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PLAN Companies Climate Choices

Boardroom climate competence: Getting ahead of the curve

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Thank you

Our sincere thanks to the directors and business leaders who generously shared their time and insights, which form the basis of this paper.

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Climate change on the board agenda

The clamor for attention to climate change as a financial risk has become more urgent, and boards of all companies, irrespective of size or industry, need to take note. The urgency is driven by a confluence of factors, most visible of which are the accelerating physical impacts—manifested in increasingly frequent and severe floods, wildfires, rising sea levels, and droughts—as well as concern by many experts that the window for preventing more dire long-term consequences is rapidly closing. Investors are keenly interested in understanding whether boards have the knowledge and processes to oversee management's navigation of climate-associated financial risks and to provide informed, proactive guidance as stewards of long-term value.

Other stakeholders, including employees, customers, and communities, are voting with their wallets and their feet against companies they perceive as contributing to the problem. And spurred by increasing public demand, both U.S. and international regulatory bodies are working to drive change. The UN Climate Change Conference of the Parties (COP 26), to be convened in Glasgow from October 31 to November 12, 2021, is expected to feature robust climate commitments by governments around the world in response to outcry by their communities.

The COVID-19 pandemic has demonstrated that boards that are informed, communicative, and bold in their leadership can guide their companies to not only weather the storm but also grow stronger and more competitive. The tectonic shifts in the business landscape driven by climate will demand similar board skills. With current and longer-term climate realities in mind, boards can guide their companies to adapt, mitigate risk, and uncover new opportunities for value creation.

But with such a complex topic, where should boards start? This paper, coauthored by the KPMG Board Leadership Center (BLC) and Plan C Advisors, addresses six climate-related areas that are critical to board oversight. We present a framework for board oversight as well as insights from current board directors and business leaders in a range of industries. We hope that this paper is useful in framing your board's guidance and oversight—for the good of your companies and all stakeholders.

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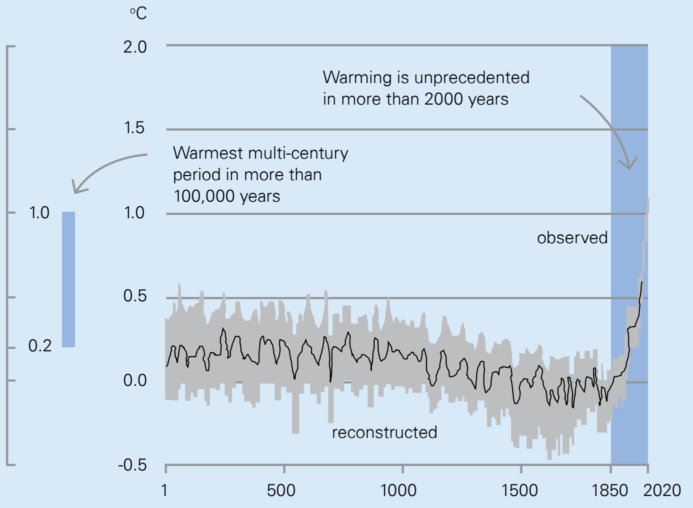
Level setting

