ESG OVERSIGHT

The Board's Role in Shaping Climate Strategy

By Scott Corwin and Alicia Rose

Action on climate change is no longer just a matter of altruism. A growing number of companies are publicly declaring commitments to decarbonize their operations, with many noting that these commitments align with their growth and value creation ambitions. Organizations that are slow to transition to a cleaner and more equitable future might be putting their business models at risk.

Climate change initiatives require broad cooperation and collaboration across the public, private, and financial sectors. Corporate boards can play a crucial role in facilitating this collaboration, beginning by taking steps to share knowledge and elevate their climate literacy in order to strengthen directors' ability to engage on climate imperatives. A recent series of papers developed by the Climate Governance Initiative, Deloitte Global, and the World Economic Forum reveals an opportunity to increase climate awareness and embed climate considerations into board governance.

DECARBONIZATION URGENCY

The case for reducing greenhouse gas emissions is becoming more scientifically established and socially accepted. If the world continues to warm, economic growth is likely to slow. Global warming hinders growth in every region of the world, according to modeling by the Deloitte Global Economics Institute. If climate change continues on its course, where temperatures rise by 3 degrees Celsius across the United States, Europe, and Asia Pacific, global economic losses could reach $115 trillion in present value terms by 2070, the modeling shows.

Global coordination and response to achieve net-zero emissions would not just eliminate the projected economic losses of 3-degree warming but could expand economies by $47 trillion by 2070, the modeling also shows. Companies that are proactive on climate action can seize opportunities such as improving resource productivity, spurring innovation, and enhancing resilience in supply chains. Acting on climate is a business imperative that can lead to significant economic gains in the long-term compared with inaction. However, there may be medium-term trade-offs for boards to consider such as reduced dividends to enable upfront climate investment and higher consumer costs for environmentally friendly products and services.

To set organizations on an impactful decarbonization course, boards should begin by understanding climate risks and opportunities, which include physical, transition, and liability risks for all portfolio operations and stakeholders in the organization's value chain. Boards should ask whether information provided by management assesses risks along the entire value chain, what opportunities for value increase might arise from sustainable investing, and what industry competitors are doing.

Boards should also understand the company's current and forecasted emissions data, segregated by scope, site, fuel type, operation, and place in the value chain. They should challenge management on abatement pathways and cost curves, plotting potential abatement relative to cost, and ask for road maps and targets that consider strategic and cost drivers. Discussion can delve more deeply into value chain solutions, project development and deployment, communications, and disclosures.

ARE BOARDS PREPARED?

In a 2021 Deloitte Global survey of 353 audit committee members, nearly half (47 percent) of respondents indicated that they were not climate literate or relied on one committee member. The challenges of overseeing climate change are complex, yet more than half (65 percent) surveyed indicated that their organizations lack a clear strategy, while 46 percent cited poor data quality, and 33 percent pointed to a lack of real-time tracking.

Many audit committees are beginning to address how assumptions about the future of the environment should be reflected in financial statements and risk assessments. When climate is integrated into the company's strategy, commitments can be made, which can reorient the business around a new purpose, leading to potentially profound adjustments to operations, processes, metrics, and reporting.

By providing leadership and direction to management, boards can play a significant role in guiding their organizations toward a more sustainable future. They should understand the critical issues and ask relevant questions to continue raising the bar for positive action. D


Scott Corwin is a managing director and chief strategic and commercialization officer for Deloitte's Sustainability, Climate & Equity Practice. Alicia Rose is deputy CEO of strategic initiatives with Deloitte US.