21 October 2024

Climate Forum Reader 2024

From strategy to action

Institute of DIRECTORS NEW ZEALAND

Chapter Zero New Zealand
The Directors' Climate Forum

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INTRODUCTION

Climate governance is increasingly recognised as a critical component of responsible leadership and sustainable business practices in today's world. As the global impacts of climate change become more apparent, organisations face growing pressure from stakeholders, regulators, and society to address environmental risks and integrate climate considerations into their decision-making processes. Effective climate governance not only helps businesses mitigate environmental risks but also unlocks opportunities for innovation, resilience and long-term value creation.

At the heart of climate governance is the responsibility of boards and leaders to steer their organisations toward sustainable practices, ensuring climate risks are understood and managed, and opportunities for positive impact are pursued. Directors' duties now extend beyond financial performance to include environmental stewardship, making it essential for organisations to embed climate strategies at every level. By prioritising climate governance, companies can align with evolving regulations, enhance their reputation, and play a pivotal role in the global transition to a low-emissions economy.

This document presents a curated collection of article summaries and resources on climate governance, offering an exploration of key topics such as climate leadership, directors' duties, and the strategic integration of sustainability into corporate frameworks. From high-level strategy to actionable steps, these materials provide essential guidance for organisations seeking to navigate the complexities of climate responsibility and take meaningful action. Whether you are just getting started or refining your approach, these 'bite-sized' insights are designed to support informed and effective decision-making in the era of climate change.

As you engage with these articles and resources, consider how the insights can be applied to your organisation. The goal is to enhance governance practices, increase governance capability, and transform business models to manage the risks and seize the opportunities that climate change presents. The full articles and resources are all available on the Chapter Zero New Zealand website. I recommend joining Chapter Zero New Zealand, the national chapter of the Climate Governance Initiative. Chapter Zero is a free supporters' network providing insights, resources, events and training to support directors on their climate journey.

Thank you for your commitment to embracing climate change as part of your governance practice. By fostering a culture of continuous learning, we can collectively navigate the challenges and seize the opportunities presented by this systemic risk.

Kirsten (KP) Patterson
CE, Institute of Directors

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Institute of DIRECTORS NEW ZEALAND

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Climate leadership

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Climate leadership is vital in today's world, where the impacts of climate change are reshaping industries, economies, and societies. Strong climate leadership empowers organisations to not only mitigate environmental risks but also to harness opportunities for innovation and long-term resilience.

Leaders who prioritise climate action demonstrate a commitment to sustainability, aligning their organisations with global efforts to transition toward a low-carbon future. By fostering a culture of environmental stewardship and embedding climate considerations into decision-making, climate leadership drives both business success and positive societal change, making it an essential aspect of modern governance and responsible leadership.

DR ROD CARR: "LEADERS NEED TO GET WITH THE TIDE OF HISTORY"

It is crucial leaders across business and the community take the lead on climate change, says the Climate Commission chair.

Sonia Yee, Senior IoD writer – 14 March 2024

Dr Rod Carr CFInstD, Chair of the Climate Change Commission, emphasises the urgency for business and community leaders to act on climate change rather than waiting for government direction. Speaking ahead of the Institute of Directors' 2024 Leadership Conference, Carr argues leadership means taking initiative, not following, especially in addressing the climate crisis. He warns waiting for certainty or for the right skills to emerge could lead to being overtaken by competitors who are already adapting to lower-emissions practices.

Carr highlights the confusion and conflicting messages stalling action, particularly in the context of transitioning to renewable energy. He stresses that while economic challenges like the cost-of-living crisis and labour shortages are real, they should not be an excuse for inaction. In fact, the energy transition presents massive job and investment opportunities, from transport and energy to land use and urban development.

Carr identifies four pillars for New Zealand's transition: reducing emissions from transport, land use, the built environment and energy production. He also notes that while climate change brings risks, it creates new business opportunities, such as innovations in low-emissions energy, transport and sustainable land use.

He urges leaders not to be overwhelmed by the constant flow of climate messaging and to recognise ignoring the issue won't make it go away. Instead, he encourages businesses to seize opportunities now, warning that inaction carries risks and that the time to act is now.

PROTECTING YOUR BUSINESS AND THE CLIMATE

How can boards prioritise economic resilience while creating a climate strategy that will have a positive impact on the environment?

Aaron Watson, Institute of Directors – 6 September 2024

Lisa Tumahai CNZM, deputy chair of He Pou a Rangi – Climate Change Commission and former chair of Te Rūnanga o Ngāi Tahu, discusses the complexities of integrating climate governance with economic resilience. Speaking ahead of the Climate Governance Forum hosted by the Institute of Directors (IoD) and Chapter Zero New Zealand, Tumahai reflects on the initial hesitation of Ngāi Tahu's business directors when asked to incorporate climate change into their strategies, given the iwi's involvement in industries such as forestry, farming, and tourism, all vulnerable to climate impacts and regulations.

Over time, with a clear **Climate Change Action Plan**, individual boards within Ngāi Tahu found ways to integrate climate goals into their operations, such as converting a Shotover Jet boat to electric power and trialling hydrogen technology in Hilton Haulage. However, some strategic decisions, like selling the Go Bus business, were made because the cost of converting the fleet to electric or hydrogen was too high to fit their tribal strategy.

Tumahai emphasises boards must set realistic climate goals, establish KPIs, and assess what is feasible for their industry. She highlights that climate governance must balance long-term sustainability with immediate economic resilience, especially given the natural disaster risks faced by the iwi, such as earthquakes and storms. Resilience, she notes, extends beyond individual businesses to the stability of the entire tribal economy.

CLIMATE GOVERNANCE CONVERSATION MUST ADVANCE

Recent political, legal and scientific developments will change the way we talk about climate governance.

Kirsten Patterson CMInstD, Chief Executive, IoD – 1 March 2024

As we progress into 2024, several political, legal, and scientific developments are influencing the conversation on climate governance. Politically, New Zealand has a new government, which has already removed electric car subsidies, is signalling changes to the Emissions Trading Scheme, and aims to make renewable energy projects easier to implement. Legally, the Supreme Court has allowed the groundbreaking case Smith v Fonterra to proceed. Mike Smith, an Iwi Chairs' Forum spokesperson, claims several companies, including Fonterra and Genesis Energy, contribute to the climate crisis and seeks a ruling that these companies have a duty to protect the environment. If successful, this case could significantly reshape the climate governance landscape.

Globally, 2023 was the hottest year on record, with temperatures exceeding the 1.5°C warming threshold set by the 2015 Paris Agreement for about a third of the year, signalling rising climate risks.