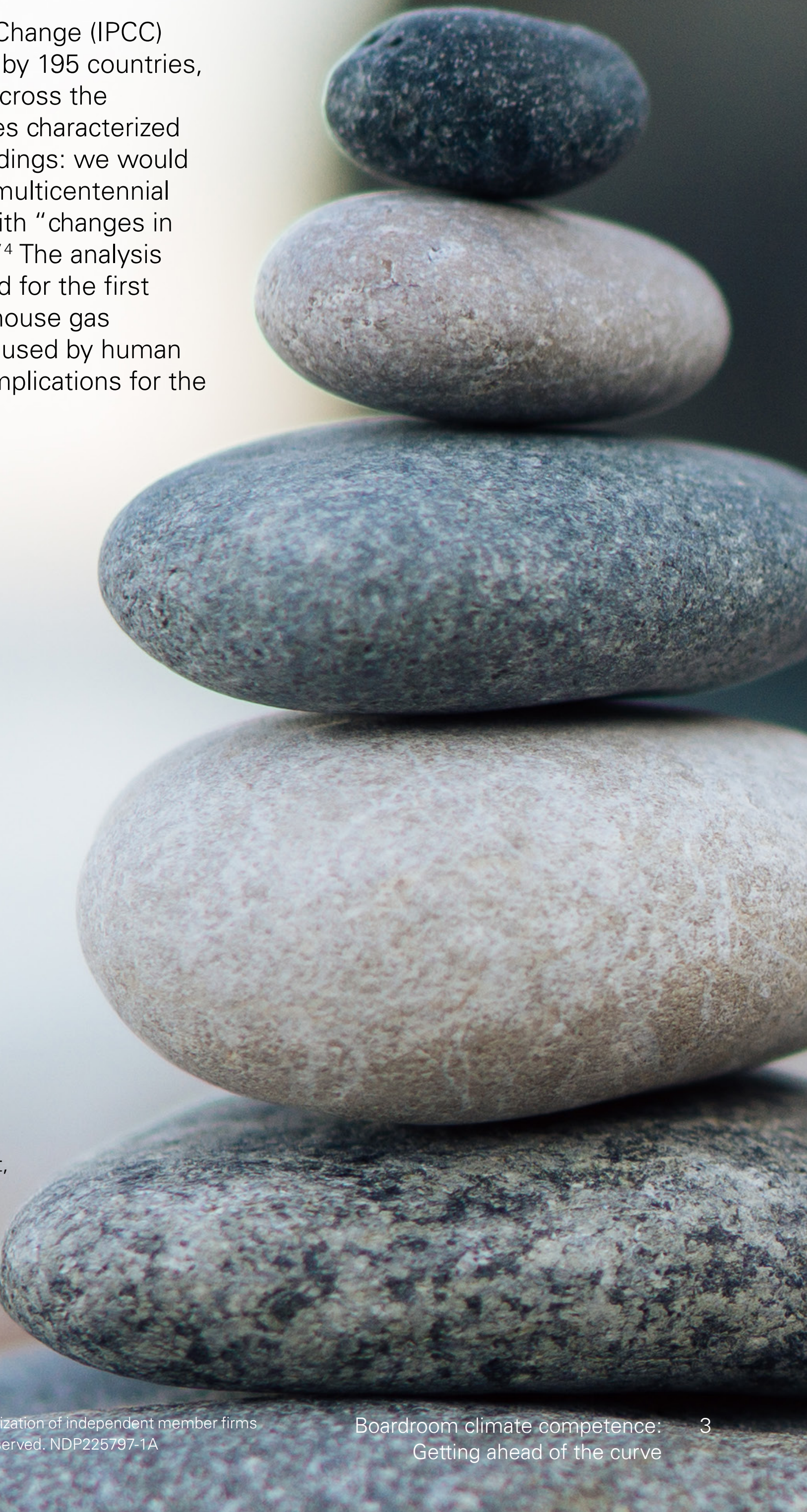
Focus the discussion.

On August 9, 2021, the Intergovernmental Panel on Climate Change (IPCC) issued a report based on input from 234 scientists, reviewed by 195 countries, and described as "authoritative" in articles and other media across the spectrum.[1] United Nations Secretary-General António Guterres characterized the report as a "code red for humanity."[2] Among the stark findings: we would need to look back about 125,000 years to find evidence for "multicentennial global surface temperatures that were warmer than now,"[3] with "changes in the atmosphere, ocean, cryosphere [i.e., ice], and biosphere."[4] The analysis is the sixth in a series beginning in 1990, and the group stated for the first time in this report: "Observed increases in well-mixed greenhouse gas (GHG) concentrations since around 1750 are unequivocally caused by human activities." The almost 4,000 pages of the report review the implications for the world currently and under various future scenarios.

Human influence has warmed the climate at a rate that is unprecedented in at least the last 2,000 years



Source: Gillett, N.P.; Malinina, E.; Kaufman, D.; Neukom, R. (2021): Summary for Policymakers of the Working Group I Contribution to the IPCC Sixth Assessment Report—data for Figure SPM.1 (v20210809). NERC EDS Centre for Environmental Data Analysis, August 9, 2021.



[1] Seth Borenstein, UN report: Global warming is likely to blow past Paris limit, Fox Business, August 9, 2021.

