ARTICLE

Implications of COP 26
for Directors and Boards

**Prof. Colin Coulson-Thomas*

A COP 26 reality check was the Climate Action Tracker assessment that pledges made would result in a temperature rise of 2.4°C from pre-industrial levels by 2100, rather than the hoped for 1.5°C. If 2030 pledges are not delivered the rise could be higher. If all pledges were met it would still be 1.8°C. A last minute change of wording that coal, the dirtiest of fossil fuels, be 'phased down' rather than 'phased out' will disappoint most of the 197 parties and other delegations that attended COP 26. It represents a death sentence for many island nations, and unless there is more ambition going forward could be calamitous for current and future generations. However, COP decisions are by consensus and India which proposed the change and China which supported it together account for a third of the global population.

Progress was made in Glasgow in regard to net zero pledges, deforestation, methane, and the availability of private investment for climate related projects. Boards should reflect on what happened at COP 26 and consider steps that would help humankind transition to ways of sustainable survival. Many past emissions occurred at a time when people may not have been fully aware of the consequences of human activity, and 'natural cycle' causes of global warming were touted. Today there are no excuses for failing to reign in greenhouse gas emissions. The scientific evidence of impacts and experience of what is happening is overwhelming. Deaths and losses of property, livelihoods and species can be estimated.

The article on Combatting Climate Change in November's **Director Today** looked at opportunities for directors and boards to take the initiative, establish board leadership, engage stakeholders and supply chain partners, initiate critical conversations, review corporate purpose, priorities, arrangements, mechanisms and capabilities, break free from current attachments, and embark on transition and transformation journeys to more sustainable and responsible activities, operations and business, organizational and governance models. This month's article considers the implications of COP 26 and possible further actions.

Global Reactions to COP 26

Business and political leaders face varying challenges on grounds of 'fairness', 'ambition', 'credibility' and 'trust'. Many of those most affected by climate change are among the lowest per capita emitters of greenhouse gases. Communities being inundated still wait for funding to support adaptation promised 12 years ago. Some argue that developed countries have been high emitters for longer and that developing nations should delay reductions in order to catch up. Following COP 26, others may ask why they should make sacrifices when high 'emitters' still burn coal. Less developed and vulnerable regions of emerging economies may resent suffering the consequences of more advanced areas pursuing unsustainable growth.

Action to date has harvested some low hanging fruit in terms of what is possible and judged acceptable. As further steps are considered, Conferences of the Parties decision makers may face a backlash from those who are asked to make painful adjustments. Sections of the public and some stakeholders may oppose the payment of higher taxes and/or prices to benefit future generations. Some of the highest per capita costs of adjustment will be felt in developed countries, for example to replace gas-fired boilers. If national interests are perceived as having taken priority over a wider and global good during COP 26 decision making, those asked to give up what they have grown accustomed to may object and protest.

Past emissions of greenhouse gasses may be sunk costs, but their impacts will be felt for many years to come as global temperatures continue to rise. Whether and in what form human civilisation and the natural world survives will depend upon the scale and speed of current and future reductions. Curtailment should be front ended to avoid a slower reigning in of emissions requiring much greater cutbacks in the future. Transition costs to more sustainable operations and lifestyles could also escalate. If they are perceived as unaffordable, people might give up or fail to reach consensus on a way ahead. A loss of hope might result in a breakdown of law and order. Some people may seize what they can, why they can.

If changes of behaviour do not occur voluntarily, they may need to be forced. In some jurisdictions, company and/or other laws or regulations may be changed to require steps to reduce carbon and other environmental impacts and/or an explicit net zero target. Is a board monitoring the possible emergence of such requirements, whether nationally or internationally? Should it require corporate projects and investments and any collaborations to meet similar requirements? Is it taking advantage of what is allowable and could be undertaken voluntarily, for example market based approaches such as carbon trading?

Consequences of Further Delay

The cumulative impact of gradual change can be dramatic. An additional 0.5°C global temperature rise above 1.5°C could expose a further one billion people to climate related weather events. The assessed existential threat facing us suggests our focus should be upon the quickest route to reducing future emissions, for example by halting all but sustainable economic growth when externalities are taken into account, and grasping nettles such as ceasing the use of coal for power generation. Instead, some current emitters seem more interested in apportioning blame for past emissions that cannot be undone. Rather than take a hit now for future benefit by quickly cutting their emissions, they call for others to work harder at securing reductions that would be much more difficult to achieve.