Amid these developments, the Institute of Directors' Chapter Zero New Zealand continues to play a crucial role in promoting climate governance. Now in its third year, Chapter Zero NZ has seen rapid growth in supporters and influence, with key political leaders and climate experts participating in events. As the urgency of the climate conversation intensifies, Chapter Zero encourages its supporters to share their knowledge and engage more governance leaders in this critical dialogue.

NAVIGATING THE STORM

How boardroom leadership can build resilience in a climate crisis.

Jane Sweeney MInstD, Executive Chair, Anthem – 21 December 2023

Climate governance is increasingly important. The unprecedented events in Auckland and overseas in 2023 highlighted the critical roles of business leaders in managing climate-related risks. Boardrooms are now tasked with addressing not just traditional governance issues but also challenges like climate change, which directly impact business operations, supply chains, and reputations.

In this new reality, board chairs are seen as key climate ambassadors, responsible for bridging the gap between their organisations and stakeholders, who increasingly demand proactive climate action. Effective crisis communication, guided by directors, is crucial to ensuring organisational resilience during climate crises. Directors have a legal and moral obligation to identify and address climate risks, and these risks become material when they affect business continuity.

Boards need to task management with creating a crisis communications plan and regularly stress-test it. In the face of a crisis, boards need to actively engage with and support management. Auckland Council's inadequate response to the January 2023 floods is cited as an example of the consequences of failing to prepare.

Boards must ensure readiness for climate crises, because they are an immediate, pressing reality. Clear, confident communication and a well-rehearsed crisis plan are essential for managing climate-related challenges effectively.

Anthem

IMHO: IS THE WORD 'CRISIS' OVERUSED

One of the issues that kept bubbling to the surface during the Institute of Directors' 2024 Leadership Conference was use of the word 'crisis'.

Judene Edgar CMInstD, Senior Governance Advisor, IoD – 23 May 2024

Overuse of words like 'crisis' risks diminishing their impact, making it harder to convey the urgency needed to motivate action. While these words can invoke a strong emotional response and drive change, repeated use can lead to 'crisis fatigue', where people become desensitised and disengaged.

Facts and figures alone are insufficient to inspire action, as shown by historical examples like Blockbuster's failure to adapt to Netflix. Emotion and storytelling play critical roles in motivating behavioural change, especially when facing large, overwhelming issues such as climate change. The challenge is to break down the enormity of the climate crisis into manageable actions, much like successful marketing campaigns that make big problems relatable and solvable for individuals.

Ultimately, there is the need to balance urgency with hope, facts with solutions, and talking with listening. It stresses the importance of clear, meaningful communication that motivates action and highlights success stories, reminding us that while the challenges are significant, there is still time to act.

Directors' duties

Photo by:
Ales Krivec on Unsplash

Directors' duties are increasingly shaped by the growing urgency of climate change and nature-related risks, as well as heightened litigation risk and societal expectations. Boards must not only consider financial performance but also take responsibility for environmental impacts, ensuring climate and nature are integral to corporate strategy.

As litigation risks rise, driven by failure to act on climate issues, directors are under increasing pressure to proactively address climate-related risks and opportunities. This includes ensuring compliance with evolving climate reporting requirements and international frameworks. Directors who fail to meet these expectations may face legal and reputational consequences, making climate governance a critical component of their fiduciary responsibilities.

GREAT EXPECTATIONS

In an era of climate change litigation, the duties of directors will evolve to reflect changing social expectations.

Linda Clark MInstD, Partner & Jeremy Bell-Connell, Senior Associate, Dentons – 22 October 2023

This article explores how courts adapt to societal changes, using the evolution of health, safety and the Treaty of Waitangi principles as examples of how judges have created new legal principles over time. It then raises the question of how courts will handle climate change litigation, noting that this area is rapidly growing worldwide.

Two key cases are highlighted. In the U.S., the Held v Montana case found that state policies prohibiting decision-makers from considering climate change in fossil fuel projects violated the state's constitution. In New Zealand, Smith v Fonterra involves a Māori elder, Michael John Smith, who is suing seven major companies for contributing to climate change. The case argues for a new legal duty requiring companies to stop contributing to climate damage, though this duty does not currently exist. The case is before the New Zealand Supreme Court, and if this general duty is accepted, it could create significant challenges for directors.

Further, it notes in a 2019 legal essay Chief Justice Winkelmann and Justice Glazebrook have argued climate change requires rapid legal responses, something that common law's incremental nature may struggle to achieve.

It then shifts focus to corporate responsibilities, outlining directors' duties under New Zealand's *Companies Act 1993*. Section 137 requires directors to act with care and diligence, including understanding environmental risks. A recent amendment clarifies that directors may consider environmental, social, and governance (ESG) factors when determining a company's best interests.

The article discusses rising shareholder activism, such as a case in the UK where Shell was challenged for insufficient climate action. Though the court sided with Shell, allowing directors to determine how best to serve the company's interests, such challenges are gaining momentum globally. In Australia, for example, a successful shareholder resolution against Woodside Petroleum in 2020 called for aligning emissions with the Paris Agreement.