[2] United Nations, Secretary-General Calls Latest IPCC Climate Report 'Code Red for Humanity,' Stressing 'Irrefutable' Evidence of Human Influence, August 9, 2021.

[3] Intergovernmental Panel on Climate Change (IPCC), Climate Change 2021: The Physical Science Basis, FAQ# 2.1.

[4] Ibid, FAQ# 2.2

Net zero

The term "net zero" refers to balancing the amount of greenhouse gas (GHG) emitted with that removed from the atmosphere. Carbon dioxide is one of the primary GHGs targeted because it is a substantial factor in climate change. The IPCC report underscores the need to reach net zero carbon dioxide (CO_2) by 2050 to constrain temperature rises to a maximum of 1.5 °C above preindustrial levels, or risk catastrophic impacts on business and society.

Businesses can strive to reach net zero by identifying, mitigating, and monitoring three types of GHG emissions:

- **Scope 1**—Direct company-owned or -controlled emissions occurring at the source, including facilities and manufacturing operations
- **Scope 2**—Emissions associated with the production of energy consumed by a company, for instance electricity generation
- **Scope 3**—Indirect emissions associated with company activities from sources not owned or controlled by a company, including the supply chain

Stakeholders are increasingly demanding net zero plans from companies. The plans must be understood and endorsed by the board, have actionable interim targets, and be regularly tracked and reported on.

Even before this report, climate change has been a top priority for stakeholders ranging from investors to regulators to non governmental organizations and climate activists. Whether and how the company engages in the public debate will depend on the company, but how to address climate change as a business issue—touching on strategy, risk, long-term value, corporate purpose, and stakeholder expectations—is a discussion that belongs in every boardroom. These discussions would benefit from a level-setting session up front.

As discussed in the KPMG BLC paper, *ESG, strategy, and the long view*, environmental, social, and governance (ESG) terms "often mean different things to different people, even those who believe they are speaking a common language."[5] A discussion to align on the focus of the conversation and to tease out differences in interpretation among board members, and between the board and management, "can help short-circuit preconceptions, politics, and personal views while setting the discussion on the right course at the outset."[6]

> **COVID is a postcard from the future of what a climate-disrupted world could look like.**
>
> **—Celeste Connors**
> Independent Director
> Hawaiian Electric Industries

[5] KPMG BLC, ESG, strategy, and the long view: A framework for board oversight, 2017, p. 4.

[6] Ibid. As discussed in the next section, risk assessments with respect to climate issues often require a longer timeframe than traditional enterprise risk management (ERM) programs employ. "Materiality" in the context of climate change and other ESG-related topics take into account stakeholder interests and therefore may differ from a purely financial materiality standard. And to one person, aggressive climate action may mean capital investment to achieve net zero, while to someone else, it may suggest deeper involvement in the public policy arena. Without clarification up front on these and other topics, misunderstandings can easily arise.

Risk assessment

Take a comprehensive look at climate risks for your business.

Climate risk is the very definition of what experts in risk management refer to as a “gray rhino”—a threat we see and acknowledge but do nothing about until it is already charging toward us. In an April 2021 press release, the Sustainability Accounting Standards Board (SASB) noted that 68 out of 77 industries, representing 89 percent of the market capitalization of the S&P Global 1200, “are significantly affected in some way by climate risk.”[7] Yet according to a survey of Society for Corporate Governance members, less than one-quarter of respondents said their boards regularly review climate risks on an annual or quarterly basis, and one-fifth said that their boards never discuss it at all.[8] Taking into consideration potential risks to operations from increasingly frequent and destructive fires, droughts, and floods—as well as increasing challenges in attracting and retaining capital, talent, and customers over the long term—it is incumbent on the board to drive climate risk and associated scenario planning onto the oversight agenda.

For companies early in the journey, it is often easiest to begin concretely, with a boardroom review and discussion of physical risk to the company’s operations. As Celeste Connors, independent director for Hawaiian Electric Industries, puts it, “Climate is not a theoretical exercise in Hawaii. We are impacted from ridge to reef. Everything is affected and everyone understands.”[9] Short-term considerations include crisis planning for operational resilience in the event of disruption due to damage from extreme weather. Longer-term climate-related planning includes a strategic look at the company’s future supply chain vulnerabilities in the event of varying degrees of global warming. For example, the board of clothing company Eileen Fisher is focused on the potential impact of prolonged and extreme droughts on cotton crops worldwide, and, based on the company’s scenario planning, the board has guided management with respect to a series of initiatives to adapt and redefine parts of their business to address and mitigate this critical risk.

