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Climate governance pulse survey 2023: How engaged are New Zealand directors?

Created in partnership with the
Ākina Foundation, Chapter Zero
New Zealand official impact partner

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01 Overview

Climate change presents a range of governance challenges and opportunities to New Zealand organisations. Boards have a very real opportunity to be a powerful force in taking action on climate-related issues and reducing the environmental impact of their organisations.

This first climate governance pulse survey was developed to identify the current state of climate governance maturity within the New Zealand director community.

The survey received just 101 responses. This in itself highlights some of the challenge in reaching directors – a busy and time-poor audience with a variety of areas to focus on. However, among the respondents there was good diversity of directors from a range of organisations.

Despite the small sample size, the survey has provided some useful baseline measures of where directors are sitting in terms of their climate governance journey and valuable insights into how Chapter Zero NZ can best support directors.

Overall, the results illustrate the varying levels of climate governance maturity across New Zealand. While there is a broad societal-level understanding of the impacts of climate change and the need for change, a lack of resources, time and understanding of what this complex issue means at an organisational level can hamper action.

Key themes coming through the survey responses included:

- Climate change risk is a significant concern at the governance level with key risks identified around operational disruption and the cost and access to insurance.
- Significant opportunities were identified, including improved business resilience, a measurable impact on reducing emissions, brand reputation and employee engagement.
- Governance-level action is underway but currently focused on emissions measurement and reduction, rather than longer-term strategic thinking and adaptation.
- Pressure to act on climate change is being driven primarily by customers, employees, societal expectations and government regulation.
- Despite recognising both significant risks and opportunities, governance-level actions such as scenario planning, research & development and business continuity planning are not being undertaken.
- Governance practices such as board structure, climate-related reporting, linking remuneration to climate performance and the use of climate scenarios have not yet been widely adopted.
- There is a need for increased individual climate knowledge as well as practical tools and resources for directors to drive and support action.

02 Challenges and Opportunities

74%

of respondents were either extremely concerned, moderately concerned or somewhat concerned about climate change risk to their organisation

27%

of respondents were extremely concerned about climate change risk to their organisation

Over

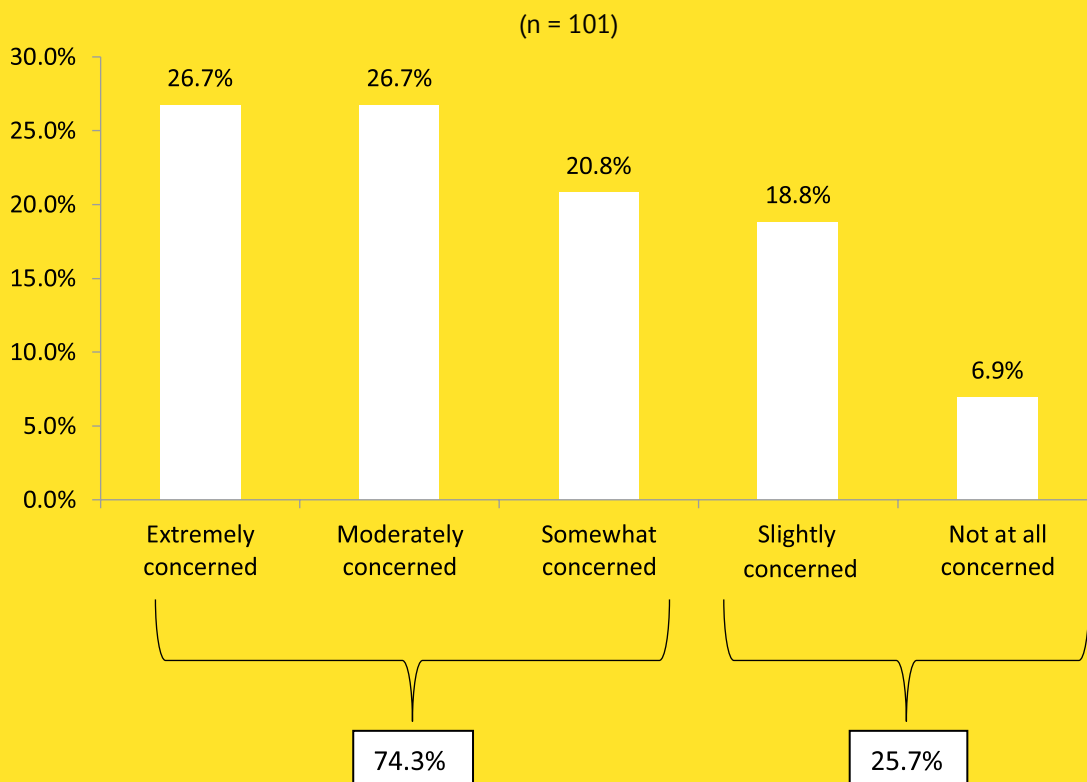
50%

of respondents were most concerned about the operational impacts of climate change such as damage to facilities or workforce disruption

