Changing the Climate in the Boardroom

Addressing climate change takes corporate leadership. This report explores what boards around the world are doing—and should do.
The authors wish to thank Monica de Virgiliis, board chair, Chapter Zero France; the INSEAD Corporate Governance Centre team, and the Heidrick & Struggles team for their contributions to this report. They also wish to extend thanks to all those who responded to the survey and contributed to the realization of this study.
In the months preceding the United Nations’ Climate Change Conference, COP26, which took place October 31–November 12, 2021, the INSEAD Corporate Governance Centre and Heidrick & Struggles conducted a global survey of board directors. Our goal was to investigate how boards understand and are coping with the process of decarbonization and how far climate change has been integrated into their oversight responsibilities. In publishing the findings summarized below, we aim to provide fact-based, honest, and practical support for directors and their companies on the journey toward net zero.

Overall, the results of our survey revealed a clear disconnect between what board members say about the importance of climate change to their companies and what the boards actually do.
Reasons for optimism

Climate change is now a firm fixture on board agendas.

<table>
<thead>
<tr>
<th>75%</th>
<th>63%</th>
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<tbody>
<tr>
<td>Seventy-five percent of board members said that climate change is very or entirely important to the strategic success of their companies.</td>
<td>Sixty-three percent said that their board has a very or entirely clear understanding of the strategic risks and opportunities presented to the company by climate change.</td>
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<table>
<thead>
<tr>
<th>60%</th>
<th>72%</th>
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<tbody>
<tr>
<td>Sixty percent said that their board is very or entirely aligned on the importance of climate change and what to do about it.</td>
<td>Seventy-two percent of board members said they are confident their company will reach its climate change goals.</td>
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Reasons for concern

However, when we asked about specific measures for addressing climate change, the outlook was less rosy.

<table>
<thead>
<tr>
<th>43%</th>
<th>16%</th>
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<tr>
<td>Forty-three percent of board members said that their companies do not yet have clear targets for reducing carbon emissions (or did not know if this was the case).</td>
<td>Only 16% said their companies have targets for carbon emissions beyond their own control (that is, including their suppliers’ and end users’ emissions).</td>
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</table>

<table>
<thead>
<tr>
<th>16%</th>
<th>50%</th>
</tr>
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<tbody>
<tr>
<td>Sixteen percent said that no one in their company is responsible for reporting on climate change to the board (or they did not know who was).</td>
<td>Fifty percent said they are not yet very or entirely satisfied with their company’s reporting to the board on progress in addressing climate change issues.</td>
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These results are not necessarily incompatible with the figures that give us cause for optimism. However, drilling down further, we found results that ring larger alarm bells.

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<th>85%</th>
<th>46%</th>
<th>49%</th>
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<tr>
<td>Eighty-five percent of respondents said that their board needs to increase its climate knowledge.</td>
<td>Nearly half, 46%, said their board has insufficient or no knowledge of climate change’s implications for financial performance.</td>
<td>Forty-nine percent said that climate change is not at all or only slightly integrated in the company’s investment decisions (or they did not know).</td>
</tr>
</tbody>
</table>
Furthermore, knowledge is not prioritized.

- **69%**
  - Sixty-nine percent said climate change knowledge is not a formal requirement for joining their board.

- **69%**
  - An identical 69% said climate change knowledge is not included in their board’s competency matrix.

- **65%**
  - Sixty-five percent said that knowledge of climate change is not a formal requirement in CEO selection.

- **74%**
  - Seventy-four percent said that climate change is not at all or only slightly integrated into executive performance metrics (or they did not know whether it is or not).

A superficial interpretation of our findings could be that many boards are only paying lip service to climate change. However, it is far more likely that many directors are overwhelmed by the scale and complexity of their environmental, social, and governance (ESG) responsibilities. The interpretation that we feel may be most compelling is that most boards are caught in a vicious circle. Put simply:

People who understand the implications of climate change and how to address them typically lack the business experience traditionally required to join a board, and...

...people with board-relevant business experience do not know as much as they would like to about the long-term business implications of climate change.

- **74%**
  - Seventy-four percent of respondents said that climate change is not at all or only slightly integrated into executive performance metrics (or they did not know whether it is or not).

We conclude this report by offering some ideas based on successful, real-life practice about how to fill the knowledge gaps and break the vicious circle.

**Recommendations for boards**

- Include climate change in the board’s competency matrix and make sure the whole board has enough knowledge.
- Add more relevant voices to your boardroom.
- Change the board processes and dynamics—a responsibility for the chair.
- Anchor your climate change strategy in social and organizational purpose and connect it to specific operations.
- Integrate climate change objectives into executive compensation and search strategies, especially for the CEO.
Forewords

Heidrick & Struggles

As trusted leadership advisors to leading organizations around the world, one of the most consequential conversations we at Heidrick & Struggles have the privilege of helping to shape is on sustainability and environmental, social, and governance (ESG) issues. The topics are complex and cover a wide array of areas, from climate change and water management to income inequality, diversity, data protection, and much more. These are issues that will influence future business opportunities for positive impact and long-term success.

As a firm, we aspire to lead and model the changes we want to see in the world, driving an increasingly sustainable business model. In light of our commitment to sustainability and addressing climate change in particular, we issued our first ESG report last year and are dedicated to offsetting our own carbon impact.

Our role as leadership advisors enables us to augment our influence through the work we do within boardrooms and organizations globally. We help our clients identify and hire the best leaders, including those who can direct and shape their organizations’ commitments to society, through our executive search services. Through our consulting business, we advise boards around the world on how they can be most effective in guiding and overseeing companies’ actions and performance across people, planet, and profit.

Given our role, this collaboration with the INSEAD Corporate Governance Centre to learn more about how boards today are thinking about climate change was a clear priority. We hope that what we have learned will help us all work together even more effectively to meet this central challenge of our time.

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Partner, CEO & Board Practice
Industrial Practice

Alice Breeden
Partner, Heidrick Consulting

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Partner, CEO & Board Practice

INSEAD
The Corporate Governance Centre

Climate change is one of the greatest existential threats to mankind. The emergency is real and there can be no corporate conversation about the future without moving climate change up the agenda.

Given the alarming signs we are now witnessing, such as extreme weather and rising sea levels, it is no wonder that multiple stakeholders, including governments, NGOs, investors, and employees, are holding board directors accountable for oversight of companies’ climate strategies, in terms of both mitigating the risks and seizing the opportunities.

To accelerate climate change leadership in the boardroom, with its advocacy and engagement in effective stewardship, the INSEAD Corporate Governance Centre collaborated with Heidrick & Struggles on this research study.

As “The Business School for the World,” INSEAD has been promoting business as a force for good for more than 60 years. Now, as one of the eight founder members of the Business Schools for Climate Change Leadership (BS4CL) INSEAD is focusing on helping companies address the climate crisis. This report, with its concluding practical recommendations, is just one of the ways in which we seek to support and mobilize corporate leaders in facing a business challenge like no other.