The strategic analysis and monitoring of climate related risks should be a priority of many boards. With loss and damages now on the COP agenda, continuing high emitters face possible liability claims for incremental impacts. While siren voices may argue that a more gradual transition would be more responsible and humane, collectively humankind is currently playing a high stakes game of risks. At any moment, the upward trajectory of global warming could trigger a tipping point such as melting tundra releasing methane that would cause escalating and uncontrollable future increases. Continuing emissions beyond when others achieve net zero could put the earth on course to become a dead planet like Venus.

Some boards need to step up if net-zero and COP 26 pledges are to be achieved. Corporate action is required to turn aspiration into achievement. The time to act is while there is still time for corrective action and for people to see and/or experience the benefits of adjustments. Without ambitious mitigation action now, future adaptation costs may prove unaffordable for some countries. Leadership is required to persuade people to make current sacrifices for the benefit future generations. It is also in the interests of all parties to support the efforts of countries facing particular challenges in reducing their dependency upon fossil fuels, and particularly coal. The era of talking about global warming without mentioning them is over.

Transition to Sustainable Lifestyles

Required transitions to less resource intensive ways of living in harmony with the natural world may be easier in developing countries where people are asked to forgo environmentally damaging growth which they have not yet experienced, especially if there is also tangible progress towards lifestyles that while sustainable are also fulfilling. Responsible directors could become advocates, ambassadors and educators, putting the case for simpler and less scarce natural capital depleting lifestyles. Boards could champion and instigate pathways to survival. Never in human history has there been a greater need for imaginative entrepreneurship, responsible enterprise and the creation of sustainable societies.

Many countries, cities and companies have capabilities, infrastructure and other resources that will need to be re-purposed and re-deployed, or recovered and recycled. Doing this, increasing their resilience, and continuing adaptation as global warming continues, will provide an unprecedented succession of new business opportunities. Addressing them will require ambition, courage and drive and the efficient and effective use of skills and resources.

In addition to reducing emission levels, developed countries and others also have a responsibility to remove their share of the excess existing stock of CO_2 in the atmosphere to which their past emissions have contributed, especially those since its consequences have been generally understood. Boards of recent and current high emitters who have knowingly allowed, or even encouraged, damaging activities to continue while aware of their negative impacts, are particularly culpable. Some may look away. Others may make amends.

One hopes that most boards will already be taking steps to understand the implications of global warming and climate change, foresee possible consequences and reduce their exposure to resulting risks. While there are tipping points that might be triggered at any moment, boards may need to consider best and worst case scenarios in areas where the most likely outcomes are difficult to determine. Going forward, every effort should be made to increase and retain flexibility. Boards should avoid being locked in to long-term arrangements.

Corporate Climate Action Plans

COP 26 discussions were informed by data and evidence. Directors should ensure a company and its supply chain partners have net-zero plans. Government departments, regulators and listing authorities may increasingly require them. Are carbon emissions and/or environmental impacts measured? Does a company consider and assess the carbon footprint of the use of its products and services by customers? Are active steps taken to reduce the negative impact of the company's offerings, maintain an impact advantage over competitor products and services, and develop alternatives that have a lower carbon footprint?

Some boards may have already instigated measurement and reduction of a company's carbon impact, while others might be waiting for guidance from the Government, a trade association or relevant agencies, regulators and professional bodies. Key questions are whether a board has agreed and communicated a target date or dates for a company and its supply chain to achieve net-zero and/or a zero-carbon situation, whether there is a plan or programme to reduce a carbon footprint and other negative externalities or consequences of corporate activities, and if a company is helping its business and supply chain partners and others to adapt to increasing temperatures and undertake transition journeys.