Climate change risk a significant concern for boards

Climate change is perceived as a significant risk to New Zealand organisations. Seventy four percent of respondents were either extremely concerned, moderately concerned or somewhat concerned about climate change risk, with 27% being extremely concerned. This result aligns with [Australia's 2021 climate governance survey](#) that found 77% of directors were concerned about climate change. It is also consistent with the [IoD's 2022 Director Sentiment Survey](#) where more than half of directors considered climate change (along with water and resource management) as a critical future trend. Of note however, nearly a third (26%) of directors were either not at all concerned or were only slightly concerned about climate change risk.

Question 1: How concerned is your board about climate change risk to your organisation? Select one

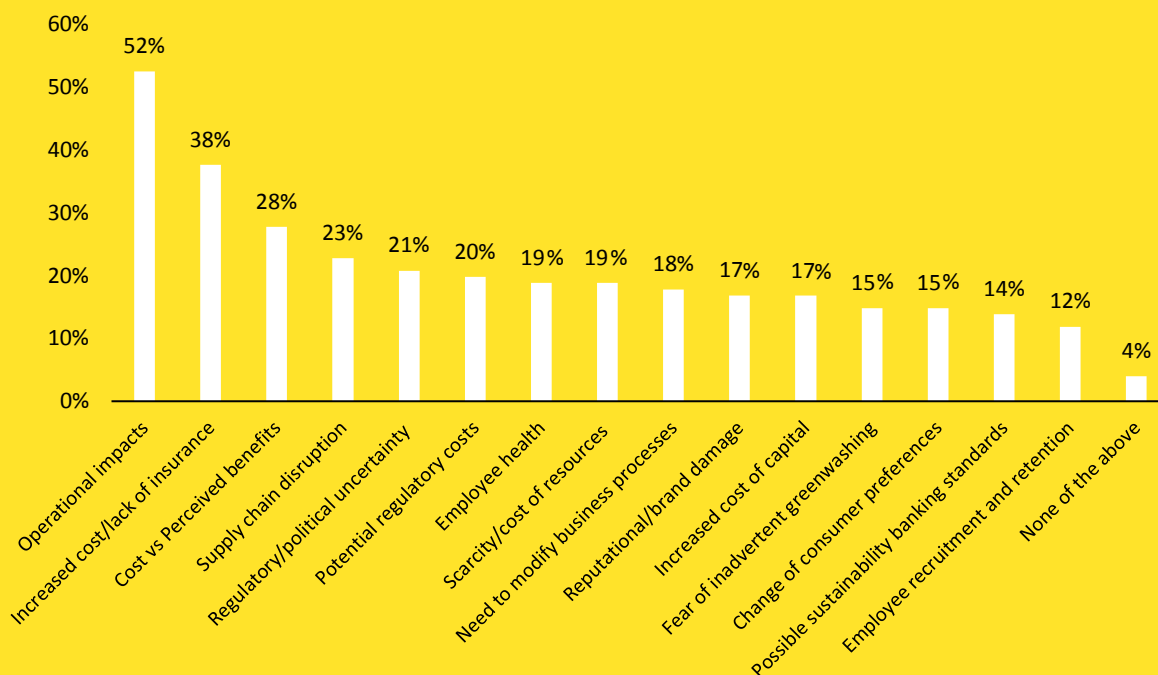


Operational disruption risk top of mind

The survey took place following a period of significant flooding in the Auckland region and devastating destruction across the central North Island caused by Cyclone Gabrielle. With this context, it was unsurprising more than 50% of respondents were most concerned about the operational impacts of climate change, such as damage to facilities or workforce disruption. The second highest concern was increased insurance costs (rising premiums) and a lack of insurance availability (38%). The other top concerns were the cost of climate change mitigation versus the perceived benefits (28%), and disruption to supply chains (23%).