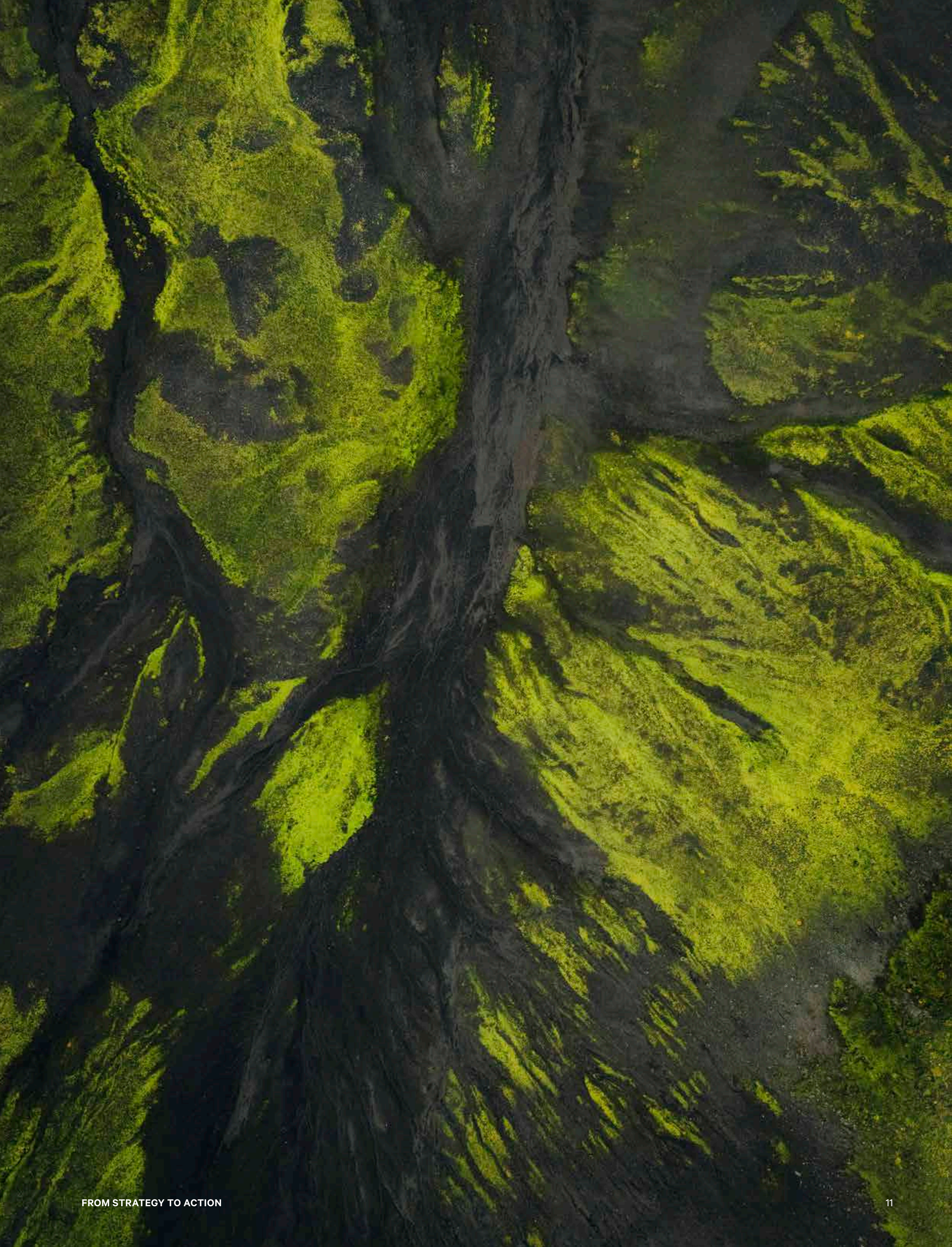
Additionally, there is an increasing focus on greenwashing – companies making false or misleading claims about eco-friendly practices. Legal actions in Australia against Mercer Superannuation and HSBC are cited as examples of how regulators and activists are tackling this issue, which could become more prominent in New Zealand.

New Zealand's mandatory climate-related disclosure regime will require large, listed companies, banks, insurers, and fund managers to report on climate-related risks. The article emphasises directors should carefully consider these obligations to avoid potential legal challenges if their disclosures are later found to be inaccurate or misleading.

The article highlights the growing societal impatience over climate inaction and suggests directors' duties will evolve to reflect these changing expectations. Courts and regulators may increasingly hold companies accountable for their environmental impacts, and directors who fail to address climate risks may face legal and reputational scrutiny in the future.

This article was first published in **Boardroom**.

Photo by:
Karsten Winegeart on Unsplash



PROTECTING NEW ZEALAND'S COMPETITIVE ADVANTAGE

A snapshot of global sustainability reporting and trade trends.

Chapter Zero New Zealand – 2 May 2024

It's increasingly important for New Zealand boards and companies to understand the growing environmental, social, and governance (ESG) regulations, trade measures and agreements worldwide because they impact businesses directly and indirectly. The Aotearoa Circle, in partnership with Chapman Tripp, has released a guide titled *Protecting New Zealand's Competitive Advantage*, which outlines the challenges and opportunities faced by global-facing businesses, such as exporters and companies with international investors or supply chains.

Key points include the rapid development of ESG reporting obligations, particularly related to climate and sustainability disclosures. With 60 per cent of global GDP now subject to mandatory climate-related disclosures, these regulations will have a significant impact on New Zealand businesses. Currently, 80 per cent of New Zealand's exports go to markets with either established or proposed ESG reporting requirements.

The report features three case studies, illustrating the effects of these changes on companies and the need for businesses of all sizes to ensure their reporting is accurate to maintain market access. It also stresses the importance of sustainability in preserving New Zealand's competitive advantage, urging businesses to proactively seek innovation and collaboration to meet evolving regulatory and consumer demands for environmentally sustainable products.

Download report

MANAGING NATURE-RELATED RISK

A legal opinion from Australia warning directors about their potential nature-related liabilities is one to pay attention to.

Judene Edgar CMInstD, Senior Governance Advisor, IoD – 11 December 2023

New Zealand and Australian directors are facing increasing litigation risk due to environmental, social, and governance (ESG) obligations, particularly concerning nature-related risks. As climate litigation rises globally, with Australia leading on a per capita basis, the legal landscape continues to evolve for directors in both countries.

A recent Australian legal opinion warns directors about their potential liabilities under the country's *Corporations Act 2001*, including the duty of care and diligence, as nature-related risks grow in importance alongside climate risks. Nature-related risks, defined by the Taskforce on Nature-related Financial Disclosures (TNFD), extend beyond climate risk and encompass broader environmental impacts and dependencies (for example, on land, ocean, freshwater, and atmosphere). Directors must now consider not only their organisation's dependencies on nature but also how their businesses impact nature.

The United Nations Global Climate Litigation Report notes a significant rise in climate litigation. Greenwashing is a growing focus in ESG litigation, particularly in Australia, where cases have been brought against several companies for misleading environmental claims.

Directors are urged to proactively identify and manage nature-related risks because failure to do so could result in liability for breaching their duty of care. The article also highlights recent updates to corporate governance codes and ESG guidance in New Zealand and Australia, including mandatory climate-related disclosures. Directors are now expected to explain how their organisations handle material ESG risks, including nature-related dependencies and impacts.

Directors need to understand their duties, incorporate environmental risks (including climate and nature) into their risk registers, and strategically manage nature capital. Boards need to build awareness of these risks and leverage them for value creation opportunities, such as enhancing brand positioning, improving supply chain resilience, and accessing new markets.

COMPETITION, COLLABORATION AND CLIMATE

Sector collaboration on climate action must avoid falling foul of fair-trading regulations.

Judene Edgar CMInstD, Senior Governance Advisor, IoD – 25 January 2024

The Commerce Commission's release of **Collaboration and Sustainability Guidelines** aims to help businesses cooperate on environmental sustainability initiatives without violating New Zealand's *Commerce Act 1986*. The guidelines are designed to support collaboration on climate change and sustainability goals while preventing anti-competitive behaviours like collusion.