Boards may face accounting and engineering arguments in favour of utilising the remaining lives of assets whose costs are largely written off and while negative current and future externalities are not accounted for. Sweating assets associated with fossil fuels can lead to sweltering temperatures and polluted air. Who within a board has the capability and capacity to be the champion and/or vision holder of an ambitious climate action plan? Do a company's people and partners have the skills and motivation to implement it? What additional capabilities are required? Are such plans and programmes funded, credible and feasible? What importance is being put on their success in comparison with other corporate priorities?

Directors could probe the make-up of climate action plans, assessing their elements, for example slowing carbon equivalent emissions and carbon capture and removal activities, or mitigation and adaptation aspects. Disaggregating a plan might enable intentions to be distinguished from actions. It may allow risks and/or dependencies upon future innovation rather than existing technology to be identified. Is the progress of reduction and adaptation plans actively monitored by the board and/or a particular committee or working party?

Undertaking Transition Journeys

Many companies, like countries and communities, need to undertake transition journeys to more sustainable activities. The more actions that are front-ended, the easier they will be. During journeys, steps should be taken to increase the resilience of global supply chains. This may involve re-shoring activities, developing local suppliers and greater use of 3D printing. Contingencies, recovery arrangements, and back-up and alternative strategies may need to be more regularly reviewed. How might Government enable and/or support required transitions?

As more people experience climate change or become alert to it, boards that have hitherto had to balance contending interests may encounter a greater shared corporate, individual, community and societal desire for collective action to address it. Where customers face significant costs in decarbonising, some companies could consider ways of supporting their transition, including helping them to secure access to funding the contribution its own offerings could make to required changes.

Steps may also need to be taken to ensure that both a company's own infrastructure and the external infrastructure on which it depends are resilient and remain so. This may require collaboration with local and national public bodies, city authorities and other organisations. Achieving cooperation will benefit from a holistic perspective. A chain is only as strong as its weakest link, which could be a supply chain partner or infrastructure provider.

Stakeholder facing executives and staff should be asked to identify those who might be more willing than others to support a change of direction, and/or are more concerned with mitigation and adaptation. Public, private, professional and voluntary organisations will need to collaborate to decouple economic growth from adverse environmental impacts and support the transition of cities and other communities and business, operating and organisational models to more inclusive and sustainable ones.

Climate Responsible Investments and Communications

Investor and other climate related activism may increase. At COP 26, 450 institutions representing over $130 trillion of financial assets pledged to align their investment portfolios with net zero goals. Loss and damage claims may emerge, with or without Government and public support. Case decisions may reflect whether consequences were known and views on whether or not more recent emissions that trigger tipping points should incur higher liability.

Increasingly, both ESG and risk-averse investors and companies and public bodies awarding contracts, may shun businesses whose climate change targets and actions fall short of expectations and what is required to slow and subsequently reversing global warming. Are carbon impact statements required when proposals come to a board for decision? Responsible boards should also request assessments of the impacts of other negative externalities.

Climate change feels less threatening to some people than global warming. End of century consequences may seem a long way away. Board and corporate communications could stress the unpleasant and increasingly costly results of global warming, the unsustainability of current growth models, the importance of ESG investment criteria or the achievement of UN SDGs, depending upon their purpose and targets. Directors should ensure that progress on climate change action does not prevent advances in related areas and is assisted by them.

Within some boards, as in many families, there may be inter-generational and other differences of opinion and perspective. More companies may find that like Exxon they have climate activists voted onto the board. While climate change action can benefit almost all people, communications aimed at particular publics could help to build relations with them by stressing how they might be adversely affected by further global warming. For example, women and girls are thought to make up 80% of those displaced by climate change.

Being Prepared for Whatever Transpires

Boards should be awake, alert, open, flexible, resilient and vigilant. They should be ready for whatever consequences follow from COP 26. Some countries and their Governments may disappoint, while others may exceed expectations. The smoothest talkers may not be the most effective deliverers. At any time, and in addition to further extreme weather events, a tipping point might be reached that triggers crisis occurrences and outcomes.

Directors should be prepared for a variety of possible eventualities. They should also be sensitive to the changing moods of stakeholders and aware of shifting aspirations, requirements and priorities as further consequences of climate change become apparent, and/or some people react against and oppose ever more strict measures to deal with them. Recent experience suggests some events triggered by a continuing upward trend in emissions and temperatures will be devastating for those most directly affected and upsetting for others.