Question 2: What are the climate change risks that your board is most concerned about for your organisation? Select up to four

(n = 101)



Time and resource the biggest barriers to action

Despite the concerns around climate change, 44% of respondents said their organisations simply did not have the resources or time to deal with climate change. This aligns with other barriers such as the focus on near-time business issues / demands from stakeholders (38%) and the complexity of climate change making risk and operations assessments difficult (36%).

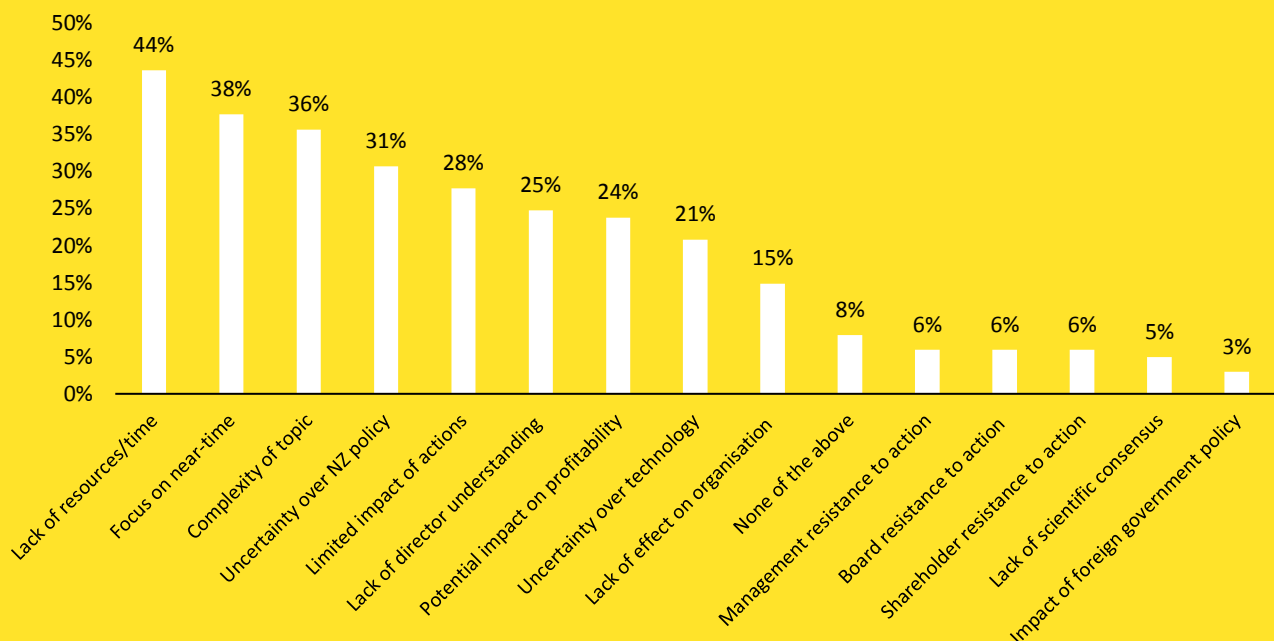
The key barriers to action were not board, management or shareholder resistance to action, a perceived lack of effect on the organisation, or debate about the science. This further highlights the continued focus on near-time issues dominating agendas at an organisational level.

Uncertainty over New Zealand government policy was identified as a barrier by 31% of respondents, highlighting the need for increased consistency across the system, particularly in an election year, and the ongoing opportunity for better public-private collaboration.

While the pandemic is in the rear view mirror in most regards, there continue to be operational impacts. Similarly, inflationary pressures and supply chain issues continue to impact on short-term and mid-term business. However, one of the lessons from the pandemic was the importance of having a clear purpose and a long-term strategic perspective.

Question 3: What are your board's biggest barriers when governing climate change for your organisation? Select up to four

(n = 101)



