PEOPLE, CLIMATE ACTION, AND THE BOARD

Webinar-Q&A

April 2023

KORN FERRY
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PEOPLE WILL MAKE THE DIFFERENCE

Background:

- On 14th March Korn Ferry led a discussion hosted by Korn Ferry with over 150 NEDs from Chapter Zero Brussels, France, and the UK.

The objective of the session was to:

- Explore the key people challenges in reducing green-house gas emissions
- Discuss the role of the Board in helping address these challenges
- Provide practical guidance for Board members to engage the Executive

This document summarizes responses to questions raised by the audience attending the webinar.

QUESTIONS SUBMITTED BY THE AUDIENCE

1. Do Boards need training in risk?

Yes, they need some skills in knowledge in risk given the focus on climate risk (TCFD) and the emerging nature based risk frameworks (TNFD). Our view is that they will need sufficient knowledge to work with risk and finance on this agenda. It goes beyond risk, the Board also needs to be skilled/trained in understanding the business opportunities linked to the climate agenda.

2. What is the best approach for Boards to partner with the C-Suite to operationalize climate action?

An effective relationship between the Chair, CEO and CSO is key. Climate action should be embedded into the operating model, and functions / CxO roles. The importance of the CSO role must be recognized, and they must have sufficient bandwidth and skills to drive climate action.

3. What is the recommended approach regarding sustainability and employee lifecycle management?

Climate action is increasingly important to employee engagement, talent attraction and retention. Building memorable moments and experiences around the detailed climate action agenda can help create momentum and build a movement across the organization. Employees and new hires need to experience sustainability in each step of the employee life cycle (e.g. an inclusive hiring experience, development programs and performance management/rewards linked to sustainability aspirations,...)

4. What are the cultural challenges to transformation?

Key challenges include collaborating with others across ecosystems, and managing the tensions between cooperation and competition, short term and long term horizons, and individual and collective perspectives. We commonly see organisations with very strong cultures that have been key to their success now need to add certain new cultural attributes in order to transform for sustainability. For example, when sustainability requires product innovation, collaboration and empowering leadership may be essential new cultural attributes.

QUESTIONS SUBMITTED BY THE AUDIENCE

5. Should there be a separate ESG board committee or should it be integrated into audit and risk committees?

We have observed a progression from ESG being marginal in board responsibilities, then the creation of a separate ESG or sustainability committee and sub-committees, to integration into main board and in main committees responsibilities.

6. How should sustainability feature in scorecards?

Sustainability KPIs need to feature in scorecards - at enterprise level and below. KPIs and targets should be driven from the sustainability strategy, and will vary by the organisations maturity. There should be a mix of lead and lag indicators given the time horizons for climate action. Particularly powerful are KPIs that link sustainability and commercial performance e.g. share of products that are sustainable, revenue from circular products, services and solutions.

7. Where can I find out more about the Chief Sustainability Officer role?

Korn Ferry research: “Rise of the CSO” and “What is next for the CSO”

https://infokf.kornferry.com/the-rise-of-the-CSO.html
https://www.kornferry.com/insights/featured-topics/people-planet-profit/whats-next-for-the-cso

8. What are the key skills and knowledge the board need on climate action and decarbonization?

A detailed view on critical skills and capabilities of the CSO can be found in the report. Those relevant to the board include: long term view, ability to challenge Executives to think long term, diversity of perspective, knowledge of sustainability issues, knowledge of transformation, knowledge of adjacent / other industries, knowledge of relevant transition pathways and sector plans.

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9. What is the role of HR in this transformation?

HR has a critical role to play. Climate action requirements should feature in the people strategy, the workforce plan, the Employee Value Proposition (EVP), and approaches to talent management, leadership assessment and selection, and professional development. See also the critical questions to the CHRO in the main report.

10. How can the Board ensure there is a long term strategy, looking beyond 5 years?

Start with understanding the transition pathways for the sector you operate in, and explore future scenarios (for example as part of climate risk modelling and TCFD) with Board and Executive team colleagues. This should give a platform for a longer-term strategic discussion.

11. How should the compensation be set? And, what about Long Term Incentive plans?

Compensation is a critical lever, but as always must be done with the right accuracy and mindset. Tensions to manage include:

1. The need for quantification and accuracy versus data collection and quality challenges, and the continued evolution of standards and measurement methods
2. Fitting ESG into compensation schemes against other measures - weightings of below 5% for ESG are not sufficient to drive action, and above 10% start to impinge on traditional financial performance targets which still represent over 80% of reward system design
3. Short term versus long term incentive plans. This is an evolving area for boards and their advisors. In high carbon footprint industries, decarbonization targets of C-suite should be covered in STI/LTI plans (typical weight of metrics in bonus formulae for top executives range from 10-30% for CO_2 reduction).

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12. How can the CSO influence external agendas (e.g. energy transitions)?

Through participation in pre-competitive industry groups (e.g. Ellen MacArthur Foundation), and / or by engaging with policy makers directly or through industry or trade groups.

13. Should Boards push for industries to build consistent approaches to climate action that can improve comparability and establishment of best practices?

Generally that is advisable. It will help enable collective action, and usually be quicker for individual firms than creating their own practices. However standards and practices are still evolving and not perfect, so some judgement is needed in their application, and that they can be improved. It is helpful to share back these learnings and improvements. An example is The Sustainable Markets Initiative, which comprises 6 pharmaceutical companies who have co-developed a set of common minimum supplier targets.

14. How to address the culture polarization around climate and ESG?

This is a complex question beyond the focus of the webinar. However we would note that:

1. Even in the US where arguably the polarisation is most extreme, financial institutions are continuing to integrate ESG into their risk and decision-making processes as they recognise ESG provides a valuable view on material and measurable financial risks.
2. Climate litigation is a small but growing phenomena facing corporates (for example Shell and Holcim). We expect this lead to increased awareness and upskilling on the sustainability agenda across workforces, executives and Boards.