As emotions run high, cool heads will be required. On occasion, directors should be prepared for protest and even direct action by those who feel that a company's board is not doing enough or moving sufficiently quickly. Unlike in the past, science relating to human activities as causes of global warming and their consequences is now largely uncontested. Hence, current high emitters should be ready to face increasingly strident criticism and more determined boycotts if they persist in activities that contribute to climate change.

Remaining Aligned with External Developments

What transpired at Glasgow represents a stage in a process of increasing awareness of the existential threat facing humankind and further steps towards the concerted, collective and aligned action needed to preserve some hope of survival. Boards should monitor post COP 26 events and developments, assess their possible impacts on a company, its supply chain partners and its other stakeholders, and consider how to help them to cope and respond.

Future Conferences of the Parties will review the post COP 26 implementation of pledges made, agreed outcomes, and progress in relation to climate related goals, climatic events and evolving scientific understanding and data. Boards should also be ready to review and, if need be, re-purpose, re-engage and re-invent in the light of whatever transpires. They should be prepared to be more ambitious and to speed up transition or transformation if required.

As more is learned, and if progress in some areas falls behind that in others, changes of direction and/or a shift of emphasis may be required. Directors should ensure key stakeholders remain engaged and that relationships with them are built upon trust and shared understanding, and are also mutually beneficial. New capabilities and collaborations may need to be rapidly assembled to confront challenges and seize opportunities as they arise.

Providing Balance, Motivation and Positive Leadership

Boards should provide purpose and direction. Responsible directors should remain positive and resolute in the face of set-backs and fresh threats. They should try to instil confidence and hope as others catch up or ramp up their ambitions and actions. They should not become preoccupied with climate change challenges to the extent of overlooking related mitigation and adaptation opportunities and more inclusive and sustainable lifestyle options. Existing understanding and technologies might enable and support many possibilities.

For a company that is solvent, there may also be the prospect of a breakthrough. Given the scale and speed of transition required, more than incremental change is needed. Boards must inspire ambition, release latent talent, unleash creativity, encourage initiative, enable responsible innovation and support sustainable entrepreneurship. Obstacles that hinder the scaling back and discontinuation of environmentally damaging activities should be tackled.

Life should be about more than spending most of every day worrying about climate change. There are many opportunities for lifestyle and social innovation, and the development of new models of rural and urban living and community relationships. Projects in these areas and to restore ecosystems and work with nature to capture carbon and protect vulnerable coastlines could inspire young people and give them opportunities to build their own futures.

Particular attention should be given to younger generations upon whom the future of humankind as well as companies depend. Many young people are motivated by aims and activities that are inclusive, socially and environmentally responsible and sustainable. They may actively look for further opportunities to contribute to shared community and societal objectives and sustainable development goals. Boards could actively seek to provide them.

Funding Transition and Climate Related Projects

The over $130 Trillion of funding pledged by financial institutions for climate related investments creates opportunities for coalitions of companies and other organisations with complementary capabilities to propose projects. Mechanisms are required to channel finance to those seeking to run-down, re-purpose or responsibly dispose of damaging activities and related plants and infrastructure, creating opportunities for intermediaries and many professionals. Boards must ensure companies have the executive capability to negotiate and manage collective initiatives. Are possible coalitions and collaborations being explored?

If finance is to be effectively channelled and used, it must be accompanied by imaginative action and competent management on the ground. Bold initiatives are required. Steps may have to be taken to secure green or net-zero sources of supply before higher demand pushes up prices. At national and community levels, unemployed and displaced people could be engaged in time intensive activities such as planting mangrove barriers along threatened coastlines. Potential lifelines are being missed because the will, expertise and skills needed to pursue them are trapped in activities that should be stopped or devoted to them.

Corporate governance arrangements should ensure relevant stakeholders are engaged and involved as and when required in re-purposing, changes of direction and at critical stages in transition journeys. They should enable more people to become involved in tackling practical problems, creating new possibilities, devising more sustainable options and developing alternative and better models of operation. Boards must open doors to opportunity.