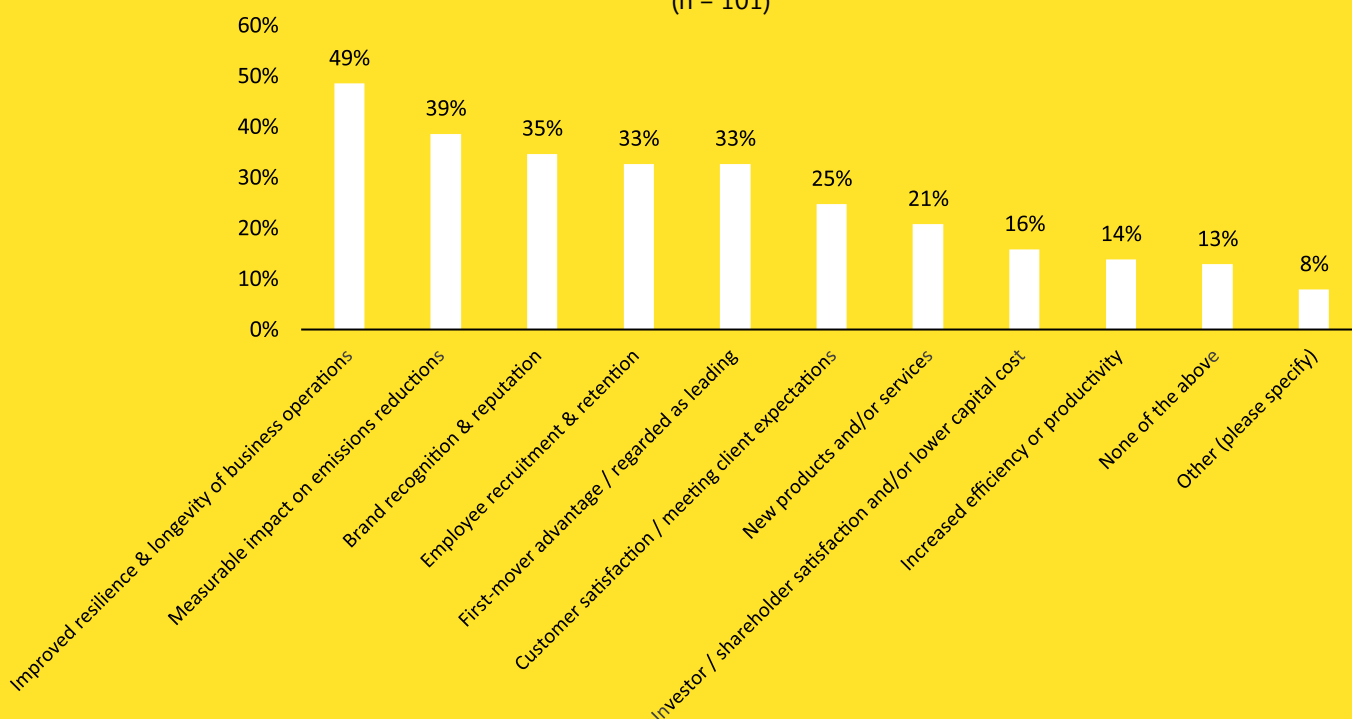
Business resilience a key opportunity

While New Zealand's economy will face many challenges because of climate change, it also presents opportunities. Nearly half of respondents (49%) considered a primary opportunity for their organisation was to improve resilience and longevity of business operations. This aligns with the concern about focus on the short term expressed in Question 3. It also suggests that investing in climate change action is considered to be important.

The other top opportunities identified were a measurable impact on emissions reductions (39%), brand recognition and reputation (35%), employee recruitment and retention (33%) and gaining a first-mover advantage or being regarded as a leader (33%).

Question 4: What opportunities have / might climate change provide for your organisation? Select up to four

(n = 101)



EXTRA INSIGHT: Due to consumer, community and employee pressure to do more on climate change, boards are recognising there are brand and reputation advantages of being seen to be “doing the right thing”. Those that are making changes can benefit from being seen to be leading in their sector or industry. Similarly, opportunities around employee recruitment and retention, and customer satisfaction, align with key findings in the **2022 Director Sentiment Survey**. These are further highlighted in Question 6, which outlines the key drivers for climate change for organisations.

03 Organisational response

31%

of boards have integrated climate change into strategic decision-making

Only

14%

had reviewed their insurance coverage or changed their insurance arrangements

43%

of boards are purchasing new technologies or investing in green infrastructure

Progress already underway

Respondents were asked to select all actions taken by their boards in response to climate change risks and opportunities. Measuring greenhouse gas emissions (50%), setting emissions reduction targets (48%) and reducing waste (45%) show boards are taking good first steps.