While some collaborations might affect market competition, the guidelines acknowledge cooperation is essential for achieving sustainability outcomes, advancing climate change initiatives, and meeting new climate disclosure obligations. Collaborations in areas such as sustainable production methods or joint research are not considered cartel conduct but arrangements that substantially lessen competition could breach the law.

The guidelines provide practical examples of collaborations and outline behaviours likely to raise competition concerns, such as restricting businesses within an industry, sharing sensitive information, or covertly agreeing on customer allocation. However, the guidelines also highlight that competition can drive sustainability by encouraging businesses to innovate and meet stakeholder demands for sustainable products and services.

The guidelines do not replace legal advice but help businesses navigate competition law while pursuing sustainability goals.

PRIMER ON CLIMATE CHANGE: DIRECTORS' DUTIES AND DISCLOSURE OBLIGATIONS 2023

Understand directors' duties and disclosure obligations in this updated primer on climate change from the Climate Governance Initiative.

Climate Governance Initiative – 7 August 2023

Climate change presents material, financial and systemic risks to corporations and their investors, leading to serious implications for the duties of directors and officers, and potential disclosure obligations for companies.

The Climate Governance Initiative and the Commonwealth Climate and Law Initiative have published the third edition of the essential Primer on Climate Change: Directors' Duties and Disclosure Obligations.

The third edition provides an overview of the foreseeable financial and systemic risks (and opportunities) over short, medium and long-term investment horizons.

Covering 31 countries and the EU, it outlines the general climate obligations for board directors, and how company law and directors' duties require directors to incorporate climate change into their strategies, legal oversight, and supervision of the companies entrusted to their care.

Read document

Climate Governance Initiative

Integrating climate

Photo by:
Nasa on Unsplash

Integrating climate considerations into an organisation's purpose and strategy is essential for long-term resilience and sustainability. By embedding climate into the core mission, businesses can better navigate risks, seize opportunities, and align with stakeholder expectations. Undertaking scenario analysis is crucial in this process because it enables leaders to anticipate potential climate-related impacts under various future conditions, ensuring informed decision-making.

Setting clear, unambiguous targets for reducing emissions and improving environmental performance, along with regular review and transparent reporting, is vital for accountability and progress. This approach ensures climate action is not just aspirational but a measurable and strategic priority.

KPMG SAYS SUSTAINABILITY VIEWED AS A BOARD RESPONSIBILITY

Governance structures and strategies can help embed ESG into an organisation's operating model.

Kirsten Lapham, Director, Sustainable Value, KPMG – 11 March 2024

The **Anchoring ESG in governance** report from KPMG highlights insights from global sustainability leaders on how governance structures, strategies, systems and controls are being used to successfully embed environmental, social, and governance (ESG) principles into organisations. Over 50 chief sustainability officers and ESG managers were interviewed, reinforcing the belief that organisations need to transform to survive and succeed over the next 10 to 20 years.

The report reveals sustainability is now a top priority in corporate governance, with nearly half of the organisations placing it under the direct responsibility of their CEOs. Sustainability is seen as a board-level responsibility, with most companies adopting a strategic or purpose-driven approach. However, linking ESG to remuneration and key performance indicators (KPIs) remains rare, although many firms plan to address this soon.

Key focus areas for companies include decarbonising business models, reducing greenhouse gas emissions, and addressing diversity, equality, inclusion, and human rights. Nature and biodiversity are also emerging as important ESG topics, particularly with the global launch of the Taskforce on Nature-related Financial Disclosures (TNFD).

The report urges New Zealand directors to prioritise ESG governance to remain competitive, resilient, and ensure long-term shareholder value. It stresses that failing to initiate this transformation now could jeopardise future success.

ARE THERE CLIMATE OPPORTUNITIES?

Using a risk lens to consider climate change may highlight only the negatives and overlook identifying opportunities.

Judene Edgar CMInstD, Senior Governance Advisor, IoD – 14 March 2024

For many boards, climate change sits squarely within the remit of the risk committee. Climate risks fall into two categories: physical risks (such as damage from natural disasters) and transition risks (shifts to a low-carbon economy). However, focusing solely on risks may overlook the opportunities that climate change presents.

While mitigating or adapting to climate change comes at a cost, the costs of inaction or delayed action are escalating, and the costs of acting are decreasing. For example, Cyclone Gabrielle in February 2023 caused $14.5 billion in damage, and Treasury estimates climate change could reduce New Zealand's GDP by 1.2 per cent. However, modelling from Deloitte shows immediate action to limit warming to 1.5°C could add $64 billion to New Zealand's economy by 2050.

Climate change should be seen not only as a risk but as a once-in-a-generation opportunity. A strategic transition plan that addresses climate change challenges should be developed with an 'opportunistic mindset'. Boards need to consider new actions and innovations rather than focusing solely on risk mitigation.

Sectors such as renewable energy, services, and construction are seen as having significant opportunities from decarbonisation and resource efficiency. Science and technology play a key role in enabling new products, services, and markets, driving opportunities alongside decarbonisation efforts.

Ultimately, boards need to view climate change not just as a challenge, but as an opportunity for growth and innovation. In the final report from the Taskforce on Climate-related Financial Disclosures, there are a range of **examples of climate-related risks and opportunities and potential financial impacts**.

CLIMATE SCENARIO ANALYSIS

Understanding the role of the director in the development, analysis and review of climate scenarios.

Chapter Zero New Zealand - 13 October 2023

While scenario analysis as a strategic tool is not new, climate scenario analysis is a new concept for most organisations. Climate scenarios challenge conventional thinking and business-as-usual assumptions. The analysis provides organisations with a structured process to explore business opportunities and risks, through the lens of multiple, equally plausible scenarios, grounded by data and business insights. These scenarios provide an important overview of what can happen in the future, how an organisation might perform in future climate states and outline the choices that boards may need to consider when updating or developing more resilient business models and strategies in the present day.

This resource explores climate scenarios in the New Zealand governance context and provides guidance around why climate scenarios are useful tools for boards and how directors should engage with the development, analysis and review stages of the process.

Download resource

PRINCIPLES FOR SETTING CLIMATE TARGETS

Climate Governance Initiative Australia has developed a new resource providing guiding principles to support boards setting climate targets.

Climate Governance Initiative Australia – 6 September 2024

Chapter Zero New Zealand's **2024 Impact Report** emphasises the growing pressure on boards to address climate change and bridge the gap between strategy and action. As investor and stakeholder demands for transparency and accountability increase, setting clear climate targets becomes critical. These targets should align with long-term strategies, manage risks, and address regulatory requirements, among other factors.

