sustainability Committee.

Typically, the majority of members are non-executive directors (with input from CEO and in-house Sustainability/ESG leaders) but divergence of approach with some including CEO and executive members.

What we heard ...

in favour of a separate Committee

"Boards are very busy these days, dealing with a million things. As a Board, to get enough time to focus on every topic that the Board has to deal with, is not practical. So a Committee that dedicates their time to a specific topic, in this case ESG, is an essential structure. You simply have to divide and conquer."

"We have a Sustainability Committee. The Board gets regular updates from the Committee chair and from the management team. Pulling all this together from 130 countries is quite an effort, and we realised that if you're going to do it, you'd better do it right."

"I think it is very important that you establish a committee, and that on that committee you have people who are appropriately qualified, which may mean that we have people who don't have a traditional NED background but who have a very specific environmental, climate background, who can help push the agenda forward."

"By putting this committee in place, it ties the whole thing together, ... and ensures the Board and management are absolutely on the same page."

What we heard ...

the case against appointing a separate Committee

"We won't have an ESG committee at this point. Decisions on climate are embedded in the business anyway. We want to spend time as a Board on it. "

"For this company, a whole ESG committee really isn't necessary. We've made the Nominations Committee responsible for corporate governance, environmental and social issues."

A framework for Board success

Create the right culture

Communicate climate principles as part of corporate Purpose

Chairs are increasingly aware of the importance of climate to their organisations' employees. Many have considered how climate is linked to their corporate Purpose, to generate a collective sense of motivation. They have pushed management to educate people within the business, so that everyone understands how climate change issues are linked to the business and why they are important. When it is part of the culture, it has the opportunity to inform decision-making at all levels.

Boards have contributed to the culture shift, by linking Executive pay to ESG targets. Board members also use their external connections to champion the cause, for example with government bodies, NGOs, regulators and other stakeholders.

"A sense of purpose is phenomenally powerful. People really connect with it."

"A Chair can help businesses to prioritise. And more importantly, we hold management accountable. If the Chair is seen to be championing it, it makes everyone else pay attention and do a better job."

"We've aligned the purpose of our company to the strategy, relating to climate change and Net Zero. Our stated purpose is really important in the company and people really connect with it."

Read more about using Executive incentive plans to drive progress towards Net Zero goals.

Read more about the skills needed in organisations to embed climate action into the business.

Balance action within the global context

Maintaining focus on climate is difficult but necessary

Many Chairs acknowledged that climate risks compete for attention with other urgent issues, such as COVID, the impacts of the war in Ukraine, global economic uncertainty, and the pace of evolution of digital business. There is a need for businesses to keep different issues in balance in order to deliver business performance.

One Chair commented, however, that although Boards have many urgent issues to address, ***"surely we can walk and chew gum at the same time."***

What we heard ...

an increasingly busy agenda

"There are lots of other things that make this a great business at the moment. We have to keep everything balanced – there are a lot of issues out there. Climate change is an important part but it is only a part, of having a successful business."

"The concern is that all the time there are new events, like COVID and Ukraine, that take the attention away from climate. I think there is a risk that we're losing a bit of momentum. I see very clearly that we're on the right track but maybe it's going too slowly. On the other hand, not one problem has been solved by pessimism – we need to continue to be optimistic, to drive forward and do our share."

Monitor

Establish data discipline inspired by financial reporting

In monitoring progress towards net zero targets and milestones, Boards are ensuring that there are robust measures around targets to stay on track and hold management to account. The focus is on data, metrics and stress testing. Climate metrics should be treated with the same rigour and discipline as financial performance metrics.

Once the right processes are in place to yield accurate data, the Board will have a better understanding of where the company is on the journey, and can push management where necessary, for example to:

- drive innovation in finding carbon-reduction solutions
- question plans and progress relating to Scope 3 emissions
- take action to mitigate the impact of climate risks such as extreme weather events affecting workforce, raw materials or supply chains.

What we heard ...

you can't manage what you can't measure

"You put yourself in the mind-set of financial processes – you re-evaluate the strategy every year, you look at the targets and look at performance, you look at investment contracts and ensure incentives are aligned and you hold people to account."

"Because we're now embracing risk and assurance on this, we're getting deeper into data quality, consistency and controls."

"We don't need another system – we already have a system that communicates financial performance. We just need to raise Environmental & Social reporting to the same level of quality. That does mean systems, processes, data and controls."

"I think we need to put the progress of transition into the same framework as we do for normal performance management for operations and financials. That's the only recipe I know for this. You set targets, put out a plan, measure your follow up and drive towards the goal."

Read more about the Task Force on Climate Related Financial Disclosures.

Make sure that a sound governance structure is in place

Increase the rigour

Chairs emphasised that a governance structure for driving action on climate change should be in place, involving the Board, the Executive and shareholders. This would inlcude:

- The Executive should have a clear and detailed roadmap of activity to meet agreed targets in both the shorter and long term.
- The Board should be responsible for the roadmap and should understand where everything on it is checked and assessed by Board Subcommittees
- The Board will report to shareholders on progress against the roadmap, and explain the emphasis and priorities
- The Board will have oversight of climate risks and the impact on workforce, suppliers and operations
- The Board should ensure that the Executive has appointed a Head of Sustainability (or an equivalent position) to drive change and report to the Board on progress
- The Chair will review and strengthen the governance structures to ensure nothing is missed.

What we heard ...

establishing strategic governance mechanisms

"The most important thing that Boards do is to set the agenda. You set it through a balance of: 1) understanding what the priorities of the business must be and 2) understanding what the natural instincts and strengths of the Executive are. If there's a weak muscle, then you set the agenda to help strengthen it."

"Focus on how you make your response a strategic response, rather than just another thing you have to do as well. You have to make it strategic for your business, and that's the essence – that's the question for the Board."