Time is ticking in the race against climate change. We hope that this report will increase the momentum for boards to reflect and review their current practices. More than that, we hope that this report inspires board directors to be a driving force for climate action as part of their fiduciary duty to care for communities and the environment.

Jose Luis Álvarez
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Changing expectations in a changing climate

The global community’s expectations for companies have already been changing as climate-related catastrophes continue, with increasing devastation, to strike even the world’s richest countries; Australia and California burned (again), portions of Germany drowned, and British Columbia succumbed to heatstroke and flood—all in 2021. This was also the year of a landmark legal ruling in the Netherlands: pending appeal, the energy company Shell is now obliged—under the terms of the Paris Agreement—to cut its CO₂ (carbon) emissions by 45% (compared to its 2019 levels) by 2030. In other words, society’s changing expectations are now beginning to influence interpretation of the law as well as the terms and conditions of companies’ license to operate. Even before COP26, more sustainability rules, regulations, and changes to national corporate governance codes were in draft form. The Sustainable Corporate Governance Initiative of the European Commission is just one example. Due to COP26, the clock is now ticking down to 2024’s new standardized emissions-reporting standards. Wise boards will make sure their companies are in the vanguard of those acting to meet these rising concerns, before they are forced to.

In the meantime, many investors have also woken up to changing societal expectations—with major consequences for corporate governance. In June 2021, a tiny, sustainability-focused activist investor, Engine No. 1, took on the mighty ExxonMobil and, with the support of mainstream industry players including BlackRock, won. The fossil-fuel giant now has three activist-backed board members, all pushing for a reduced carbon footprint. Climate change–focused investing is rapidly moving from the fringes to the mainstream.

However, when it comes to climate change, are boards changing their expectations for the companies they govern—and themselves? No, according to earlier research.

Reactions to COP26 have ranged from despondency to muted elation. For our part, we see the Glasgow Climate Pact as a turning point for the planet. Nearly 200 countries have agreed to strengthen their targets for cutting greenhouse gas emissions. Coal is to be “phased down.” Methane output is to be cut by a third before 2030. Deforestation is to end by the same date. We believe that only the private sector can unlock the very large amounts of capital required to achieve these ambitions and, to repeat the mantra frequently heard at the summit, “keep 1.5 degrees alive.”
Up close and personal: Recent research on boards and sustainability

In 2020, Bloomberg investigated the careers of board members at 20 leading European and US banks. The conclusion was that “the greening of global finance has not reached the boardroom yet.” Only a handful of the 600 directors whose past and present professional affiliations were analyzed had experience in renewable or sustainable industries, while at least 73 had held positions with big corporate carbon emitters.¹

The nature of the Bloomberg investigation (not to mention its unflattering title, “The other fossils in the boardroom”) demonstrates the extent to which sustainability scrutiny is turning personal. The researchers named names, not just of the offending banks but of individual directors.

In January 2021, a report from NYU’s Stern Center for Sustainable Business bore an even starker title: US Corporate Boards Suffer From Inadequate Expertise in Financially Material ESG Matters. The report repeats a claim that “current board culture is sociopathic” and digs into the individual backgrounds of the 1,188 Fortune 100 board members. While it finds that 29% have some ESG experience, only 6% have experience specifically in environmental issues and less than 2% have climate or clean-energy credentials.²

Beyond moral accusations, there is the threat of litigation. We do not know of any board members who have been sued for poor climate oversight or greenwashing, but environmental NGOs and business publications are increasingly referring to personal liability. Boards should take note: the climate crisis is not some distant or anonymous threat; it is getting up close and personal for individual company directors.

A clearer outlook

Two years of growing concern about climate change and a global pandemic later, the future may not look entirely bright, but the way forward is clearer. Heidrick & Struggles research shows that companies with well-defined and authentic social purposes did best during the COVID-19 pandemic, and, likewise, organizations with clear strategies for carbon reduction will fare best in the climate crisis. Meanwhile, businesses that drag their feet will struggle as society, laws, and investors continue to increase their expectations. The winners will be those who keep one step ahead, especially when in a position to seize opportunities. And boards, as the enforcers of corporate governance, must lead the way by changing their own composition and practices as well as the expectations of the companies they direct. Otherwise, the resolutions of COP26 will come to nothing.

The question at the heart of our current research is: How is the climate changing in the boardroom?

Not all board members have sufficient knowledge and understanding of sustainability, which is why it is imperative that the issue is built into recruitment, education, and reward processes.

A more nuanced picture: Our previous research

Our previous research paints a more nuanced and less critical picture. The INSEAD Corporate Governance Centre’s Leadership in Corporate Sustainability – European Report 2018 found that sustainability was “high on the board agenda, second only to financial performance.” However, it concluded that not all board members have sufficient knowledge and understanding of sustainability, “which is why it is imperative that the issue is built into recruitment, education, and reward processes.”

Heidrick & Struggles Board Monitor reports, which look at the backgrounds of incoming board members on leading indices around the world, similarly show a lack of knowledge among board members. In the United States, in 2020, for example, only 6% of incoming directors had sustainability experience of any kind; across Western Europe, the figure was double, but still only 12%. In 2019, the INSEAD Corporate Governance Centre published a qualitative research project, “What’s Stopping Boards from Turning Sustainability Aspirations into Action?” We conducted in-depth, anonymous interviews with 25 highly experienced European non-executive directors representing 50 large, well-known companies. Their frank feedback revealed much genuine belief in the importance of sustainability accompanied by many good practices. On the other hand, we also found evidence of complacency, entrenched attitudes, lip service, greenwashing, and even downright denial of climate change.

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6 N. Craig Smith and Ron Soonieus, “What’s Stopping Boards from Turning Sustainability Aspirations into Action?” Camunico and INSEAD Corporate Governance Centre, July 2019, insead.edu.

3 Leadership in Corporate Sustainability – European Report 2018, Board Member, Mazars, and INSEAD Corporate Governance Centre, 2018, insead.edu.
Research rationale and methodology

Boards of directors are under intense pressure from multiple stakeholders who hold companies accountable for their impact on people and the planet, as well as their profit. Yet many board members are still grappling with the knowledge, skills, and understanding required to assess the risks and opportunities relative to their full remit. This, as explained in the previous section, is the context for our research.

Why climate change and climate change alone?

As COP26 approached, the question of “the changing climate in the boardroom” became more urgent. We realized that most previous corporate governance research conducted by our own organizations and others had dealt with the broader issues of sustainability or ESG. It was clear that the time had come for a global survey of board members that specifically addresses climate change.

However, our motivation was not simply topicality. We believe that climate change is arguably the most important sustainability issue of them all: the existential crisis that could spell the end for diversity, equity and inclusion; radical transparency; the circular economy; and all other social, environmental, and governance questions related to business.