However, a study by Heidrick and Struggles revealed that 43 per cent of boards have yet to set carbon reduction targets, and those that have often lack concrete plans due to barriers like investment, technology, and regulation. The materiality of climate change to an organisation affects how targets are set, and having a clear baseline of emissions is essential for informed goal setting. Waiting too long to act could slow the transition to a low-emissions economy.

To help boards navigate these challenges, the guide provides 10 guiding principles for setting climate targets. These principles are organised into four phases – development, implementation, communication, and review – and emphasise transparency, accountability, and regular updates based on changing conditions. The insurance industry is used as a key case study, given its role as a climate change 'shock absorber'.

Download resource

Download snapshot

Challenging the norms

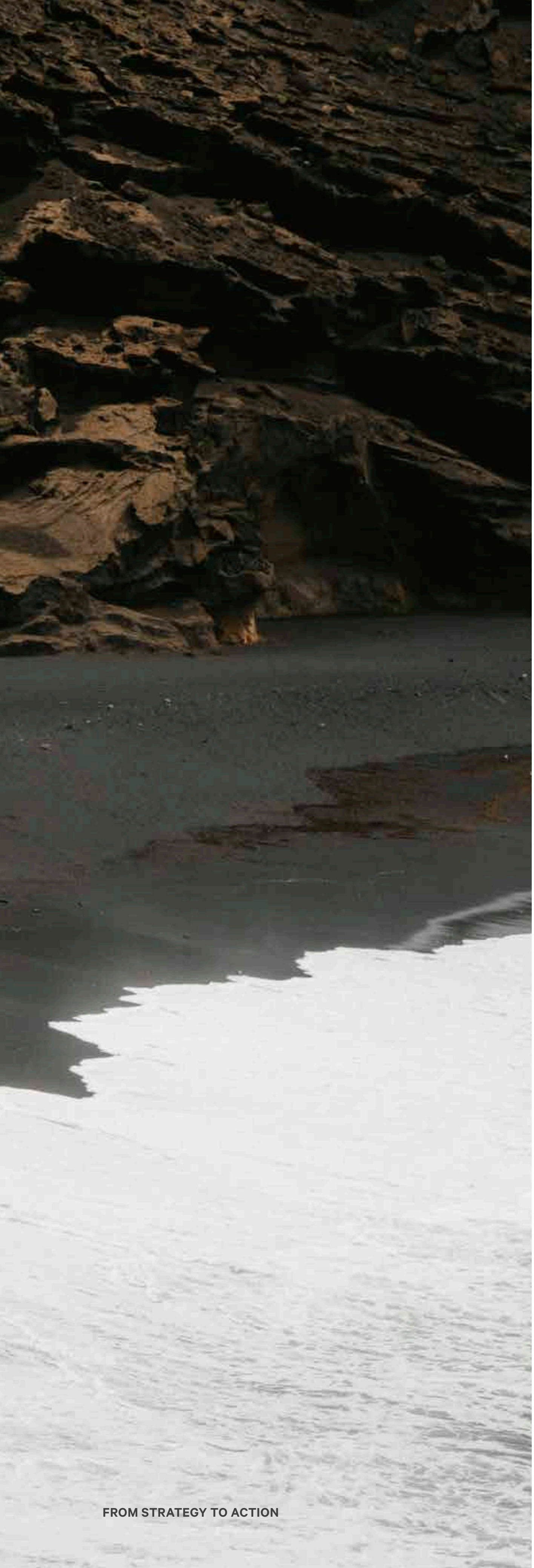


Photo by:
Mathias Reding on Unsplash

Integrating climate into strategy and business models presents several challenges because organisations must balance short-term pressures with long-term sustainability goals. One challenge is navigating the complexities of transition finance, where securing capital for low-carbon investments can be difficult, particularly in industries with entrenched carbon-intensive practices.

Additionally, the rise of ESG backlash, with critics questioning the financial and ideological implications of sustainability initiatives, can hinder corporate commitment to climate goals.

AI offers both opportunities and risks in this space – while it can optimise climate data analysis and enhance decision-making, there are concerns about its energy consumption and potential biases. Overall, integrating climate into business models requires overcoming these obstacles while ensuring that strategies remain resilient, credible, and aligned with evolving stakeholder and regulatory demands.

DISRUPTING THE STATUS QUO FOR A SUSTAINABLE FUTURE

Climatetech investor Oliver Bruce MInstD sees a golden opportunity for New Zealand to develop and export technologies that reduce emissions worldwide.

Noel Prentice, Institute of Directors – 19 September 2024

Oliver Bruce views climate change as a complex game theory problem, where the consequences of pollution affect those who did not cause it, complicating efforts to reduce emissions globally. He believes the solution lies in creating better alternatives rather than merely reducing current pollution levels.

As a climatetech investor with experience at Uber and Blackbird Ventures, Bruce sees New Zealand as having a unique opportunity to lead in developing scalable climate technologies that can be exported worldwide. Although New Zealand contributes minimally to global emissions, Bruce argues the country has a moral obligation and economic incentive to act by promoting climatetech innovations, like solar power and energy storage, which can cut emissions and save money.

He highlights examples of New Zealand companies making significant strides, such as CarbonScape, which produces carbon-negative biographite for battery anodes, and LanzaTech, which converts waste carbon into sustainable fuels. Bruce believes that by supporting such companies, New Zealand can achieve meaningful global impact and economic benefits. He emphasises that the future of climate solutions depends not on offsetting emissions but on driving down energy costs and fostering innovations that are both environmentally friendly and economically viable.

Climatetech opens up opportunities where New Zealand can leverage its talent to lead globally, driving meaningful climate action while creating economic opportunities.

This article was first published in **Boardroom**.

A TIPPING POINT IS IMMINENT, AND IT'S TIME FOR OUR BOARDROOMS TO GET UNCOMFORTABLE

Bad, bad records are going to be broken this year, and it's time for business leaders to accept that the transition to a low-carbon economy is going to be spiky.

Dame Therese Walsh CFInstD, Chair, Chapter Zero NZ Steering Committee – 30 April 2024

At an NZX AGM one year, a man asked why the board didn't have any women, despite the fact that two women, were already on it. This memory of Dame Therese Walsh resurfaced during New Zealand's first advanced **climate change governance course** when she noticed a high representation of women among directors and Chief Sustainability Officers (CSOs). She questioned whether her involvement in climate governance is due to her passion for the climate or gender, noting that most CSOs are women.

The climate crisis is growing in urgency. Multiple bad climate records were broken in 2023 and the widespread consensus at COP28 is that we are not going to limit global warming to 1.5 degrees. We face dire risks as the planet warms beyond this threshold, from the collapse of ecosystems to critical changes in Earth's systems.

