Climate Governance Initiative Australia

A JOINT PUBLICATION BY Australian Institute of Company Directors | POLLINATION

Climate Governance Study 2024

AUSTRALIAN MARKET SNAPSHOT

MARCH 2024

In 2024, Australian directors are intensifying their focus on climate change, yet organisations face growing challenges in executing their strategies.

This snapshot sets out the key findings of the **Climate Governance Study 2024: Moving from vision to action**, including insights into emerging better governance practice and recommendations for Australian directors. The report builds on a survey of 1,057 AICD members, along with interviews and group consultations with 24 senior non-executive directors.

#1 AUSTRALIAN DIRECTORS CONTINUE TO PRIORITISE CLIMATE GOVERNANCE

- 80% are concerned about climate change as a material risk
- 60% of directors want their boards to pay more attention to climate governance
- 50% see nature and biodiversity as a material risk to their organisations

Emerging better practice: Strategy	Recommendations for directors
Champion long-term outcomes: • Leading directors are prosecuting long-term strategy, often in the face of short-term pressures from some investors and executives. **Look for opportunity not just risk:** • The net zero transition being seen as a strategic opportunity not just a risk to BAU. **Focus on both climate and nature:** • Nature is considered holistically with climate – not a siloed topic on the fringes.	• Have a clear and shared understanding at board and executive level of the level of realistic climate ambition, and over what periods. • Embed climate change considerations into the company's strategy, risk management framework, performance/pay structures and workforce planning. • Consider interconnectedness between climate and other sustainability topics such as nature and biodiversity.

#2 MOVING FROM CLIMATE AMBITION TO EXECUTION IS A GROWING CHALLENGE

- 43% listed and a quarter of unlisted companies have a transition plan and targets
- 32% of directors, rising to 35% of listed directors, are on boards that have reconsidered their organisational strategy in response to climate risk and opportunity

Emerging better practice: Execution	Recommendations for directors
Whole of organisation approach to climate: • Socialise and embed your transition approach across the business. • Ensure the CFO is centrally involved in climate risk and opportunity analysis, transition planning, and reporting. • Climate goals are embedded into executive pay and performance frameworks. **Credible, evidence-based transition plans:** • Grounded in the latest climate science and robust scenario analysis. • Externally validated by bodies such as the Science Based Targets Initiative (SBTi). • Clear articulation of assumptions, contingencies and dependencies to avoid greenwashing accusations. • Scrutinised by external assurance providers. • Regular review and tracking of progress.	• Develop credible, science-based climate transition plans that are embedded at an organisational, and ideally asset, level. • Adopt a strategic mindset focused on maintaining competitiveness in a decarbonised economy, rather than a compliance driven approach. • Foster climate change skills and competency across the business, including at board level.

#3 STAKEHOLDERS ARE PULLING IN DIFFERENT DIRECTIONS

- 24% of directors rising to 35% of listed directors experience short-term financial demands from investors and shareholders as a barrier to climate governance
- Listed directors (53% up from 37% in 2021) experience growing regulatory pressure

Emerging better practice: Stakeholders	Recommendations for directors
Build a business case and an implementation plan: • Build a strong and codified business case for transition, which is well understood by the full executive team. • Embed climate in standard company investment decision-making processes across the business. **Clear communication of transition costs and investment required:** • Clear and consistent messages to stakeholders on short term versus long term trade-offs. • Seek key investor and stakeholder support for plans.	• Build a strong, commercial and codified case for transition. • Establish regular engagement with stakeholders, including understanding the range of perspectives and interests. • Clear communication with internal and external stakeholders.

#4 POLICY AND REGULATION ARE A DRIVER AND DRAG ON CLIMATE TRANSITIONS

- 42% of directors cite Australian policy uncertainty as the top barrier, consistent with 2021
- 72% of directors expected to be subject to mandatory climate reporting, feel 'somewhat' or 'well' prepared

Emerging better practice: Regulation	Recommendations for directors
Build industry coalitions: • Collaborate and share understanding and capability across value chains and industries within legal constraints. **Use mandatory climate reporting as a platform:** • New regime is a catalyst to re-assess organisational climate strategy and level of ambition. • Take a strategic rather than compliance-based focus, while managing liability risks.	• Continue to build and extend understanding of the climate policy landscape for the company. Do this actively, as policy is evolving rapidly. • Actively work to understand reporting obligations, and constructively challenge management implementation plans. • Explore external assurance/validation options to provide greater confidence in organisation plans and limit liability exposure from reporting.

#5 BOARD APPROACHES TO CLIMATE CHANGE CONTINUE TO EVOLVE

- 26% are on boards that have invested in formal climate education, up from 18% in 2021
- 45% are confident in their board's competence on the topic, down from 46%; confidence has fallen for listed directors compared to 2021 (63% to 51%).

Emerging better practice: Governance	Recommendations for directors
Elevate governance focus: • Boards are reviewing existing governance structures and processes to ensure that they are fit for purpose. • Beyond the sustainability committee, directors are holding joint meetings with other relevant board committees. • Climate and sustainability are now part of the regular calendar for many boards. • Organisations are investing in board and senior executive climate upskilling and briefings with experts.	• Holistically consider the adequacy of climate governance approaches including use of existing board and committee structures. 'Set and forget' won't work. • Periodically undertake a robust assessment of the board's climate and transition skills. • Invest in climate change capability across the business, including at board level. • Ensure alignment between executive pay and incentive structures and the organisation's climate and broader sustainability goals. • Actively consider the overlap between other sustainability issues and climate, including in governance frameworks.

Climate Governance Initiative Australia

A JOINT PUBLICATION BY Australian Institute of Company Directors | POLLINATION

Read the full Climate Governance Study 2024 here.

ABOUT THE AICD

The AICD is committed to strengthening society through world-class governance. We aim to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. Our membership includes directors and senior leaders from business, government and the not-for-profit sectors.

DISCLAIMER

COPYRIGHT

For more information

T: 1300 739 119
E: **policy@aicd.com.au**

JOIN OUR SOCIAL COMMUNITY

aicd.com.au/climate

CCT1088_24