At the same time, we recognize that climate action is among the hardest of the UN’s 17 sustainable development goals for business to implement. The lack of agreed-upon metrics for assessing business performance in this area is just one stumbling block. Another is that there are few commonly recognized best practices for boards committed to decarbonizing their companies. For this reason, we decided to give our survey added specificity by adding questions related to proven practices for setting and meeting climate change goals.

“...

It was clear that the time had come for a global survey of board members that specifically addresses climate change.

“...
The survey and responses

The overall aim of our survey was to examine how board directors are coping with decarbonization and to what extent they are integrating climate change into their oversight responsibilities.

The survey was conducted during September and October 2021, mainly through the global INSEAD Corporate Governance Centre and Heidrick & Struggles corporate governance networks. We asked respondents to answer in the context of corporate boards on which they were currently serving. For those serving on more than one board, we requested that they answer in the context of the board with which they were most familiar. For those operating in a two-tier system, we made it clear that our interest was restricted to supervisory, rather than management, boards.

We received 301 responses from 43 countries. Companies headquartered in North America and Western Europe account for 74% of completed surveys. Our sample covers a wide range of industry sectors (manufacturing, finance and insurance, and healthcare and social assistance being the most represented). Directors from companies of all sizes (in terms of annual revenue) participated.

Countries in which companies are headquartered

- 23% United States
- 21% United Kingdom
- 12% Other
- 4% Canada
- 5% India
- 5% Australia and New Zealand
- 30% Western Europe

Dominant sector of companies (%)

- Manufacturing 21%
- Financial services and insurance 15%
- Professional services 11%
- Healthcare and social assistance 10%
- Utilities 8%
- Mining 7%
- Agriculture 4%
- Transportation and warehousing 4%
- Energy 4%
- Information 4%
- Retail 3%
- Other 9%

Company’s revenue in its last full fiscal year

- $0–$500 million 34%
- $501 million–$1 billion 14%
- $1–$10 billion 33%
- More than $10 billion 13%
- Prefer not to answer 6%

Source: INSEAD Corporate Governance Centre and Heidrick & Struggles survey of corporate directors, 2021, n = 301

Source: INSEAD Corporate Governance Centre and Heidrick & Struggles survey of corporate directors, 2021, n = 294

Source: INSEAD Corporate Governance Centre and Heidrick & Struggles survey of corporate directors, 2021, n = 297
In terms of board function, over two-thirds of respondents (227) were non-executive directors. They sat on a range of board committees, with audit, nomination, and remuneration being the most common. Notably, 77 were members of a sustainability committee.

Considerations for interpreting our findings

Of course, our research is not exhaustive. For example, we chose not to focus on opportunities, which seem to us dependent on the nature of a company’s business. Instead, our questions tended to emphasize the risks that are shared by all firms regardless of sector, service, or product.

That said, our fundamental aim is to be positive. We seek not to point fingers but to support boards in joining—and even leading—the global struggle against climate change. Inevitably, however, this objective requires some constructive criticism. A problem cannot be solved until it is first identified and defined.

Finally, a word of reservation: the results that follow almost certainly have a slight bias toward respondents who genuinely believe in the importance of climate change. We suspect that skeptics or deniers are unlikely to complete a relatively lengthy survey on the topic. The implication of this observation is that there may be less reason for optimism than our findings suggest and that the causes for concern are more significant than we might hope.

Recommendations and thanks

The practical recommendations with which we conclude the report are based not only on our own professional and research experiences (at the INSEAD Corporate Governance Centre, Heidrick & Struggles, and beyond) but also on ideas supplied by our respondents. We would like to take this opportunity to thank everyone who completed the survey for their time, honesty, thoughtfulness, and eloquence. We hope that they will take our interpretation of the results in our intended spirit of pragmatism and positivity.
Our findings

We were delighted by the responses to our first question. Some 74% of respondents agreed that the issue of climate change was very or entirely important to the strategic success of their companies.

We were also greatly encouraged by responses to our final question. Some 72% of respondents said they are very or entirely confident that their company will reach its climate change goals.

However, between the first and last questions, we found much evidence that board members’ confidence may be misplaced—or that their companies’ goals may be insufficiently ambitious. This observation should not subtract from our overall conclusion that the climate is changing in the world’s boardrooms.

The climate is changing in the world’s boardrooms

Importance of climate change to strategic success (%)
How important is climate change for the strategic success of your company?

Confidence in the company reaching its climate change goals (%)
How confident are you that your company will reach its climate change goals?

Source: INSEAD Corporate Governance Centre and Heidrick & Struggles survey of corporate directors, 2021, n = 290
Source: INSEAD Corporate Governance Centre and Heidrick & Struggles survey of corporate directors, 2021, n = 249
Some basic definitions

**Carbon neutral** means that a company is balancing (or “offsetting”) the amount of CO₂ that its activities release into the atmosphere by removing an equivalent amount, for example, by planting trees or carbon trading.

**Zero carbon** or **net-zero carbon** goes one step further. It means that a company’s activities are not producing any CO₂ emissions in the first place, and so no balancing or offsetting is needed. For example, if an office’s energy requirements are entirely satisfied by solar power, then it is a zero-carbon operation.

**Carbon negative** is even better. It means that a company is removing more CO₂ from the Earth’s atmosphere than its activities are producing.

Of course, CO₂ is not the only greenhouse gas (GHG). Methane (CH₄) is the most well known and significant. Most people use “carbon” to refer only to CO₂. Other terms, such as **climate neutral** or **climate positive** refer to emissions of all greenhouse gases.

As one respondent reminded us, “Consider whether the phrase ‘climate change’ accurately captures the trend toward carbon reduction, energy transitions, and the economic impacts of these transitions.”

Although not directly comparable with the findings of previous research, the 74% of respondents who said they are “believers” in the strategic importance of climate change (see above) is a good sign that board members are focusing on it as a core topic. The INSEAD Corporate Governance Centre’s 2018 report found that only 53% of European directors “saw a solid business case for sustainability.” Similarly, PwC’s 2021 Annual Corporate Directors Survey found that only 64% of US directors believe ESG is “linked to their companies’ strategy.”

Furthermore, 58% of respondents said that climate change was very or entirely “tied to their company’s organizational purpose.” Given that only a handful of companies in our survey appear to have business model entirely based on sustainability, this finding is very positive indeed.

Of course, the reasons for believing in the importance of climate change vary greatly from company to company. We asked respondents to choose up to three “key drivers for their companies to address climate change” and found that the most frequently chosen were transition risks (regulation, cost increase, and market sustainability affecting the company’s business model), growing pressure from investors, and growing pressure from customers.

Only one respondent told us that “there are no drivers to address climate change,” while several other responses suggested that we should have included the choice, “it is simply the right thing to do.”