Contending Views on Priorities and Timescales

Differences of opinion between COP 26 delegations in areas such as transparency highlight an enduring reluctance of some parties to commit and/or a latent preference for fudge. Some leaders may be willing to accept greater levels of eco-system destruction, displacement by climate change, or suffering from its consequences before they commit to more ambitious action. They might hope there is still time for gradual and phased adjustment. Those who stress realities such as the unsustainability of many growth strategies argue such caution displays a clear and conscious disregard for the interests of future generations.

COP 26 exposed the countries, sectors and lobbies seeking to slow progress in containing rising temperatures. Their critics displayed images of children and grandchildren and alleged the interests of particular national regions were being put ahead of those of island nations facing inundation and the rest of humanity. As wildfires, floods, droughts and crop failures increasingly occur in multiple locations people will increasingly know what and who are to blame. Evidence suggests 'losers' are likely to greatly outnumber any 'winners'. Laggards may yet face boycotts, sanctions, legal or regulatory challenge, public disgrace or retribution.

Many boards and companies urgently need access to the scientific advice and technical expertise required to distinguish between expensive distractions and time consuming dead ends and practical and affordable action in their particular situations and circumstances. Directors are expected to then think for themselves and exercise independent judgement. Scepticism may be required in relation to proposed technological solutions that might require significant amounts of increasingly scarce natural capital to implement.

Realisation and Learning from the Past

Recent events and future trajectories may cause some directors to review their careers, lives and contributions. Activities for which they have been responsible may have polluted water courses and oceans, degraded the environment, destroyed eco-systems and eliminated species. Current business operations and the lifestyles they enable may reduce bio-diversity, over-exploit natural capital and contribute to global warming and climate change.

Whether inadvertently, or as a result of conscious board decisions, a legacy of negative externalities suggests some directors have not always acted in the best long-term interests of companies and their stakeholders. The consequences may be manifest in stranded assets and infrastructure as temperatures and sea levels continue to rise, island nations and coastal and low lying areas are inundated and more regions are abandoned due to more frequent extreme weather events or shortages of water and food leading to mass migrations of people.

Paradoxically it may be the most committed of people who in doing what they can to benefit their companies, families and local communities unwittingly cause the greatest harm. When working hard and grappling with immediate issues, wider considerations and longer-term consequences might not always be taken into account. Our human susceptibility to peer pressure and groupthink can also narrow focus. It may take a strong and inwardly directed personality to step back, see a bigger picture and change direction.

Redemption and Creating a Sustainable Future

As extreme weather events multiply, more boards may face challenge just when they are most needed. Certain boards and corporate executive teams may have to work harder than others to restore trust and secure recognition as part of a solution rather than as the source of a problem. Many people too easily blame companies and capitalism for the consequences of their own aspirations, behaviours and lifestyles. Their collective demands and appetite for consumption and more material wealth exceeds what our planet can provide and support.

Some boards and the companies for which they are responsible are already embarked on transition journeys. Directors with colleagues who are reluctant to move more quickly could point out the leadership positions being taken up by enterprises that are more committed to sustainable operation and whose boards view increasing global awareness of the need for action as a historically unique arena of opportunity. Early movers could be at the head of the queue for transition finance. They may be able to ramp up provision of their greener offerings and mitigation or adaptation solutions to levels of economies of scale that give them an advantage over later entrants. They might benefit from picking the best sub-contractors and sources of supply. Subsequent movers are more likely to be penalised as customers seek to squeeze emissions out of their supply chains in order to achieve their own net-zero targets.

Prior to COP 21 the world was heading for a catastrophic 4°C warming since pre-industrial levels and following the Paris agreement a 3°C increase. Post COP 26 the 1.5°C target is still alive, although as Alok Sharma the COP president put it “the pulse is weak”. In our collective battle to survive directors can make a vital contribution. Given India's population and the proportion of it at risk, IOD members could have a global impact and tip the balance in our favour. They can play a lead role in the creation, enabling and support of sustainable, healthier and more fulfilling lifestyles and models of operation and growth that can be accommodated by the earth's finite resources and are in harmony with the natural world. ■

****Prof. Colin Coulson-Thomas** holds a portfolio of leadership roles and is IOD India's Director-General, UK and Europe. He has advised directors and boards in over 40 countries.*