Looking ahead to COP29, the focus will be on financing the transition to a low-carbon economy. New Zealand needs to access climate finance and become competitive in the global market. Successful companies set clear targets, measure progress, and have a CSO.

Board chairs need to listen to those who challenge them, as discomfort often leads to better climate governance, risk management, and opportunity recognition.

This article was first published by **The Spinoff**.

‘TRANSITION FINANCE’ TAKES CENTRE STAGE IN 2024

‘Transition finance’ is shaping up to be one of the most important subjects for anyone professing to care about the climate crisis.

Natasha White, Bloomberg – 15 January 2024

‘Transition finance’ is emerging as a major focus in addressing the climate crisis, as discussed at COP28 in Dubai. Mark Carney, UN special envoy on climate action and finance, highlighted the growing field of transition finance, which focuses on funding industries and infrastructure to support the transition to a net-zero economy, rather than green finance, which directly targets climate solutions like wind farms or battery plants.

While the COP28 agreement among 200 nations encourages moving away from fossil fuels, it leaves much flexibility for countries and companies to decide how and when they contribute. The term ’transition finance’ remains loosely defined, allowing investments in companies that may still pollute but have plans to decarbonise. However, concerns about greenwashing and a lack of consistent standards persist.

The Glasgow Financial Alliance for Net Zero (GFANZ) proposes transition finance should include support for polluting companies that plan to reduce emissions. Investors are increasingly discussing how to structure and monitor transition finance, but robust standards and regulations are still developing.

The UAE’s $30 billion Alterra venture, in partnership with BlackRock, TPG and Brookfield, will invest in transition assets, although details are scarce. To avoid greenwashing, experts stress the need for clear standards and penalties for companies that fail to meet their environmental commitments.

Separately, Norway’s largest pension manager, KLP, divested $15 million from Gulf companies over human rights concerns and climate risks, highlighting the intersection of sustainability and ethical investment.

ESG BACKLASH – WHAT IS IT ALL ABOUT?

Which is worse – saying you are going to do something and not making it, or not saying it but talking about the things you have done?

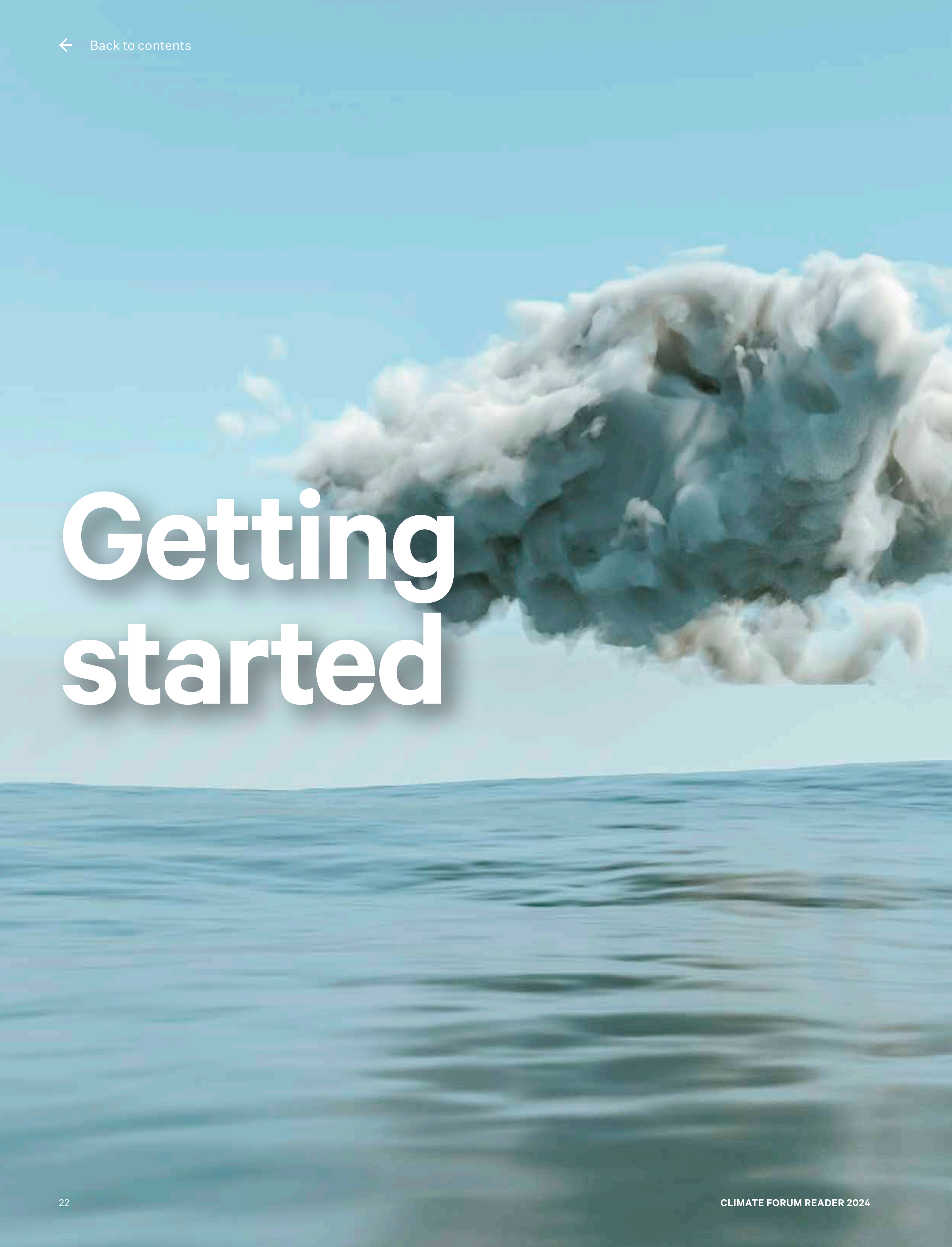
Gerri Ward MInstD, Principal Consultant, Oxygen Consulting – 19 August 2024

Air New Zealand’s decision to drop its 2030 science-based carbon reduction target and withdraw from the Science Based Targets Initiative has sent shockwaves through the business sector, damaging its sustainability leadership reputation. The airline cited external factors like aircraft availability, alternative fuel costs, and regulatory support as reasons for its decision, which has sparked concerns that other companies may follow suit.

The dilemma is setting ambitious climate targets versus achieving them and how abandoning targets might encourage complacency. The fear of greenwashing and related litigation has led some companies to practice ‘greenhushing’, keeping their sustainability efforts quiet to avoid backlash. Yet, transparency in climate reporting, despite its challenges, remains crucial.