**Strength of tie between climate change and organizational purpose (%)**

How closely is climate change tied to your company’s organizational purpose?

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<thead>
<tr>
<th>Type of Ties</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Entirely</td>
<td>13%</td>
</tr>
<tr>
<td>Very</td>
<td>45%</td>
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<tr>
<td>Slightly</td>
<td>30%</td>
</tr>
<tr>
<td>Not at all</td>
<td>12%</td>
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</table>

Source: INSEAD Corporate Governance Centre and Heidrick & Struggles survey of corporate directors, 2021, n = 290

**Key drivers for companies to address climate change**

What are the key drivers for your company to address climate change? (Respondents could choose up to three)

<table>
<thead>
<tr>
<th>Driver</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Transition risks such as regulation, cost basis increase, or market sustainability potentially impacting the company’s business model</td>
<td>63%</td>
</tr>
<tr>
<td>Growing pressure from investors</td>
<td>60%</td>
</tr>
<tr>
<td>Growing pressure from customers</td>
<td>44%</td>
</tr>
<tr>
<td>Physical risks potentially impacting the company’s assets or supply chain</td>
<td>34%</td>
</tr>
<tr>
<td>Growing pressure from employees</td>
<td>28%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
</tr>
<tr>
<td>Growing pressure from suppliers</td>
<td>8%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: INSEAD Corporate Governance Centre and Heidrick & Struggles survey of corporate directors, 2021, n = 290


Boards have a clear understanding of the risks and opportunities presented by climate change and are united on the issues … at least, so they say

We found more reasons to be cheerful when we asked board members about their understanding of the strategic risks and opportunities that climate change presents to their organizations. Some 63% said their understanding is very or entirely clear.

Furthermore, 60% said that their board is very or entirely aligned on the importance of climate change and what to do about it.

Clarity of board’s understanding of the strategic risks and opportunities climate change presents (%)

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<th>Clarity</th>
<th>Percentage</th>
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<tr>
<td>Entirely</td>
<td>12</td>
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<tr>
<td>Very</td>
<td>51</td>
</tr>
<tr>
<td>Slightly</td>
<td>31</td>
</tr>
<tr>
<td>Not at all</td>
<td>4</td>
</tr>
<tr>
<td>Don’t know</td>
<td>2</td>
</tr>
</tbody>
</table>

Alignment of the board on the importance of climate change and what to do about it (%)

<table>
<thead>
<tr>
<th>Alignment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entirely</td>
<td>16</td>
</tr>
<tr>
<td>Very</td>
<td>44</td>
</tr>
<tr>
<td>Slightly</td>
<td>31</td>
</tr>
<tr>
<td>Not at all</td>
<td>6</td>
</tr>
<tr>
<td>Don’t know</td>
<td>3</td>
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The possibility of assets becoming carbon stranded is of more and more concern to companies. One respondent said that “protecting our assets” was one of their company’s key drivers for addressing climate change. Another respondent expected an “increase in risk of stranded assets.” The Glasgow Climate Pact has turned several such risks into imminent realities.

Source: INSEAD Corporate Governance Centre and Heidrick & Struggles survey of corporate directors, 2021, n = 290
However, what are they actually doing about climate change? It was when we turned to specific questions—based on proven practices—that our findings took a more concerning turn.

Too few boards have demanded that their companies adopt carbon emission targets

The first and most obvious action to take in the quest for a net-zero world is to set **clear targets for reducing carbon emissions**. However, 43% of our respondents reported that their companies were not yet working to such targets.

Yet at least some of this group must also have reported that their boards “have a clear understanding of the risks and opportunities presented by climate change” and are “aligned on its importance and what to do about it.” Either these directors are among those who were feeling overwhelmed by the complexity of addressing climate change or they have set themselves less-specific goals.

That said, it is possible to take a “glass half-full” approach to our findings about emissions targets. After all, some 32% of the companies in our survey were reportedly in the process of developing targets, while 41% already had targets for direct and indirect carbon emissions under their control (that is, scope 1 and 2). It is heartening that 16% of respondents also reported having targets for direct and indirect carbon emissions outside their control (that is, scope 3).

We conclude that there are encouraging signs but believe that boards must ensure their companies set emissions targets and do so quickly, given increasing demands from regulators and investors for detailed reporting. Let us be clear too: we are talking about measures that genuinely contribute to a zero-carbon world, not just schemes for offsetting or carbon trading.

"We are talking about measures that genuinely contribute to a zero-carbon world, not just schemes for offsetting or carbon trading.

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**Clear targets for reducing carbon emissions**

Does your company have clear targets for reducing carbon emissions?

- **16%** Yes, for direct and indirect carbon emissions within and outside our control
- **41%** Yes, for direct and indirect carbon emissions under our control
- **32%** No, we are in the process of developing them
- **9%** No, we don’t see the need
- **2%** Don’t know

Source: INSEAD Corporate Governance Centre and Heidrick & Struggles survey of corporate directors, 2021, n = 273
Reporting structures do not always put executives in the right place to help boards in their oversight of climate change issues

Some 16% of our respondents said that no one reports to their board on climate change issues or targets (or that they did not know who is responsible for this). Furthermore, 39% said that the task falls to an executive with responsibilities in addition to the already broad remit of sustainability. Such reporting structures are not, in our experience, entirely helpful.

Taking the “glass half-full” perspective once again, however, 45% of respondents said that their companies do have a head of sustainability. This person reports to the CEO (31% of total respondents), to another executive (11%), or even directly to the board (3%).

We do not pass judgement on which of these reporting structures works best. Indeed, we believe that there is no one-size-fits-all solution. However, we strongly believe that companies that want to take climate change seriously must, first, have a CEO who is leading on the issue and, second, ensure that the board and the executive team are engaged in climate change issues. Often, having one individual close to the CEO with overall responsibility is the right structure to drive concrete action.

In any case, 50% of respondents reported being very or entirely satisfied with current reporting to the board insofar as it provides a comprehensive picture of the company’s progress on addressing climate change issues. Of course, that leaves 50% who were only slightly satisfied or less satisfied, or uncertain. Glass half full? Or glass half empty? Again, either interpretation is possible, but we believe that satisfying only half of customers is not yet enough.

Who reports to the board about how the company is managing climate change issues and targets (%)

An executive with responsibilities in addition to sustainability

| 31 |

Our head of sustainability, who reports to the CEO

| 39 |

No one

| 14 |

Our head of sustainability, who reports to another executive

| 11 |

Our head of sustainability, who reports to the board but not the CEO

| 3 |

Don’t know

| 2 |

Source: INSEAD Corporate Governance Centre and Heidrick & Struggles survey of corporate directors, 2021, n = 278

Helpfulness of current reporting to framing of a comprehensive picture on the company’s progress in addressing climate change issues (%)

| 8 |

Entirely

| 42 |

Very

| 37 |

Slightly

| 12 |

Not at all

| 1 |

Don’t know

Source: INSEAD Corporate Governance Centre and Heidrick & Struggles survey of corporate directors, 2021, n = 280

Scope 1, 2, and 3 emissions

Targets for greenhouse gas emissions are usually defined in terms of three categories:

Scope 1 (or “direct”) emissions emanate from sources that are owned or controlled by a company, for example, boilers, vehicles, or industrial processes.