[7] Globe Newswire, SASB Publishes Updated Climate Risk Technical Bulletin, April 13, 2021. Due to a merger, SASB is now part of the Value Reporting Foundation.

[8] Richard Mahony and Diane Gargiulo, The State of Climate Risk Disclosure: A Survey of US Companies, Donnelley Financial Solutions, Society for Corporate Governance, Gargiulo + Partners, 2019.

[9] Hawaiian Electric Industries is the parent company to subsidiary operations in electric utility, banking, and sustainable infrastructure. The utility subsidiary has been working to evaluate physical risks to specific assets across its system and to prioritize resilience investments, while the banking subsidiary has enhanced its credit risk analysis and underwriting to incorporate potential sea level rise risk impacts on the collateral values for residential and other real-estate secured portfolios and utilizes climate risk factors for selecting data center sites.

Additional risks that should be included in board oversight are categorized by the Task Force on Climate-related Financial Disclosures (TCFD) as transition risks, defined as "risks associated with the transition to a lower-carbon economy, the most common of which relate to policy, tax, and legal actions, technology changes, market responses, and reputational considerations."[10] While sometimes difficult to estimate, these risks can result in significant financial impacts and should be identified and addressed as part of the company's strategic plan.

For some companies, the risk of regulatory change may be a major threat to a significant investment or business model, for example, if new restrictions are placed on use of certain fuels, materials, or emissions—or if carbon pricing is enacted and enforced.[11] And, whether or not it is driven by regulation, the investment in technology needed to transition the business to a decarbonized future may significantly impact the balance sheet, at least in the short to medium term.

Recognizing climate's impact on other risks—reputation, talent, customer loyalty, and consumer trends—is deeply important. As noted in a 2020 survey by KPMG IMPACT and Eversheds Sutherland, companies moving toward decarbonization are doing so for reasons including protecting the company's reputation (42%) and pressure from key customers or others in the supply chain (28%). Decarbonization is a significant issue for employees as well: 33% of survey respondents said that employees were expressing dissatisfaction with the company's climate change impact, 40% had employees leaving the company as a result of the company's climate impact, and 28% indicated that job candidates were asking about the company's climate impact in interviews.[12]

Talent-related transition risk is double-edged: while not tackling climate issues may put companies at a disadvantage in the war for talent, tackling them through new and innovative business initiatives may

Assessing management's climate-related risk processes

Consider the following questions:

- Who in the organization is responsible for the assessment?
- Does the assessment process include involvement by key business leaders as well as sustainability experts?
- How were stakeholder perspectives factored into the assessment?
- Which stakeholders were considered, and are any important stakeholders missing?
- Were the risks assessed based on scenarios consistent with global warming at 1.5 °C and higher, within the ranges estimated by the IPCC?
- Were the timelines considered in the assessment consistent with the company's business and capital investment time horizons?
- Can company leadership clearly articulate how the risk assessment and business strategy are integrated?

[10] Glossary, TCFD Final Recommendations Report, Appendix 5.

[11] According to the World Bank, "Carbon pricing is an instrument that captures the external costs of [GHG] emissions—the costs of emissions that the public pays for, such as damage to crops, healthcare costs from heat waves and droughts, and loss of property from flooding and sea level rise—and ties them to their sources through a price, usually in the form of a price on the [CO_2] emitted," World Bank Group Carbon Pricing Dashboard, https://carbonpricingdashboard.worldbank.org/what-carbon-pricing, last checked September 1, 2021

[12] Eversheds Sutherland and KPMG IMPACT, Climate change and corporate value: What companies really think, 2020, pp. 15 and 25.

also precipitate talent risk. Celso White, an independent director for nitrogen fertilizer company CF Industries, said, "Employees tend to want to be in the parts of the company working on newer, cleaner technologies, so there is a danger of neglecting the core." CF Industries is addressing this problem by creating separate labor pools and rotating personnel through business units as a development opportunity. As companies work to manage this issue, the board's role may include guiding management to a compensation philosophy that helps to manage expectations in light of different skill sets and compensation benchmarks for workers in traditional lines of business compared to newer roles requiring expertise in technology and innovation.