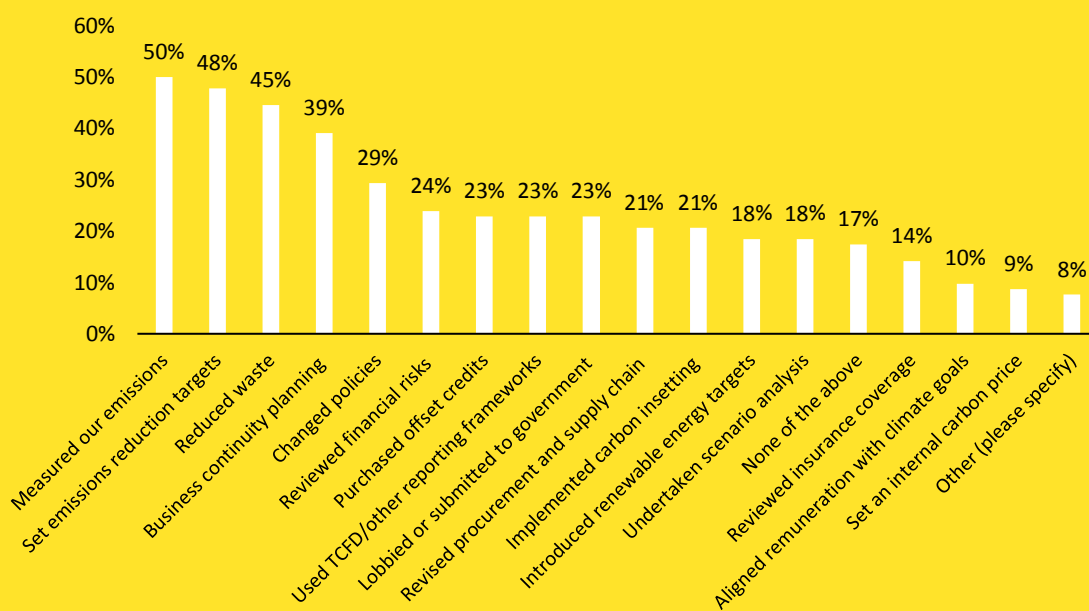
However, while respondents identified operational impacts as the greatest risk (see Question 2), only 39% had undertaken business continuity planning to respond to climate change risks and opportunities.

And while 38% of respondents are concerned about the cost or access to insurance (Question 2), only 14% said their boards had reviewed their insurance coverage and exemptions (including changing insurance arrangements) in response to perceived climate risks.

Further, while the cost of climate change mitigation ranked third highest for risks the board was concerned about (Question 2), less than a quarter of respondents said their organisations had reviewed their balance sheet and other financial risks in relation to climate change impacts.

Question 5: What steps has your board already taken to respond to climate risk and opportunity? Select all that apply

(n = 92)



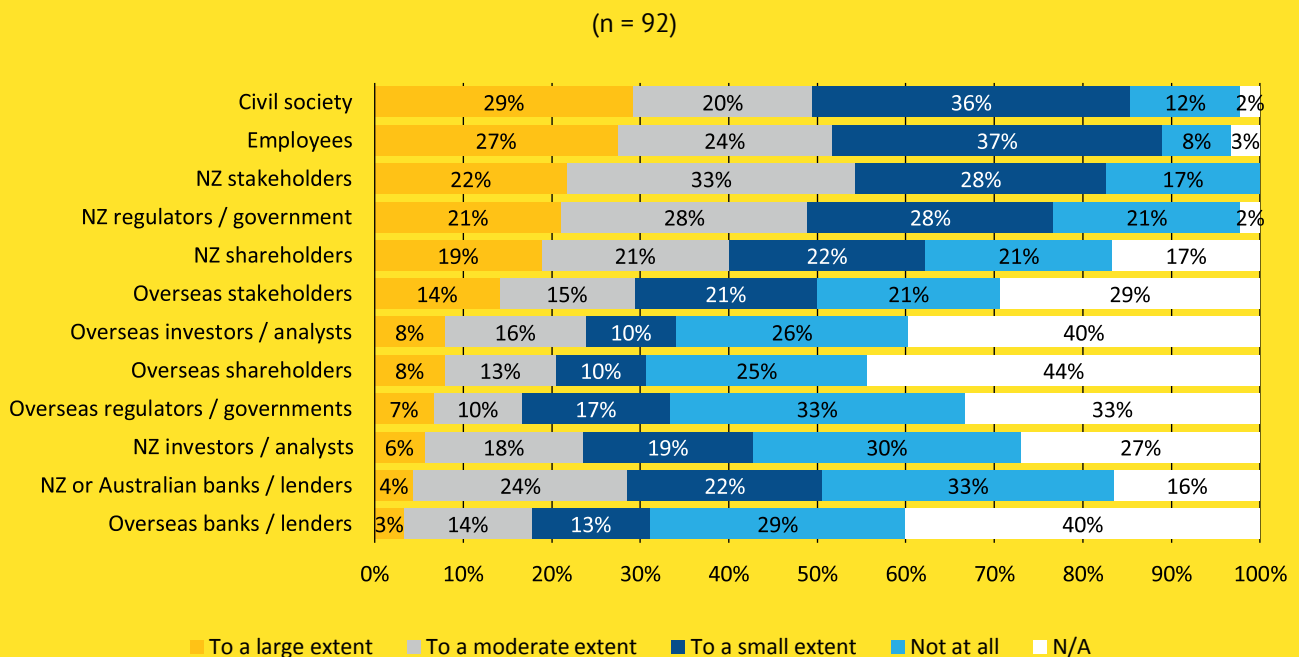
Pressure to act from stakeholders, employees, society and government