Scope 2 (or “energy indirect”) emissions result from the generation of purchased energy that is consumed by the company. Buying electricity that is produced only from renewable sources will lead to dramatically reduced scope 2 emissions.

Scope 3 (other “indirect”) emissions are a consequence of the company’s activities but occur from sources not owned or controlled by the company, for example, outsourced operations, business travel, or product use.

One respondent told us that they were working on their “entire supply chain” with over 7,000 suppliers, pushing to “reduce waste [and emissions], remove value-adding steps, use solar power, and reduce overall consumption.” We applaud this exemplary effort.
Greenwashing usually refers to a company spending time and money on advertising and marketing that claims that its goods and services are environmentally friendly when in fact they are not. However, Larry Fink, chair and CEO of BlackRock, has argued that, “it is a form of greenwashing if the traditional companies sell off their hydrocarbons or the worst-offending assets to some private equity firm. The net-carbon footprint of the world does not change.”

As one respondent told us, “Boards have to learn in depth so as to avoid a simple tick mark in a checkbox or greenwashing the business.” Another also warned against “window dressing,” while another stressed the danger of taking advice from the wrong kind of experts: “The ESG sector was [previously] flooded with greenwash-peddlers, who used unsuccessful sensationalist tactics to advance their agenda.”

Executive performance metrics are widely recognized as one of the most powerful instruments in the corporate governance toolbox. Similarly, approving asset allocations is one of the most important factors in effective board oversight, while CEO selection is one of the board’s most fundamental tasks.

It was therefore disappointing to find that climate change was, at best, only slightly integrated into executive performance metrics—at nearly three-quarters (74%) of respondents’ companies. How can this be the case if 74% of the same people claimed that climate change is of great strategic importance to their organizations? (See page 13.)

Perhaps more discouraging still, some 65% of respondents said that climate change knowledge was not a formal requirement when their boards selected new CEOs.

The internal contradiction in our findings was less marked for investments: here only 49% of respondents said that their companies failed to integrate climate change into their decision making (or they did not know). However, that still implies that around half of these same board members must have also claimed that climate change is of great strategic importance to their business.

Integration of climate change into corporate processes (%)

<table>
<thead>
<tr>
<th>How integrated is climate change into your company’s executive performance metrics?</th>
<th>Yes</th>
<th>No</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entirely</td>
<td>5</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Very</td>
<td>22</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Slightly</td>
<td>41</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Not at all</td>
<td>31</td>
<td>13</td>
<td></td>
</tr>
</tbody>
</table>

Where climate change is a formal requirement

Is climate change currently a formal requirement of your board’s CEO selection?

<table>
<thead>
<tr>
<th>65%</th>
<th>9%</th>
<th>26%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>Don’t know</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: INSEAD Corporate Governance Centre and Heidrick & Struggles survey of corporate directors, 2021, n = 278, 274

Boards do not devote enough time to climate-related issues

The mix of climate issues suitable for boardroom discussion inevitably varies from company to company. However, there are some questions, mainly related to risk and human capital, that should be on all agendas. Unfortunately, our findings suggest that boards do not spend enough time on these matters.

With specific reference to climate change:

- 25% reported spending no time at all discussing scenario planning
- 10% reported spending no time at all on risk assessment
- 30% reported spending no time at all on asset impairment analyses
- 24% reported spending no time at all on skills and training

Time the board spends on each of the following (%)

How much time does your board spend on each of the following climate change–related issues?

- Scenario planning
- Risk assessment
- Hypothesis underpinning impairment tests
- Human capital upskilling or reskilling

Source: INSEAD Corporate Governance Centre and Heidrick & Struggles survey of corporate directors, 2021, n = 259, 258, 259, 259

Companies could do better at engaging with stakeholders over climate change

It seems that many companies have received a loud and clear message from stakeholders. Just over half (53%) of our respondents reported that climate change is very or entirely integrated into their engagement with stakeholders. However, one board member did sound a warning about customer priorities: “Our main challenge is that customers are not yet valuing sustainability efforts. They still see it as a nice to have, once you meet [their demands of] cost, service, and quality.”

Integration of climate change into corporate processes (%)

How integrated is climate change into your engagement with stakeholders?

- 1% Don’t know
- 11% Not at all
- 34% Slightly
- 43% Very
- 10% Entirely

Source: INSEAD Corporate Governance Centre and Heidrick & Struggles survey of corporate directors, 2021, n = 275
Boards still do not know enough to lead effective action against climate change

By their own admission, boards do not know enough about climate change, which may explain some of their inaction around such specific practices as setting carbon-reduction targets or executive performance metrics. In fact, a staggering 85% of respondents said they believe that the level of overall climate knowledge on their boards needs to increase (although 21% judged their own personal understanding sufficient). Again, these figures suggest that some of our (and our respondents’) initial optimism may be misplaced.

How the level of climate knowledge on the board should change (%)

How much should the level of climate knowledge on your board of directors change?

<table>
<thead>
<tr>
<th>Strongly decrease</th>
<th>Somewhat decrease</th>
<th>Stay the same</th>
<th>Somewhat increase</th>
<th>Strongly increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>12</td>
<td>62</td>
<td>23</td>
<td></td>
</tr>
</tbody>
</table>

Source: INSEAD Corporate Governance Centre and Heidrick & Struggles survey of corporate directors, 2021, n = 250

Rating the overall knowledge of climate change issues (%)

How much overall knowledge of climate change issues do you and your board have?