The board and management should also consider rising costs of capital and even potential loss of access to the capital markets altogether due to the company's stance on climate and climate-related targets. Financial institutions—including asset managers, commercial banks, and insurers—have come under increasing pressure from stakeholders with respect to the sustainability of their debt and equity portfolios, and major lenders are focusing on physical and transition risks embedded in their loan portfolios.

As part of a comprehensive look at climate-related risk, boards should:

- Encourage management to understand and incorporate stakeholder demands, transition risk, and climate-related physical risk into the company's ERM program or other applicable risk assessment.
- Determine whether the company's scenario planning is sufficiently robust to identify climate-related business impacts that have a longer timeframe than typical ERM assessments.
- Support a culture of readiness across the enterprise to promote early detection and management of climate impacts.

> **"Climate is a tectonic shift to economic structures. It is going to upend many economic models of how we run businesses, so we have to think differently."**
>
> **—Linda Riefler**
> Independent Director
> MSCI Inc., CSX Corp.

Opportunity assessment

Reevaluate your strategies in light of climate change to identify opportunities for growth and transformation

Boards can help management avoid the trap of approaching climate change as an issue separate from company strategy. Climate-related trends, both physical impacts and stakeholder expectations, should be examined as external forces that may enable or disrupt the company's business model. Indeed, for many companies, climate issues radically impact core products and services, in some cases even posing an existential challenge to the business itself. In this sense, climate trends are no different than forces such as the COVID-19 pandemic, disruptive technology, or other significant trends requiring strategic attention. Confronting the implications head-on in strategic discussions will not only help boards guide their companies to mitigate risk from climate change but also open new opportunities for value creation.

A common theme among the companies we spoke to is the importance of centering this discussion on the company's core mission and values. "A core tenet of the company has always been that a simple wardrobe is an enabler to a sustainable life," said Eileen Fisher, the clothing company's founder and CEO. "The board's keen understanding of the importance of this mission has buoyed the company's focus on supportive initiatives such as the circular economy and regenerative agriculture."[13]

Long-term scenario planning can help companies anticipate and embed resilience into company strategy. Considering investment decisions through the lens of potential climate scenarios—to reduce supply chain disruption, maintain brand value, or capitalize on demand for lower-carbon products or services—can position the company well. Framing the exercise in this way can also help minimize the politics and polarization that often arise when climate change is raised. Whether one "believes in climate change" is as irrelevant to the strategic exercise as individual beliefs about the causes and direction of consumer trends, commodities pricing, inflation, or any other external force impacting strategy. The key is for management to understand the implications of the various scenarios and to have in place monitoring, early warning signals, and resilience plans.

For Alaska Airlines, the board's understanding of climate change issues, coupled with the focus on company values, has proved foundational to current investment decisions as well as to the broad-ranging future-focused discussions that include climate change as a key external trend. "This leads the board not only to invest in initiatives to reduce emissions by means of operational efficiencies and investigation of alternative fuels but also to engage in strategic discussions about the 'future of transportation' as a critical component of board meetings," said Patricia Bedient, lead independent director for Alaska Airlines.

[13] The World Economic Forum defines a circular economy as an industrial system that is restorative or regenerative by intention or design. Regenerative agriculture focuses on soil health to reduce waste and reduce CO_2 emissions.

Climate considerations may require strategic trade-offs, which the board can help to guide. For instance, Ford Motor Company determined more than a decade ago that first investing to make existing combustion engines more efficient was "the low-hanging fruit that would make the greatest impact given buying patterns at the time," said Kimberly Casiano, an independent director for Ford. And rather than rush to market with a less-than-competitive electric vehicle, Casiano said the board was unanimous in the "gutsy" decision to take a short-term public relations and valuation hit while their R&D teams quietly worked to deliver cost-effective, all-electric versions of their most popular vehicles, the recently introduced Ford Mustang Mach-E and the F150 Lightning truck. Both are potential game changers in terms of accelerating adoption of electric vehicles in mainstream markets and enabling achievement of Ford's stated goal of deriving 40 percent of its 2030 sales from electric vehicles.