Changing expectations, particularly around climate change, environmental, social and cultural impacts, are prompting boards to reflect on their organisations' purpose, value proposition and business model. Combining to a large extent and to a moderate extent, respondents felt pressure from a range of stakeholders including customers, clients, service users and members (55%), employees (51%), civil society including the media, activist groups and individuals (49%) and New Zealand regulators / government (49%).

These results strongly align with the IoD's **2022 Director Sentiment Survey** that found two of the top three issues for the year ahead were changing customer expectations (60%) and community expectations (47%).

While pressure to act can feel like a negative for businesses, it also demonstrates the trust placed in them, as trust in government continues to wane. The **2023 Edelman Trust Barometer global report** highlighted that as the most trusted institution, businesses are experiencing greater expectations and responsibility to lead on areas such as climate change.

Question 6: To what extent does your organisation feel pressure to act on climate change from the following stakeholders?



EXTRA INSIGHT: In a global market, one would anticipate offshore stakeholders would apply pressure over climate-related issues. However, the minimal pressure from overseas shareholders, regulators, banks and investors highlighted by respondents is related more to the sample – only 11% of respondents were from publicly listed companies and 2% were subsidiaries of publicly listed companies.

Integrating climate into strategy

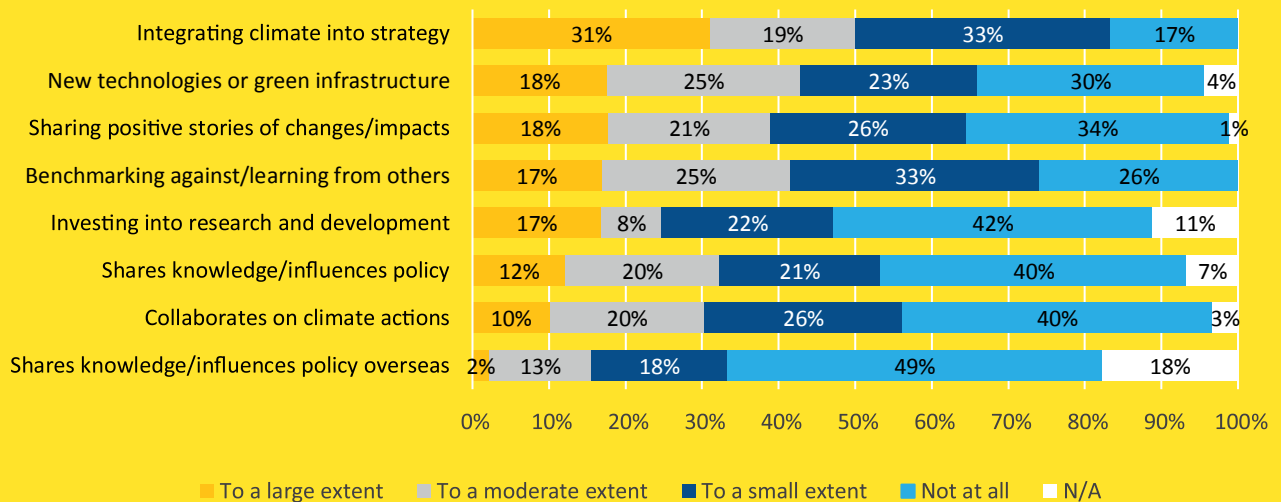
Regulators, investors and other stakeholders are challenging organisations to take a strategic approach to climate action and adaptation. Directors and boards have both a responsibility and an opportunity to make a significant contribution in addressing the challenges climate change presents.