<table>
<thead>
<tr>
<th>None</th>
<th>Not enough</th>
<th>Most of what is needed</th>
<th>All that is needed</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>40</td>
<td>45</td>
<td>11</td>
<td></td>
</tr>
</tbody>
</table>

Your board

<table>
<thead>
<tr>
<th>None</th>
<th>Not enough</th>
<th>Most of what is needed</th>
<th>All that is needed</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>21</td>
<td>57</td>
<td>21</td>
<td></td>
</tr>
</tbody>
</table>

Source: INSEAD Corporate Governance Centre and Heidrick & Struggles survey of corporate directors, 2021, n = 253, 248

Moving from general to specific areas of climate change expertise, respondents said their board has insufficient understanding (or did not know if their board has sufficient understanding or not) in each of the following categories of business implications:

- Implications for financial performance: 49%
- Implications for the business model: 44%
- Implications of the capital expenditure structure: 45%
- Implications for human capital disclosures: 49%

Amount of the board’s knowledge on climate change implications in each area (%)

<table>
<thead>
<tr>
<th>Financials</th>
<th>None</th>
<th>Not enough</th>
<th>Most of what is needed</th>
<th>All that is needed</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>42</td>
<td>39</td>
<td>12</td>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>

Business model

<table>
<thead>
<tr>
<th>None</th>
<th>Not enough</th>
<th>Most of what is needed</th>
<th>All that is needed</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>38</td>
<td>40</td>
<td>15</td>
<td></td>
</tr>
</tbody>
</table>

Capital expenditure strategy

<table>
<thead>
<tr>
<th>None</th>
<th>Not enough</th>
<th>Most of what is needed</th>
<th>All that is needed</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>37</td>
<td>39</td>
<td>15</td>
<td></td>
</tr>
</tbody>
</table>

Human capital disclosures

<table>
<thead>
<tr>
<th>None</th>
<th>Not enough</th>
<th>Most of what is needed</th>
<th>All that is needed</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>37</td>
<td>40</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

Note: Numbers may not total 100%, due to rounding.

Source: INSEAD Corporate Governance Centre and Heidrick & Struggles survey of corporate directors, 2021, n = 253, 252, 251, 250
One major problem might be that board members said that the bulk of their information about climate change comes from other executives, the media, and investors. These influences appear to take precedence over more expert sources such as industry associations; external scientific, legal, or regulatory advisors; or board colleagues with proven climate change expertise. In fact, puzzlingly, fewer than half of respondents considered it important to have a colleague with climate expertise in the boardroom, and only around a quarter indicated that they actually had one or more board colleagues with climate change expertise.

Overall, our survey results show that 40–50% of the directors who responded believe that they do not know enough about the various implications of climate change to perform effective oversight of their companies.
What is a climate expert and do you need one (or more) on the board?

For the purposes of a board, a climate expert is simply someone with enough objective knowledge about climate change (or possibly access to the right objective knowledge) to fulfill the corporate governance function, including oversight of strategic decisions. This person also needs the ability to use their climate knowledge to identify the risks and opportunities of climate change for specific items in the corporate portfolio, including assets, products, and business lines.

Our respondents were pretty much split down the middle on the need to have such an expert as a member of the board (see “How crucial is it to have an expert on climate in the boardroom?” on page 21).

“We will eventually all have to have sustainability expert,” said one respondent. On the other hand, climate change is too important to be “delegated to one board expert,” said another.

By contrast, some respondents felt that there was no place for specific climate expertise within the boardroom. “Boards need to gain competence from third parties and outside specialists,” said one survey participant, “because the environment is changing so quickly.” Or, as another put it: “The core skills of challenge, objectivity, analysis, and the ability to see and hear different scenarios remain the most vital skills in coping with the changing world, even as we deal with decarbonization.”

Clearly, different boards will take different approaches. However, all boards should be able to judge the quality of plans made by management and challenge them when needed. It is not enough to hear what the sustainability manager has to say and to be impressed. The board as a whole, either through collective or individual expertise, should know what good practice looks like. As one respondent summed up, “Boards need to own climate risk rather than assuming the executives have it under control.”

“It is not enough to hear what the sustainability manager has to say and to be impressed. The board as a whole should know what good practice looks like.”

Boards do not always have processes to improve their own climate literacy, but most directors are trying

Perhaps our most troubling finding is that 69% of our sample reported that knowledge and understanding of climate change was not a formal requirement in their board’s current competency matrix. The same percentage said that it was not even a requirement in the selection of new directors. That said, as noted above, some directors clearly believe that climate knowledge should not be the purview of any one director.

Where climate change is a formal requirement (%)

Is climate change currently a formal requirement of your board’s competency matrix?

Is climate knowledge a formal requirement in your selection of new directors?

<table>
<thead>
<tr>
<th>Board competency matrix</th>
<th>Selection of new directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>27</td>
</tr>
<tr>
<td>No</td>
<td>69</td>
</tr>
<tr>
<td>Don’t know</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>69</td>
</tr>
<tr>
<td></td>
<td>7</td>
</tr>
</tbody>
</table>

Source: INSEAD Corporate Governance Centre and Heidrick & Struggles survey of corporate directors, 2021, n = 252, 251, 250
We conclude our findings on a slightly positive note. The findings show that most board members are working hard to improve their knowledge and understanding of the most important challenge facing our planet and their businesses. Only 16 of our respondents (around 5%) said they are not doing anything at all to improve their personal climate literacy, while 194 (around two-thirds) are personally invested in attending forums and using platforms to improve their knowledge. The others rely on colleagues or training, information, and advisory sessions organized for the full board.

Interpreting our findings

The findings above reveal a stark disconnect between what board members say about the importance of climate change to their companies and what they actually do. We find three possible interpretations of these results, and they are not necessarily mutually exclusive:

1. **Lip service**

The most superficial interpretation of our findings is that corporate boards are merely paying lip service to climate change issues. This may be true in a few isolated cases, but it is clear from our survey that the vast majority of our respondents are trying very hard indeed to improve their own knowledge—if not personally, then collectively, as a whole board.

For example, one respondent said, “Climate change is a spoken priority and a screen across decisions … but not yet something that we measure against or hold ourselves accountable for.” Said another, “Companies that have put out generic ‘zero’ targets by, say, 2050, have simply, in my opinion, just thrown out a goal that feels good and is well received in the market—but is not backed up by analysis and a plan.”
Paralysis in the face of complexity

Because our survey focused almost entirely on climate change, we cannot make a pronouncement on respondents’ attitudes and actions in other areas of sustainability, understood in its broadest sense.

However, we did ask one question about the importance of the environment relative to the rest of the ESG mix. Our findings (like those of other researchers), suggest that, for business boards, environmental concerns come second to social issues such as diversity, equity, and inclusion in the workforce; equal pay; community engagement; supply chain ethics; remote working; whistleblowing policies; and employee engagement.

There are several explanations for boards’ emphasis on the “S” rather than the “E” of ESG. Most “S” factors, such as building a diverse employee population or closing the gender pay gap, are topics companies can more or less tackle on their own. These goals tend to be easily measurable and in many countries are clearly regulated. Meanwhile, most “E” factors are external, long term, and often have an indirect relationship to the company. Climate change initiative performance still lacks commonly accepted metrics and legislation (although the Glasgow Climate Pact has promised new international disclosure standards by 2024). Contrast the urgency of a sexual harassment accusation against the CEO with a proposal to buy green electricity.

In addition, the sheer breadth of the ESG spectrum is daunting, ranging from wasting less paper to eradicating child labor from the supply chain. To further complicate matters, climate change impacts and is impacted by different industries in very different ways. Consider a law firm or a business school compared to an oil company or a food manufacturer. One organization’s campaign to reduce travel or heating expenses is another organization’s existential threat.