Here are some actions boards should consider to realign strategy with climate realities:

— Examine company values, mission, and key assets.

— Conduct a "climate foresight" exercise to explore how climate may impact your company in the short term, medium term, and long term (at least 5–10 years).

— Reevaluate products, services, and operations based on climate, highlighting core assets and points of differentiation.

— Consider the balance needed to maintain/enhance firm value today without compromising the ability to create value in the future.

> **"The board decided to invest in something consumers didn't know they needed but the company believed was the right thing. This philosophy springs from the founding principles of Ford Motor. Henry Ford famously said, 'If I had asked people what they wanted, they would have said faster horses.'"**
>
> **—Kimberly Casiano**
> Independent Director
> Ford Motor Company

Integration

Encourage engagement across the entire enterprise

To misquote a famous statement about strategy, "Culture eats sustainability for breakfast." Like any enterprise-wide goal, a broad-ranging climate-related goal is unlikely to succeed without organizational alignment on the goals, processes, and incentives that will enable success. And, indeed, stakeholder demand for companies to set science-based targets on GHG emissions—including a path to net zero or better—continues to grow.[14] Yet goals established by a siloed sustainability group will be extremely difficult to achieve. To assess the practicality of expressed goals and set the stage for success, the board must help the company establish a clear path forward across the enterprise.

In the 2020 survey from KPMG IMPACT and Eversheds Sutherland,[15] almost half of the over 500 global corporate leaders responding cited lack of the right skills within the organization as the most challenging barrier to decarbonization; indeed this issue was ranked third overall, after cost and technology. Considerations for the board include oversight of management's talent planning for relevant skills, including competition for new talent and also plans for educating the broader organization on how to embed climate considerations into business decisions broadly.

Boards should also consider whether the company structure and processes are optimized to enable integration. Before setting its net zero goal, Alaska Air's board created a Climate Working Group to provide guidance and oversight as management developed its implementation plans. The company established two management groups to encourage collaboration and alignment within the organization. The ESG Executive Steering Committee includes a cross-functional group of leaders at the vice president level (heads of IT, supply chain, human resources, etc.), and the Climate Steering Committee includes functional leaders responsible for managing execution across the organization. As Diana Birkett Rakow, Alaska Air's vice president of public affairs and sustainability said, "Implementing ESG is a kind of culture change for a company, moving from operating in silos to operating cross-functionally." The multiple-tier structure "engages different layers of leaders at the right level of content to drive direction, generate buy-in, and ensure execution."

With climate-related integration, like other aspects of corporate culture, understanding the "mood in the middle" and the "buzz at the bottom" is a challenge for the board. A small change to an employee survey question made a big difference for one company. When employees were asked whether they understood the company's sustainability goals, more than 90 percent said yes. But when they were asked if they understood their *own* role in advancing those goals, the positive response rate dropped almost in half. This led to an organization-wide effort to drive climate-focused employee engagement through a social media platform for crowd-sourcing employee ideas and several other cross-company initiatives. As a result, said Jim Massey, former global vice president of sustainability at AstraZeneca, "The outreach helped our employees understand how they were helping the company make an impact and advance to reach its goals."

[14] While an integrated approach to climate is more than just the E in ESG, it is of course not the only E. Pollution, water usage, and other environmental issues remain part of a comprehensive ESG assessment.

[15] Eversheds Sutherland and KPMG IMPACT, Climate change and corporate value: What companies really think, 2020, p. 28.

Given the sweeping scope of climate change, boards should assess how the company is engaging with others to drive synergies. The announced collaboration among automobile manufacturers and the federal government on a national network of charging stations to support widespread use of electric vehicles is a highly visible example, and there are numerous smaller examples as well. Both Hawaiian Electric Industries and Alaska Air collaborate to advance local progress on the United Nation's Sustainable Development Goals and Hawaii's own goals through Hawaii Green Growth's Sustainable Business Forum. At nitrogen fertilizer company CF Industries, independent director Celso White said that the company is working with farmers across the country to educate them on farming techniques that will lessen the emissions associated with the use of fertilizer.[16]

Boards can encourage the integration of climate action throughout their enterprises in some of these ways:

— View climate holistically, as more than the E in ESG.

