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Whitepaper

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From COVID-19 to Climate, Global Risks Pressure Test the Boardroom

The pandemic has shown us the dangers in not anticipating risks – and there are equally severe risks right around the corner. It's up to company boards to start preparing for the many risks associated with climate change. From knowing your blind spots to better recruitment – here are six places to start.

With risk, the writing is always on the wall. We read about risks and know the storm will eventually come, yet in most cases – when the storm hits – leaders are questioned about why they didn't take more efforts to plan for a response, build resiliency into their operating models, and proactively avoid risks by creating environments to diminish them.

The COVID-19 global pandemic is a prime example. It has shown us illness and death in real-time and has brought many parts of the world to an economic standstill. The recovery effort will continue to be a slow process, as many unknowns remain regarding the course of the virus.

As we pivot and adjust our operations in this post-pandemic normal, we must be aware that there are other risks, just as serious and as far-reaching, that sit right around the corner. Notably, The Global Risks Report released at Davos 2020 identified environmental risks as the five most likely global threats for the coming decade. Topping the list were extreme weather, climate action failure, and natural disasters.

We are already seeing signs of what is to come. News outlets continue to report record temperatures in the Arctic and Antarctica; the Earth's air conditioning system is overheating. Reports roll in from the Mauna Loa Observatory of our daily atmospheric CO2 levels reaching record highs, and climate scientists and youth leaders alike continue to demand for swift response on climate action.

If corporate leaders have learned one thing from COVID-19, it's that such signs must not be ignored and resiliency must be built into successful business models. Nobody is saying that this is easy, and the majority of organizations have a long way to go. **To support this process, we have outlined six key steps that corporate boards may take to prepare for climate risk.**

1) Start the conversation.

The time is now to **add climate risk to your board agenda**. True leadership is the act of stepping up before a crisis hits and putting plans in place to protect your business, your employees, and your position within the marketplace. Board debate, now more than ever, should be open and broad.

Below we've included a list of questions to start with:

- What are the emerging environmental risks and how do we measure them?
- Who is responsible for assessing the risks and mitigating against them?
- What additional support does the executive need from the board?
- Which board committee is responsible for sustainability?
- Who on the board has expertise and competence in sustainability?
- What information should we be seeing and how often?
- What are the potential red flags and how do we spot them?
- How does sustainability link to our purpose and our strategy (and vice versa)?
- How do our shareholders and other stakeholders assess us on sustainability?
- What are our legal responsibilities and obligations?

2) Know your blind spots.

Climate risk planning falls under the 'E' category of Environmental, Social, and Governance (ESG). Climate risk management should therefore form part of a broader ESG framework. The first stage is a **thorough ESG assessment** to establish a baseline for your business's existing practices, review areas requiring attention, and benchmark your efforts as they relate to your peers or competitors. It might be, for example, that your organization is performing well in the Governance component of ESG but less well on the Environmental and Social elements. By breaking it down as part of a thorough assessment and review process, your organization is able to identify these gaps or blind spots.

ESG factors are becoming an increasingly critical factor considered by financial institutions in their lending and investing decision-making. Not only is this the right thing to do, but by uncovering and addressing your ESG blind spots now, you are safeguarding your returns in the future.

3) IFTTT scenario plan.

To prepare for climate risk, utilize 'If This Then That' (IFTTT) scenario planning to **map out all potential paths forward – including the most dire possibilities**.

For example, as beverage companies rely on water as a raw material, analyzing water-sourcing scenarios is key to their resiliency. Industry groups have collaborated to build out technology platforms, like the Aqueduct Project, to assess geographical water risk in relation to the changing climate. As part of this analysis, company leaders must ask themselves – what happens if there is a period with zero access to water? All possible scenarios must be considered, ranging from changing product focus to innovating new ways of creating water.

The silver lining to the COVID-19 pandemic may be that it has helped companies to better scenario plan. As we have heard from several board directors: "never waste a good crisis." The rigor and methodology around scenario planning has improved and this discipline should now be applied to climate risk.

4) Build your environmental reporting protocol.

In conjunction with identifying your ESG blind spots, **develop an ESG reporting system that aligns with your market's ESG disclosure frameworks.** For the Environmental component, a variety of general and sector-specific disclosure frameworks have been developed by standard-makers around the world, including the Sustainability Accounting Standards Board (SASB), the Task Force on Climate-Related Financial Disclosures (TCFD), and the Global Reporting Initiative (GRI). In an attempt to measure how companies stack-up, there has also been an emergence of ratings organizations, including the Carbon Disclosure Project (CDP), the Dow Jones Sustainability Index (DJSI) and the Global Initiative for Sustainability Ratings (GISR).

Note that, for global companies, the reporting requirements differ between countries, and the EU currently has the most advanced and developed suite of ESG regulatory measures. Working with internal ESG experts, external advisory services, or a combination of both, build your organization's ESG reporting system in accordance with the applicable disclosure frameworks, and utilize the available ratings organizations to understand your company's competitive position in terms of ESG performance.

Transparency is key and disclosure requirements will only increase over time. Understand your reporting responsibilities and take control of your ESG narrative now, as the reputational risk of *not* doing so is too great. Furthermore, there is a clear correlation between strong ESG performance and resilience in times of crises.

5) Encourage target setting and track progress over time.

Linked to required public disclosures, your board should **drive your organization's internal reporting around ESG**. This is not easy and for the Environmental piece it is particularly difficult. Many climate-related risks are extremely difficult to quantify and are often outside of a company's direct control. Your company's mitigating actions will not necessarily map to the risks in the same way as for other key risks.

Nonetheless, it is critical to understand your management's methodology, to agree to targets, and to monitor your company's performance against the agreed-upon metrics. Instilling internal discipline around this now will allow your business to continue to thrive in the future, even with greater external scrutiny and increased disclosure requirements.

6) Strengthen your bench.

Hand-in-hand with knowing your blind spots, you must recognize any organizational gaps in the skills and experience available for each element of ESG. For example, it is important not to look at ESG in the round and think that because you have Governance experts, then you are okay. CEOs need support to bring in the expertise required, and it may be necessary to strengthen your bench at the board level as well.

Your Nominations Committee is responsible for recruiting expertise in the form of new board members and advisors. It is critical for your Committee to **bring on board members and advisors with experience and knowledge of environmental sustainability**, as these individuals will directly influence your climate risk approach.

By taking these steps now, you are allowing your board to lead from a position grounded in sound research and planning. This will not only mitigate impending climate risk; it will strengthen your standing within the competitive landscape.

Three Squares Inc. (TSI) is an award-winning environmental consulting firm that offers advisory services at the board level and complete strategy services at the organizational level to help companies achieve Environmental, Social, and Governance (ESG) success. As a global leader in sustainability strategy and the first firm in the U.S. to achieve ISO 20121 certification, we enjoy working with a robust roster of clients at the forefront of the climate action movement, including ESPN, Honda, the United Nations Foundation, Disney, Bloomberg Philanthropies, United Airlines, and more.
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Vicky Griffiths joined ISP in February 2020. Prior to this she spent five years at Leathwaite, where she built and led the Board Practice. Griffiths worked for five years at Brevan Howard Asset Management LLP in London, where she was responsible for operational and business risk. She started her career as a strategy consultant for Bain & Company and also spent some time working as a consultant for Vantis Plc. In a non-executive capacity, Griffiths sits on the boards of RM plc, the British Olympic Foundation, the MCC at Lord's Cricket Ground, Bellevue Place Education Trust, and Vincent's Club in Oxford. Griffiths graduated from the University of Oxford with an MA (Hons) in Economics & Management.
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