We suspect, therefore, that boards are sometimes paralyzed by the scale of their task, especially considering that this is only part of a much wider board remit. Our experience and past research suggest that a few well-chosen, practical questions are the best place to start. For example, what are the climate change implications for our biggest product, rather than the entire portfolio? How will global warming affect a single business unit or product line, rather than our entire global organization? In what ways might we invest in the local or global infrastructures we rely upon, to make them greener?

We concede that, in defining such questions, boards may find tensions between social and environmental issues. However, experience tells us that the need for “S versus E” trade-offs is rare. In fact, win-wins are more common. For example, PwC’s 2021 Annual

Corporate Directors’ Survey found that US female directors (87%) are far more likely to be concerned about the impact of climate change than their male colleagues (67%). Could boosting the number of women on your board also inject new insight into climate change?

Our respondents noted the tensions between social and environmental issues: “The multiplicity of goals, targets, and reporting demands is making it harder, not easier, for financial institutions to be responsible citizens on climate issues,” said one executive. Another highlighted the issues around general buy-in: “Not buying from a company that uses child or slave labor is fully accepted. However, the same can’t be said about environmental goals yet.” And still another noted a more basic issue: “There is currently confusion between climate, ESG, and sustainable development goals (SDG) metrics.”

COVID-19 has diverted attention but in other ways has shown [we are] resilient and proved that we can work remotely.
A vicious circle

Perhaps the most compelling interpretation of our findings is that boards are caught in a vicious circle. Put simply, people who understand the implications of climate change and how to address them typically lack the business experience required to join a board, and people with board-relevant business experiences typically do not know as much as they would like about the long-term business implications of climate change.

Of course, there are some exceptions. “We are only now seeing professionals with the required credibility insert themselves into the discussion to drive change,” said one respondent. “The clever climate change advocates have arrived.”

But it seems there simply are not enough board-ready professionals with knowledge of both business and climate change to go around. The same goes for many other newly critical areas of expertise such as DE&I or cybersecurity. In short, many boards do not know what they do not know about climate change, which means that they are not always able to take appropriate action.

Any board without expertise on the climate emergency is irrelevant in the 21st century.

Of course, there is no one-size-fits-all solution; but we have faith in company directors’ expertise—and in those who advise, educate, and engage with boards. You will find the right solution for your organization.

As for those companies whose boards continue only to pay lip service to the importance of climate change, they will eventually lose their license to operate, literally or figuratively, or simply go out of business sooner than they might think, as one executive explained: “Climate change is fast becoming the most important conversation in the boardroom and needs courageous leadership. It is absolutely central to any business that wants to thrive beyond the short term.”

“A shift in mindset is required, particularly in the older generation of colleagues on the board, to turn the focus on the purpose of the company toward longer-term and sustainable results and a resilient business model. It also requires a new set of skills on the board,” said another respondent. And, “It will be easier to convince young people to work for you if you show you are dealing with their future,” said another.

To conclude our report we offer some ideas, based on proven, real-life practices, about how to address the complexities of climate change and how to break the vicious circle.

Many boards do not know what they do not know about climate change, which means that they are not always able to take appropriate action.
Recommendations

The world is changing. The role of the corporation is changing. Climate change is one crucial factor fundamentally reshaping the role of the board right now. The most effective boards will tear down and rebuild the structures and culture of today’s boardroom to govern in the new world.

In this section, we offer some straightforward recommendations for boards that seek to lead their companies along the road to shaping a climate-relevant strategy. These recommendations are not intended to apply to all companies, some of which are further along that road than others, but are all based on proven, real-life examples of practices that accelerate progress.

Include climate change in your board’s competency matrix and make sure the whole board has enough knowledge

According to our survey, almost all boards think they lack the knowledge and understanding of climate change they need to evaluate their company’s opportunities and risks, yet fewer than a third specify such a requirement when recruiting new directors or evaluating existing members.

An obvious first step is to define the skills and experience that will fill the gaps—be as specific as possible. A PhD in climate science is less likely to be helpful than, say, someone with experience on the board of a company that has already undertaken decarbonization measures or has active membership of an organization driving corporate knowledge and action on climate change. Your organization’s exact needs will be linked to a variety of factors, including the industry you are in, the age of your asset base, where you operate, external pressures, your internal ambitions, and, of course, your strategy. In the end, the goal is to ensure the whole board can answer the questions of what climate change is, what it means for the business, and how they will play their part for their company and their communities.

A thorough board effectiveness review is often a good place to start. It can help you understand how well the board is answering those questions today and distinguish between knowledge needed within the board itself and knowledge that can be supplied in a different way, such as individual external advisors or an external advisory board.12

A board review offers a solid foundation for stepping back and assessing your full board composition with a clean sheet across all leadership skill sets and capabilities—and without deference to your sensibilities or those of the other sitting board members.13

Climate change cannot wait for the normal board refreshment cycles (over three, six, or nine years) to happen. Indeed, you need to plan for your own succession the moment you are elected, and boards should do the same for the CEOs they appoint. After two years of crisis mode for many boards, and in the context of ever more complex and fast-changing expectations from shareholders, continual evaluation and succession planning are more common than ever before. This will help boards respond at appropriate speed to incorporating climate considerations.

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12 For more on effective board reviews, see Alice Breeden and David Hui, “A board review that accelerates competitiveness,” Heidrick & Struggles, April 16, 2020, heidrick.com.

13 For more, see Alice Breeden, Theodore L. Dysart, and David Hui, “Building the foundation for better board refreshment,” Heidrick & Struggles, January 7, 2021, heidrick.com.
Add relevant voices to your boardroom

It is time to balance traditional board qualifications with new knowledge and mindsets. Once climate change is part of your board’s competency matrix, finding the directors to meet it must become a high priority—one that directors should hesitate to trade off, both to save the planet and to safeguard their company’s ability to create value over the long term. (A bonus may be that some research suggests that adding sustainability expertise may boost diversity especially with respect to gender.) Remember that in many cases recruiting a director is a fixed-term appointment, whatever expectations may have been in the past. Adding a climate specialist may simply be a transition tactic to help the rest of the board get up to speed. Such transitional appointments are rare today, but when a board does determine that it needs a climate expert on the board itself, board chairs, lead directors, and members who embrace such innovative approaches will build a better company and world around it. But the focus should not only be on new directors. Existing directors, who, the survey tells us, want to learn, should be supported in their efforts. This may mean engaging with advisors, taking crash courses at business schools, or engaging with frontline employees or community members who face these challenges every day. Indeed, directors are only some of the voices in the boardroom. You still need to focus on your shareholders, but your board also needs to hear the voices of employees, customers, community members, scientists, sociologists, and others with relevant insights. For climate change, among the most important are voices from places being affected by climate change today. Integrating these voices may take longer and require greater care than hiring a professional advisor, but finding ways to formalize those voices will get the board better outcomes on climate and many other issues.

