Can For-Purpose and Not-for-Profits Influence the **Corporate Governance** of **Climate Risks?**

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Introduction

Climate change in Australia has become a political risk (for political parties) and a physical, transitional and regulatory risk for businesses. There is growing pressure on organisations to report on their carbon emissions and to be accountable for their impact. Carbon and climate risk disclosure is an important channel through which firms can demonstrate their oversight and accountability to stakeholders, and disclosure enables the business to operate in their markets in an efficient way. This has been at the core of the Task Force on Climate-related Financial Disclosure (TCFD) objectives. Despite this corporate action, which is largely voluntary, there is variable and inconsistent impacts on action on tacking climate change by many corporations.

NFP/FP organisations have a role to play in influencing the national discourse and action of mitigating climate related risks, and specifically their work to enable recognition of climate leadership governance and those to activate peer-to-peer influence. For over ten years, the primary goal of Climate Alliance Limited, a NFP/FP apolitical think tank in Melbourne, Australia, has been to help company directors, business executives and government representatives inform themselves about the risks and opportunities presented by climate change. It has been the enduring mantra of the organisation that this risk should be treated in the same manner as any other significant business risk.

This article highlights the role that one NFP/FP organisation, Climate Alliance Limited, has played over the past decade in informing the corporate regulatory debate in addressing climate related risks in Australia, through sharing best practises and recognising leaders. It gives a flavour of how of how this FP organisation has played a role in engaging with the business community in the absence of clear or strong government policy related to climate change risk (Figure 1).

Figure 1. Summary of the influences of not-for-profit/for purpose organisations on corporate climate governance

- Share best practices that link climate governance to business impact, organisational metrics and performance
- Reward and recognition of excellence in climate governance leadership
- Leadership by example including the executive but starting at the board
- Advocacy on the need for climate leadership governance
- Demonstrating what is possible through peer sharing and learning

Recognising Climate Governance Leadership

The awards program celebrate the achievements of Australian Boards, Directors, Executives and Risk Managers through the categories of Board Leadership of the Year, Business Leader of the Year, Risk Manager of the Year and Small Company (or Exporter/Innovator) Leadership of the Year. Up to five awards every year since 2009 have been granted to companies, institutions and individual executives and governance professionals who have demonstrated action over and above their role expectations to manage risks and or to seize opportunities posed from climate risks.

Business Leadership. In this category, the 2019 winner was Andrew MacKenzie, immediate past CEO of BHP. In July 2019, Mr MacKenzie gave a speech at the Financial Times Conference in London, UK. As CEO, Mr Mackenzie announced a commitment to work with the shippers, processors and users of its products to reduce Scope 3 carbon emissions (these are the emissions generated by BHP's clients processing BHP feedstock). To measure stewardship of BHP's products, he committed the company to set public goals to address Scope 3 emissions in 2020. By undertaking to tackle Scope 3 emissions, BHP has led by example, not just on the Australian Stock Exchange (ASX), but among listed entities globally. It is expected that this initiative will also have a material impact on assisting its customers reduce their emissions. Mr Mackenzie also committed the organisation to setting targets which link climate risk management to remuneration, the application of scenario analysis and disclosure, as well as setting up a fund of US $400 million for investment to reduce emissions across its value chain.

Risk Manager Leadership. In 2019 there were joint Risk Manager Winners. The winners were Taryn Lane, General Manager, Hepburn Wind, and Salman Ikram ul Haq, Head of Risk, Medibank Private. Hepburn Wind Cooperative owns and operates a wind farm near Daylesford, Victoria. The Hepburn Wind Cooperative has over 2,000 members who raised most of the capital to build the 4.1 MW wind farm in 2011. Hepburn Wind's journey since commissioning in 2011 has been a turbulent one with numerous risks posed to the business. Hepburn Wind is a community-owned renewable energy cooperative, overcoming emerging risks and diversifying its generation portfolio to continue to meet its member's expectations.