Air New Zealand’s decision is compared to Z Energy’s tough choice to mothball its biofuel plant due to a lack of government support. While Air New Zealand’s honesty is respected, using supply chain issues as an excuse, risks undermining broader efforts to combat climate change.

The key takeaway is that setting targets should not be seen as mere virtue signalling but as essential roadmaps for progress. Companies and boards must stay committed to decarbonisation, even when faced with setbacks, and continue engaging with sustainability practices to maintain a competitive edge and secure a thriving future. Board leadership is critical for navigating the path to net-zero now – responsibility cannot be deferred to future leaders.



Getting started

Photo by:
Ave Calvar on Unsplash

Getting started in climate governance requires a proactive approach to building board capability and increasing climate and nature literacy among leadership. Boards must understand the fundamental links between their business and environmental sustainability, including knowing their emissions numbers and assessing their impact and dependency on natural capital. Developing a clear understanding of these factors enables informed decision-making.

Adopting a strategic, long-term timeframe is also crucial, ensuring climate risks and opportunities are integrated into corporate planning and action. By equipping leadership with the knowledge and tools to address these issues, organisations can begin their journey toward meaningful and effective climate governance.

DIRECTOR INSIGHTS: STARTING THE CLIMATE JOURNEY

Begin your climate governance journey with actionable insights from directors' experiences and innovative strategies.

Judene Edgar CMInstD, Senior Governance Advisor, IoD – 14 June 2024

Directors often ask, "Where do we start?" when considering climate change. The advice, similar to when health and safety reforms were introduced in 2015, is simply to begin. At **Chapter Zero Board Toolkit** workshops hosted by IoD, the message has been clear: climate action is essential for businesses due to regulatory, economic, and stakeholder pressures. It's also an opportunity for innovation and leadership.

Here's how some companies have started their climate journey:

- **Goodman Property Services** aligned its investment strategy with sustainability demands, building to high environmental standards and retrofitting energy-efficient technologies.
- **Infratil** made climate change a standing agenda item at every board meeting due to a combination of regulatory and stakeholder expectations, as well as the business risks posed by climate change.
- **GirlGuiding NZ** and **Habitat for Humanity NZ** are reviewing their programmes to account for climate impacts.
- **Meridian Energy** upskilled its board members with climate expertise to support decision-making.

Many companies can start with 'easy wins' such as waste reduction, energy efficiencies, and travel reduction, often leading to cost savings. Delaying action, however, could increase costs and complicate the transition to a lower-emissions future.

The Chapter Zero NZ Board Toolkit provides a simple five-step process for directors to drive climate action:

1. Ensure proper board oversight
2. Establish the need for change
3. Set direction and plan
4. Embed and sustain the change
5. Monitor and optimise

The Toolkit includes questions, checklists, and a scorecard tool to help boards assess their current climate strategies and promote further discussion.

PRACTICAL GUIDANCE BY DIRECTORS FOR DIRECTORS ON CLIMATE GOVERNANCE

The impacts of climate change are increasing in scope, scale and speed. Organisations need to act. Directors must guide them.

KPMG – 29 September 2023

"Just start. Climate governance isn't set and forget – it's about trying things, learning and adapting. Capital commitments will be required to deal with climate change. The cost difference between good and average decisions will run into very large numbers," says Scott St John CFInstD in ***What difference can directors make?***, a guide to climate governance.

The guide, developed in partnership with KPMG, Chapter Zero New Zealand and the Institute of Directors, is based on real-world examples of what boards are doing in the face of climate change risks and opportunities. For example, St John's Fisher and Paykel Healthcare has broken long-term strategy into 10-year horizons in order to better model climate change scenarios and responses.

The guide sets out a two-section roadmap for directors who want to deliver strategic climate governance. The first section brings together the views of experts from Chapter Zero New Zealand, KPMG and the Institute of