"We're strengthening the governance structures around all of this reporting. So we've asked [the Executive] for a map, showing where everything is being checked and assessed, how do we audit and confirm it, and where does it end up being reviewed by which subcommittee. When you do that, you find the odd gap."

Read more about integrated thinking and reporting on climate.

What might have been done differently?

On reflection
Companies might have moved faster

Most Chairs are confident that their organisations acted appropriately in addressing the challenge of net zero, although some also acknowledge that they might have moved more quickly. Many that are still in the process of assessing their Scope 3 emissions would like to have started sooner.

Even the Chairs we spoke to who are most confident in their organisations' climate response, intend to increase the intensity of their Boards' focus on driving progress towards climate targets.

What we heard ...
looking back

"I would have preferred us to be a year or two ahead in our thinking but there's been a small thing called a pandemic."

"Personally, I think I should have got more up to speed, more quickly. I was agnostic, bordering on non-believer, 2 years ago. It's taken too many of us too long to realise that it should be higher on the agenda. We should have forced the issue a bit more at the Board."

"I'm not sure we understood well enough, early enough, the needs of our consumers. Rooting these decisions in your clients is always a good thing."

What we heard ...
resolutions to improve

"We could continue to raise our ambitions. All our targets around 2040/2030 are 'at the latest' – ideally we'd like to move faster."

"We and every Board I know should be spending more time on the long term perspective, whether it's to do with the ocean levels rising, or drought, or how we run the company with a different energy consumption footprint – there's been very little of that thinking going on."

"Maybe we could have done more, looking back. But we've done things sensibly and we're now turning up the focus."

Advice for new Chairs

Educate

- "Educate yourself. Seek the views of experts from diverse sources, for the widest possible set of inputs into the strategic decision-making that your Boards are going to take."
- "Make sure that your Board members have the understanding and capabilities to challenge management's thinking around climate change strategy."
- "Make sure you have time for the Board to be curious."

Understand the business

- "Understand the big picture, and the totality of issues that the company is dealing with. Then you can focus on what the Executive needs to go away and deliver."
- "Take a view on whether you have the awareness, skills and motivation in the business to take this seriously."
- "Ensure that the company has a comprehensive and costed climate change strategy."

Communicate

- "Balance the interests of all your stakeholders – investors, employees, customers, suppliers. Champion the change and bring them with you on the journey."
- "Pay attention to how you communicate your actions. Your stakeholders will judge you according to your PR narrative."
- "Meet with the large investors. Understand where they stand on this issue. How important is it to them, how do they see the company and how engaged are they on this topic?"

Commit

- "Make it very clear that it's the responsibility of the whole Board to manage climate change. It is a priority, so treat it as one."
- "Give appropriate prominence to the ESG agenda and the Sustainability Committee. Give it equal prominence to the Audit or the Remuneration Committees and make it an integral part of the Board process."
- "Strengthen the governance, make sure the Board has got its arms around what the company is doing, and then, as appropriate, drive the company forward in areas it might not be concentrating on right now. That's really the task."

Form an inclusive Board

- "Create a diverse but cohesive Board, where everyone can contribute and there's a sense of respect – between Board members for each other and between the Executives and the Board."
- "Shape an environment where people can come with their best judgement and experience into the room, from the Executive team as well as the Board."
- "My experience is that the Chair should be the conductor of the orchestra, not a member of the orchestra. It can be very tempting to join in and become the lead violinist – but it's not a good place to be! It's about fostering a group who work well together and respect each other. If you get there, the odds are you'll have a more inclusive and effective Board."

Stay balanced

- "Keep all the important issues in balance. Organisations have big agendas and there are lots of important issues that require attention."

Last word

"I wish [our organisation] had got on with this a couple of years earlier. Our business is full of wonderful, liberal, humane people who want to do things for society, whether it's our community engagement or the environment. Everyone wants to do the right thing – but the organisation is big, it's a grid, and it reduces flexibility and innovation. The job of leaders is to release the negatives of the organisation, and to do what comes naturally to people."

Definitions and methodology

Net zero targets

Explainer

The 2015 Paris Agreement is a commitment by its signatories to keep global warming to no more than 1.5ºC. This calls for a substantial reduction in greenhouse gas emissions (GHGs) by 2030, and achieving net zero by 2050.

Net zero targets apply to both direct and indirect GHG emissions, classified as Scope 1, Scope 2 and Scope 3 emissions.

- **Scope 1 emissions:** Direct emissions from assets or other sources controlled directly by the organisation, such as fuel combustion in boilers, furnaces, company vehicles, office heating and air conditioning.
- **Scope 2 emissions:** Indirect emissions associated with the purchase of electricity, steam, heat and cooling. Although these emissions occur at external facilities (e.g., power stations) they are used by organisations in their operations.
- **Scope 3 emissions:** These are all other indirect emissions arising from the organisation's operations. They include, for example: emissions arising from purchased goods and services, business travel, waste disposal, the use of the organisation's products, distribution, and (mainly in the case of financial companies) investments.

Please note: many of the Chairs interviewed used the terms 'climate' and 'sustainability' interchangeably.

Interviews

Interviews for this research were conducted as part of Deloitte's Chair's Programme, in February and March 2022, with over 30 Chairs from the FTSE 100, representing over 80 UK public and private Boards through their portfolio of positions.

Industries represented in these portfolios include:

- Business services
- Defence
- Energy
- Engineering
- Fast moving consumer goods
- Healthcare
- Insurance
- Investment banking
- Luxury consumer goods
- Mining
- Oil and gas
- Packaging
- Pharmaceutical
- Publishing
- Retail banking
- Software
- Tobacco

Deloitte.

Designed and produced by 368 at Deloitte. J22061-2