

BLOG

The Corporate Governance Implications of Climate Change

The November 2021 COP26¹ Conference in Glasgow, reflected a global paradigm shift in attitudes towards climate change. In both the business community and government, many now accept the significance of climate change around the world and recognise a need for new strategic thinking. Adding the word 'sustainable' to business activities or emphasising the importance of 'sustainability' in corporate activities will no longer suffice.

The automobile, coal mining, and energy industries have already reacted to changing circumstances, including limitations imposed by governments on their activities. COP26 accepted further restrictions on deforestation, coal mining, and agriculture. But the most significant development was a long-term agreement by the global financial sector to limit future investment in climate damaging industries.

Boards of companies in every sector need a clear climate strategy within their overall corporate strategy. Regulators are likely to require reporting of such strategies, including plans to reach zero-carbon emission. Carbon trading and offsetting systems might form part of such strategies. Further metrics are likely to emerge to measure and report emissions and the reduction of carbon footprints, both by companies and throughout their supply chains. In future, the decisions of prospective customers, employees, and investors may depend on their perception of your climate change credentials.

¹ COP stands for Conference of the Parties. The event is a global United Nations summit about climate change and how countries are planning to tackle it.

The corporate governance in every governing body includes a responsibility for strategy formulation and policy making. These performance related activities must now embrace climate change strategies and policies. Working with and through the Chief Executive and senior management, boards may need to review their procedures. Board reporting may need extending. One approach could be a board sub-committee with climate change responsibilities; another could be the appointment a director to lead the board's work in the field.

Climate change is now firmly on the corporate governance agenda. The one outcome that cannot be considered is 'do nothing.'

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