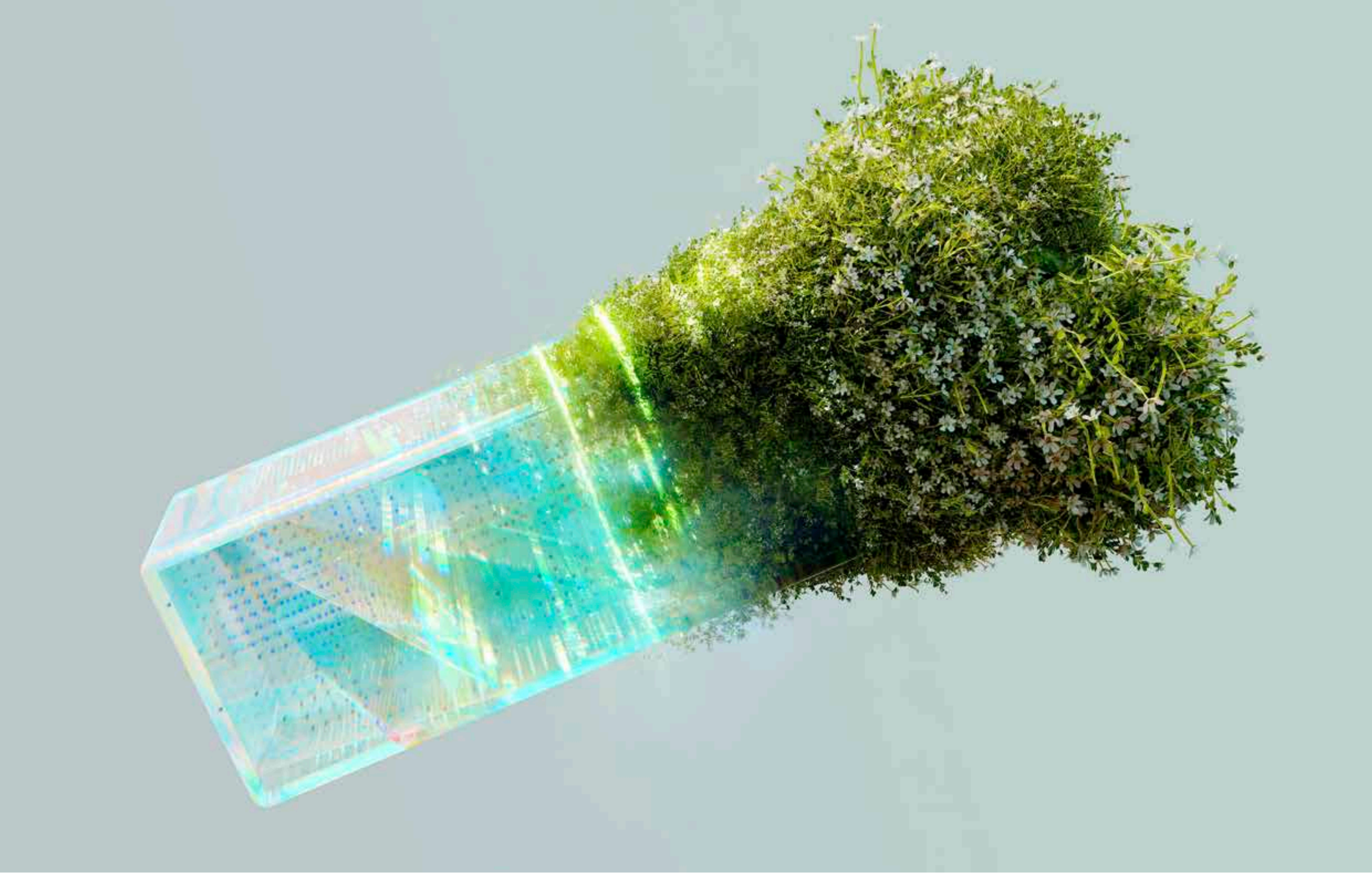


Photo by: Google Deepmind on Unsplash

Directors to outline what good climate governance looks like. It urges boards to consider:

- **Decarbonisation** – how to reduce emissions
- **Transition** – how to ensure your business model is sustainable in the face of climate change
- **Economy-wide transformation** – ensuring your organisation is contributing to building the climate-resilient future it will be operating in

The second section taps into the thinking of directors whose organisations are already seeking to address climate challenges. It offers first-hand experience of how boards can improve climate capability and resilience in their organisations through effective climate governance.

The 13 directors interviewed offer their advice from a range of industries on a range of topics including:

- Building board capability
- Increasing climate literacy
- Knowing your emissions number
- Adopting a strategic timeframe

"We are looking at a future of unprecedented economic transformation as businesses look to radically evolve and adapt to the climate crisis," Chapter Zero NZ Chair Dame Therese Walsh CFInstD says in the guide.

"While this change can seem daunting, we encourage directors on all of Aotearoa New Zealand's boards to realise the significant opportunity to lead and navigate the businesses they govern through this crucial period."

Download guide

Photo by: Google Deepmind on Unsplash

COUNTING NATURE BECAUSE NATURE COUNTS

As consumers become regulators, a reliance on nature becomes a cost to business. Find out why you need to know your baseline.

Judene Edgar CMInstD, Senior Governance Advisor, IoD – 11 July 2024

There's a saying along the lines of, "we use nature because it's valuable, but we lose nature because it's free". I have also seen this statement reversed: "We use nature because it's free, but we lose nature because it's got no value".

Recognising the value of nature to businesses and the risks associated with its degradation is increasingly important. Many sectors, from primary industries to healthcare, are dependent on natural resources, yet nature's role rarely appears on balance sheets. A PwC report found over half of global GDP is highly dependent on nature, emphasising the need for businesses to integrate nature-related risks into their decision-making to ensure resilience and long-term sustainability.

Speakers at a Chapter Zero New Zealand webinar stressed that addressing nature-related issues should be part of existing ESG frameworks, not an add-on. Companies, particularly those in New Zealand, must understand their environmental impact, often referred to as 'knowing their number', to remain competitive in global markets. Many buyers, like British supermarket chain Tesco, demand sustainability data, including emissions, soil health and water management. This pressure is growing, as 80 per cent of New Zealand's exports go to markets with mandatory ESG reporting either in place or proposed.

New Zealand is a signatory to the Kunming-Montreal Global Biodiversity Framework, which aims to protect 30 per cent of global land and ocean by 2030. Directors are advised to take nature into account when making business decisions, including understanding baseline impacts, improving data collection, and reviewing ESG frameworks to manage nature-related risks and opportunities.

Key considerations for directors include understanding nature's role in operations, engaging in board-level discussions, staying informed on market and regulatory trends, and collaborating with others to protect natural resources.

Watch webinar

IMPACT MEASUREMENT IS MORE THAN JUST A NUMBERS GAMES

Understanding impact can help boards avoid unintended consequences and deliver an ethical business model.

Nicola Nation, CEO, The Ākina Foundation – 15 December 2023

Impact measurement is about understanding the real change businesses create in people's lives and the environment, going beyond just financial figures. It allows organisations to assess their social, cultural, and environmental contributions, helping them move toward a more sustainable future. By measuring impact, companies can better identify unintended consequences and enhance responsible, ethical practices.

Ākina, an impact consultancy, emphasises measuring social impact within ESG factors. For example, in climate governance, while they may not directly measure carbon emissions, they assess the environmental effects of emissions within broader social initiatives. Their work with the Westpac NZ Government Innovation Fund showcases how impact measurement highlights qualitative outcomes, such as stories and systemic changes, alongside quantitative metrics.

Many businesses are beginning to embrace impact measurement, which can guide decision-making and align with international standards like Social Value International and Impact Frontiers. This approach can help organisations determine the effectiveness of their social and environmental initiatives and ensure their strategies are delivering meaningful change.

In a world that increasingly demands transparency and accountability, impact measurement serves as a vital tool for businesses to connect with communities, foster positive social change, and ensure their operations are purpose-driven and sustainable.

ākina

CREATING A THOUGHT PARTNERSHIP

The chair/CEO relationship is a critical partnership that is crucial for an effective, well-functioning board.

Article by Lauren Shearer MInstD, Partner, Hobson Leavy, and Judene Edgar CMInstD, Senior Governance Advisor, IoD – 22 August 2024

The relationship between chairs and CEOs is critical to an organisation's success, built on mutual respect, trust, and open communication. While healthy tension can exist, maintaining the right balance between support and accountability is key. A too close or overly combative relationship can undermine accountability and hinder board function.

Speaking at a Chapter Zero New Zealand event, Genesis Energy CEO Malcolm Johns emphasised the need for a 'thought partnership' between chairs and CEOs, particularly in managing complex issues like climate change. This partnership, based on complementary expertise and skills, stretches each other's perspectives, encourages innovation, and adds value to both roles. It also helps navigate the balance between short-term pressures and long-term objectives without losing sight of overarching goals.

A thought partnership is agile and responsive to changing circumstances, recognising that short-term sacrifices might be necessary without abandoning the bigger picture. This collaborative approach fosters better problem-solving and mutual learning, especially as organisations face mounting challenges like financial pressures, climate change, and technological advancements.

Key considerations for directors include being a sounding board for ideas, sharing expertise, and developing a partnership built on trust and openness to navigate these complexities together.

HOBSON LEAVY EXECUTIVE SEARCH

Thank you to the Chapter Zero New Zealand Foundation Partners

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