The second winner of this category was Salman Ikram ul Haq who is the Head of Risk at Medibank Private. He has led the integration of climate risk management into Medibank's business. Medibank has taken a proactive approach to manage climate risk. Mr Ikram ul Haq has undertaken market scanning to benchmark Medibank's risk profile against other financial services institutions in the context of climate change risk. He has embedded climate risk governance into its enterprise risk management framework to continually assess its impact on the delivery of the company's services.

Considerations for Directors and Governance Professionals

Evidence for the need for climate risk preparedness is now well established and non-executive directors should be well-versed in climate risks. As described in Table 1, climate risk and opportunity can impact upon the governance of organisations in many ways. For example, the board sets the tone at the top, which in turn enables or disables an organisation from meaningfully engaging with the risks and opportunities associated with climate change. Others include the requirement for board decision making to consider climate risks and opportunities. Directors duties, legal requirements, strategy and finance are also all required to factor in the upside and downside risk from climate change on their organisations.

Insights from climate risk experts and governance leaders engaged with through the Climate Alliance Limited experience, indicate that there are definitive questions that non-executive directors should be put to the executive teams and business leaders as they approach climate risks and opportunities in their organisations:

“Directors duties, legal requirements, strategy and finance are also all required to factor in the upside and downside risk from climate change on their organisations”

Table 1. Climate Change Considerations for Directors, Boards and Directorships

AREA OF GOVERNANCE	DESCRIPTION OF CONSIDERATIONS
Finance	The TCFD set out how financial business models can be assessed and disclosed. The finance sector is driving the corporate and regulatory reform in the disclosure of climate related risk.
Board role and being a director	Boards set the “tone at the top” and provide the enabling environment for climate risk discussions. The approach to climate risk and opportunities will be impacted by the values of the board. Depending on extent of risk exposure, climate risk and opportunity must be part of decision making at the board level.
Decision making	Timeliness of decisions should reflect the degree of climate risks as climate risks are already crystallising in most sectors. Effective decision making at the board level should include impacts of climate risks where this is material.
Directors duties	Diligence and fidelity are cornerstones of director's duties (see the Australia's Corporations Act, 2001) and apply to climate risks. Climate change can impact the long term value of an organisation and must be recognised as such.
Legal environment	There are a range of laws that directly and indirectly impact on climate risks. Contracts will be impacted to varying extent by climate-related risk and can impact long term viability. Individual directors need to be able to demonstrate that they are showing due diligence in relation to climate risks.
Risks	Climate risks are foreseeable. The fact that the impacts are “foreseeable” is now settled within the legal profession. Risk appetite, risk policies and frameworks should reflect climate risks. An assessment should be made as to how climate risk is likely to impact value (of the company).
Strategy	Leadership must acknowledge climate risk. Climate risks should be considered in the strategic planning process.

Insights from climate risk experts and governance leaders engaged with through the Climate Alliance Limited experience, indicate that there are definitive questions that non-executive directors should be put to the executive teams and business leaders as they approach climate risks and opportunities in their organisations:

- What are our climate-related risks and opportunities?
- Do we know how our organisation could be impacted under various future legal (regulatory), market and other scenarios?
- How are we protecting our balance sheet from our assets becoming stranded?
- Do we as an organisation know our pathway to zero emissions? Have we stress tested plausible pathways?
- What contingency strategies do we have to protect our revenues in the event our supply chain is impacted negatively by climate risks?
- What do the two and 10 year outlooks say about how climate risks will impact our business model and operating model?

- Does the business' strategy consider these projected outlook(s) or scenarios? Are we overestimating what the business can achieve a transition in the next 2 years and underestimating our ability to adapt our business model in the next 10 years?

Conclusion

While climate change in Australia has become a tangible and significant risk for business over the course of the past decade, NFPs/FPs have been supporting the business sector as well as government, to provide and advocate for objective information on the risk *and* opportunities. By focusing on the business and organisation impacts – both upside and downside risks – we argue that NFPs/FPs have played and continue to play a support role in the absence of strong and clear climate change policy. Directors and governance professionals should seek to understand what questions they need to be asking of executives in their businesses and encourage executive engagement in understanding and mitigating climate risks and opportunities.

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