— Guide management to develop an enterprise stance on climate action based on science, company capability, and the interests of external and internal stakeholders.

— Encourage climate education, consistent language, and collaboration on goal setting and implementation across the organization.

— Consider the appropriate metrics and incentives, in connection with executive compensation and compensation philosophy for the organization as a whole.

— Consider management's external outreach efforts, including consumers, business consortiums, and public/private partnerships to work collectively on greener paths forward.

> **“To get the whole organization to buy in, we included carbon reduction in the short-term incentive plan that covers the entire company.”**
>
> **—Patricia Bedient**
> Lead Independent Director
> Alaska Airlines

[16] Fertilizer is a leading source of the GHG nitrous oxide. Given the beneficial use of fertilizer in farming, the company is also working to lower its carbon footprint by means including investment in technology to convert the ammonia used in the production process to “green ammonia,” a product that supports the ability to efficiently transport hydrogen for use as an alternative fuel.

Board governance

Ensure that climate-related oversight is built into board composition, structure, and processes

Oversight of climate risk and opportunity starts with a climate-competent board. Not every board member needs to have deep climate expertise (although in some industries this may be necessary), but the board as a body needs to understand the issues, stakeholder interests, and implications of potential scenarios well enough to make informed assessments of management's processes and talent, recognize blind spots, and make decisions about investments and trade-offs.

Given the work that the board needs to do, a committee dedicated to climate issues can help bring focus to the initial assessment and serve as a catalyst for action and ongoing oversight and guidance. As Casiano, a 16-year member of Ford Motor Company's Sustainability and Innovation Committee, said, "Sometimes a board needs to take visible steps to demonstrate a commitment to the environment even before there is a total buy-in at all levels within the company and even before there is a clear plan of action." Casiano also considers it part of the committee's mission to educate the committee members and the full board on the issues, including the landscape of stakeholder expectations and demands.

When there is not a separate committee, responsibility is frequently delegated to the nominating and governance committee, given the committee's role in investor engagement, coordination among committees (e.g., audit committee for oversight of climate-related risk assessment and disclosure, compensation committee for climate-related incentive goals), and developing expectations for board education.

Boards that do not identify a specific committee may govern companies where climate awareness is already deeply embedded into the company's operations and naturally arises as part of every business consideration. The clothing company Eileen Fisher is one example, for which independent director Lisa Bougie said, "The company started with this DNA in place, and the question for the board is how do we make the impact bigger?" For companies not in this category, there is a risk of insufficient attention to the issues, especially those that are longer term. The structure for oversight will vary by company, but it is increasingly important to develop a structure that supports educated board members assessing business decisions through a climate-related lens.

Climate-related goals are typically very long term, and the board will want to develop a cadence of receiving information to oversee progress along the way. As a leading practice, a dashboard can be developed with measures agreed upon by the board and management that are reported to the board (or committee) quarterly. Consideration should be given to accountability: Will the board include climate-related targets in the CEO's compensation metrics? How deep into the organization does the board expect compensation-related climate metrics to reach? What controls are in place to prevent against greenwashing (i.e., public statements that are not consistent with the company's actual conduct)?

As board members work to set the tone, focus on what's important, and help the company find the right balance between long-term and short-term goals, consider the following:

- Ensure that the board itself is fit for purpose with respect to climate issues. As part of the board evaluation, assess whether the board has the right mix of skill sets and whether directors pursue ongoing education sufficient to enable informed assessment and discussion of the issues.
- Assess and continuously improve the board's committee structure and agendas to address the critical issues with respect to oversight of climate-related risk, opportunity, and enterprise-wide integration.
- Consider how management will report to the board and be held accountable for climate-related commitments.

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> **“The board should ensure that its composition is sufficiently diverse in knowledge, skills, experience, and background to effectively debate and take decisions informed by an awareness and understanding of climate-related threats and opportunities.”**
>
> **—The World Economic Forum** [17]

[17] How to Set Up Effective Climate Governance on Corporate Boards: Guiding principles and questions, World Economic Forum, January 2019.