When a board does determine that it needs a climate expert on the board itself, board chairs, lead directors, and members who embrace such innovative approaches will build a better company and world around it.

Change the board processes and dynamics—a responsibility for the chair

There is no one-size-fits-all solution, but now is the time for boards to ensure that climate change is being addressed where it makes sense strategically and where they have or can build the mix of expertise and energy to make real progress. In all this, the chair must play the leading role, as it is chairs who control agendas, manage dynamics, and set the overall tone of any board.

You will need to spend more time on climate change than you think and, to make it stick, formalize the time you spend. We recommend that you systematically include climate-related issues, such as setting targets for scope 1, 2, and 3 emissions and reviewing or previewing regulatory frameworks in your annual schedule. It is also a good idea to integrate climate considerations into traditional agenda items, considerations such as investment decisions; stakeholder engagement; scenario planning and risk assessment (where we know too few include climate change today); human capital; and hypotheses underpinning impairment tests. Remember, too, that such considerations will include the impact of severe climate events—such as floods, wildfires, and heatwaves—on your business, not just your carbon emissions.

In addition, there is a growing demand from regulators and investors for much more robust and detailed data—beyond what is in most companies’ ESG reports today. You will soon need systems to measure and disclose your ESG performance that are as strong as those used to measure and disclose financial performance. It is up to the board to mandate and review such reporting.

But it is not enough to have climate change as an agenda topic, however robust. There is an imperative for chairs not only to drive agenda changes but also to ensure that the dynamics of the board are inclusive: that everyone’s perspective is heard and that everyone is comfortable speaking up. This can mean that a non-expert feels safe asking “the stupid, basic question”—a rarity on many boards today. It can mean that the chair makes time for follow-up questions even when there are other pressing matters to discuss or suggests reflection on the discussion and asks for input into the next steps the company needs to take to get where it needs to be. The chair must also lead the efforts to revamp board succession planning and bring new voices into the boardroom.

More generally, chairs and governance committees should consider how to anchor ESG in corporate governance. Our respondents suggested a mix of options, from deliberately making sustainability the responsibility of the full board to integrating it into an existing standing committee such as risk or governance or setting up a separate sustainability committee. What works best in your situation will depend on many factors.

Above all, be creative. How can you lead collaboration in your sector to make progress? If you are a low carbon emitter, for example, such as a professional services company, the opportunities to make an impact through your own operations may be limited, but could you provide new services to guide industrial clients in their decarbonization journey?

The chair must play the leading role, as it is chairs who control agendas, manage dynamics, and set the overall tone of any board.
Anchor your climate change strategy in organizational purpose, connected to specific operations

Organizations that deliver on a meaningful purpose have an increasing edge over others. They can react faster to change, they can attract and retain committed employees and customers, and they can more effectively meet the higher expectations society now has for corporations. Connection to purpose builds energy and trust. Boards and executive teams who put climate change at the heart of their purpose can significantly accelerate their progress.

Boards are in an ideal position to ensure the company is focusing concretely on the effects of specific products, services, or assets on climate change, or its impact on them. Then, by assessing those effects through the lens of purpose, they can ensure the company will meet the full range of stakeholder expectations. Boards can start by identifying a key area for executives to analyze. A bank might choose to isolate its mortgage portfolio, while a manufacturer might choose a particular factory. The executive team can simulate various climate change factors, from regulatory changes to extreme weather events, and start to understand, for example, the effect of floods or droughts on mortgage portfolios or the impact of water scarcity on a specific factory location. The organizational purpose will give boards and executive teams a guideline for how to deal with the results.

Who

1. Conduct a board effectiveness review that specifically includes a look at what your board does—and must—know about climate change.
2. Determine how the board will learn what it needs to. You cannot have an expert on your board for every topic, so do you need a climate change expert on the board? Do you need external advisors? Can you learn more from the executive team?
3. Based on those decisions, revamp the board refreshment strategy to find who you need for the board and formalize ways to bring other relevant voices into your boardroom as observers or advisors.

What

1. Add climate change explicitly to your board’s agenda, both on its own and as part of other discussions including asset allocation, risk assessment, and executive assessment.
2. Find the right way to embed climate change into your governance structure, on its own or as part of an existing committee’s remit.
3. Mandate that the executive team set and plan how to implement specific climate change goals within scope 1, 2, and 3.
4. Improve your company’s data and reporting on climate change so it is as detailed and robust as your financial reporting.
5. Use your company’s purpose as lens to assess your climate change-related decisions, and to engage the whole company in addressing it.
6. Define a clear chain of executive accountability—starting with the CEO—for setting and meeting climate change goals, and tie hiring and compensation decisions to it.

Leading the way

Finally, chairs have a particularly important role to play in driving process changes but, even more, in ensuring the right tone is set in the boardroom. They must:

- treat climate change as a priority,
- ensure open and honest discussion about it, and
- encourage reflection on how the board and company can do even better.
Integrate climate change objectives into executive compensation and search strategies, especially for the CEO

Overseeing executive performance and recruiting new CEOs are fundamental board duties. It follows that climate change should become fully integrated into these activities—and that, just as board members need to be continuously examining their own succession plans, they must do the same for their CEOs. To integrate carbon reduction targets into management compensation is to send a message echoing throughout the entire company. To stipulate climate change understanding in the recruitment of a new CEO is to make a statement to an entire industry.

In addition, boards need to define a chain of accountability for climate change considerations. This must start with a CEO who is leading on the issue and requires ensuring that the board and the executive team are all engaged in climate change issues. Often, having one individual close to the CEO with overall responsibility is the right structure to drive concrete action.

One barrier to action for many boards has been a lack of agreed-upon standards. But increasingly detailed advice and guidelines are available in most countries. And, as boards and executive teams work together to develop the detailed reporting that is increasingly being demanded of companies, they will be able to determine which metrics matter most for their organization, considering factors such as sector, geographies, regulatory requirements, employee and customer demands, and the extent to which climate change is currently integrated into operations and metrics. This can lead to CEO performance metrics as simple as “setting emission goals” (for those early in their climate change journeys) and as complex as “leading industry coalitions to drive innovation in ways to meet emission goals across the supply chain.”

Finally, a brief word to those who engage with boards, such as investors, NGOs, and regulators. We recommend that you continue to apply pressure while also focusing on deeper dialogue and a better understanding of the challenges facing companies. Collaboration is always the best tactic for finding solutions. As for skills-focused organizations like our own—executive search specialists and business schools—we should endeavor to do all we can to support boards in accelerating the transition to a zero-carbon future. We, too, have taken note and are committed to continue supporting organizations and their leaders in being a force for good.

Boards that take on these recommendations will be giving themselves, their organizations, and the world a better chance of meeting the climate change challenge.

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