Communication

Set the tone for disclosure and stakeholder engagement

Many of the world's largest institutional investors have put climate change at the top of their concerns and have increasingly exercised not only their voices but also their votes. They have voted in favor of shareholder proposals calling for specific climate action and disclosures, and they have voted against directors over concerns related to transition risk. Investors are requesting specific disclosures related to company plans to achieve net zero emissions, and, at the time of publication, the U.S. Securities and Exchange Commission (SEC) is actively working on rulemaking related to the public disclosure of climate issues.

The challenges surrounding disclosure are daunting. Oversight, though still nascent, encompasses three broad areas of focus:

1. Are the company's disclosures that are filed with the SEC accurate and appropriate under current rules?
2. Does the company have in place a process to mitigate risk of litigation and reputation risk from its overall climate-related public communications?
3. Is management sufficiently tracking and ready to respond as the SEC proceeds toward rulemaking with regard to climate disclosures?

At present, there is the ever-growing alphabet soup of frameworks, standards, and ratings, including those published by the TCFD, SASB, the Global Reporting Initiative (GRI), the International Accounting Standards Board (IASB), and the European Union, among others. Stakeholders—including suppliers, customers, and investors—often request that companies use their preferred framework or format, which can strain company resources in attempting to satisfy all parties. While meeting stakeholder requests is clearly important, an ongoing dialogue between management and the board can help with setting priorities and focus. "I would hate to spend so much energy on reporting and disclosure that we don't get things done," said one head of sustainability.

The company's story should be consistent, whether communicated directly by a board director to an institutional shareholder, by the CEO to a client, or in a sustainability report or regulatory disclosure. The board can help management stay focused on communicating consistently and delivering a message that is in line with the company's story. In addition, directors are themselves increasingly in the spotlight. During a recent engagement with Vanguard that included management and the lead director of Alaska Airlines, "What Vanguard wanted to know first and foremost—before we got into everything the company has been doing—was about the climate competency of the board," said Patricia Bedient. More and more, investors want to know about the board's ability to guide the company in the face of climate change issues. To what extent does the board understand the emerging risks and opportunities? Is the board knowledgeable enough about the issues to factor them into discussions about strategy, risk, and talent? Is there sufficient oversight of the processes and controls for setting climate-related goals and reporting progress?

"A great part of the broader stakeholder dialogue is getting everybody to understand the financial considerations," said Julie Smolinski, vice president of investor relations and corporate sustainability at Hawaiian Electric Industries. Both Celso White and Kimberly Casiano also stressed the need to keep stakeholders, especially shareholders, clear on the level of investment related to the implications of climate change. Rob Fisher, leader of KPMG IMPACT in the U.S., has commented, "We are finding that our clients across all industries see this as an opportunity to meaningfully engage their customers, employees, and investors in a new way of operating in the future and to build trust with their key stakeholders."[18]

[18] "Unlocking Value Through KPMG Impact's Holistic Solution," KPMG LLP press release, June 8, 2021.

To stay on top of communication, engagement, and disclosure, the board should:

- Have working knowledge of the frameworks and ratings most relevant to the company and how the company is currently tracking.
- Be able to articulate the company's leading climate issues and how they are linked to strategy. Investors now expect this of directors.
- Evaluate the processes and controls for the collection and communication of climate-related data.
- Insist on a process that avoids disconnects between the company's statements and conduct.

> **"There's a lot of heavy lifting still to do, but we have to keep the shareholders and other stakeholders engaged, knowing that our investments in this area will continue to be fairly large."**
>
> —**Celso White**
> Independent Director
> CF Industries

About the KPMG Board Leadership Center

The KPMG Board Leadership Center (BLC) champions outstanding corporate governance to drive long-term value and enhance stakeholder confidence. Through an array of insights, perspectives, and programs, the BLC—which includes the KPMG Audit Committee Institute and close collaboration with other leading director organizations—promotes continuous education and improvement of public and private company governance. BLC engages with directors and business leaders on the critical issues driving board agendas—from strategy, risk, talent, and ESG, to data governance, audit quality, proxy trends, and more.

About Plan C Advisors

Climate has emerged as the most urgent and material concern confronting businesses of all sizes. Plan C Advisors help business leaders accelerate climate action by providing a foundational understanding of climate issues and helping develop strategies to address climate risks and opportunities. Our team are board directors and seasoned top executives from global brands who bring deep operating experience in climate and ESG across industries.

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