To a large or moderate extent, half of those surveyed are already integrating climate change into strategic decision-making, 43% are purchasing new technologies or investing in green infrastructure, 42% are benchmarking against others and learning from them, and 39% are sharing positive stories of the changes they have taken and/or impacts.

Despite half of respondents saying their organisation is integrating climate change into strategic decision-making, the results of Question 5 suggest this is mainly focused around measuring emissions (50%), setting reductions targets (48%) and reducing waste (45%). However, these actions are all important precursors to longer-term strategic thinking and adaptation.

Question 7: To what extent is your board or organisation undertaking the following actions in consideration of climate change?

(n = 92)



04 Climate governance practices

66%

Three out of five respondents had not produced any climate-related reporting to date

84%

of respondents provide no link between executive remuneration and climate goals

60%

of respondents are not using climate scenarios to support risk and opportunity assessments

Creating a climate-competent board

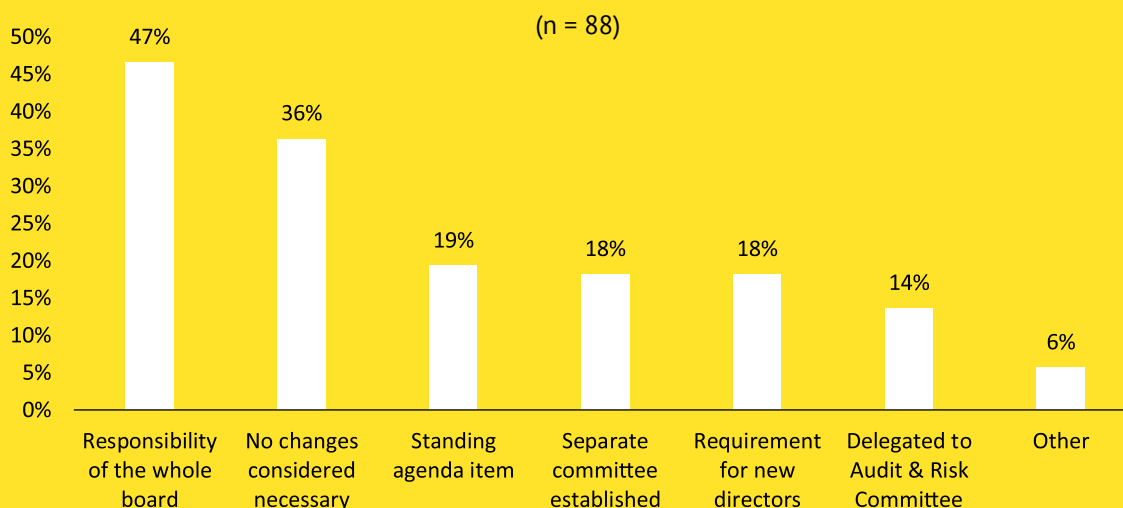
A climate-competent board has the structures, systems and capability to integrate climate change into all areas of board governance. While nearly half of respondents (47%) considered climate change was the responsibility of the whole board, only 19% had climate change as a standing agenda item. Nearly 40% considered no changes were necessary.

In terms of board structure, 18% of respondents had established a specialised committee, subcommittee or

taskforce and 14% had delegated the responsibility of climate change to the Audit and Risk Committee.

While board structure is a critical element of addressing climate change at a governance level, a climate-competent board requires climate-competent directors. Of the directors surveyed, 18% said their boards were considering climate change knowledge and/or expertise when appointing new directors.

Question 8: What changes to your board/board structure, if any, have been put in place to address climate change-related issues? Select all that apply



A NOTE ON BOARD STRUCTURE

Ultimately, the responsibility for strategy, decision-making and addressing material risks and core business changes in response to climate change sits with the full board. However, there are various ways that board structure can support effectiveness, including delegation to the audit and risk, nominations or remuneration committees, or forming a separate climate-focused committee.

There is no best approach to board structure – it's about making the best decision for your board depending on your company, sector, country, climate maturity, current committee structure, director climate competency and a range of other factors that are specific to your board. Nonetheless, it is beneficial to compare your own practices with that of comparable boards and companies and carefully consider the pros and cons of different approaches. Further guidance on board structure for New Zealand organisations will be published by Chapter Zero NZ in the first half of 2023.

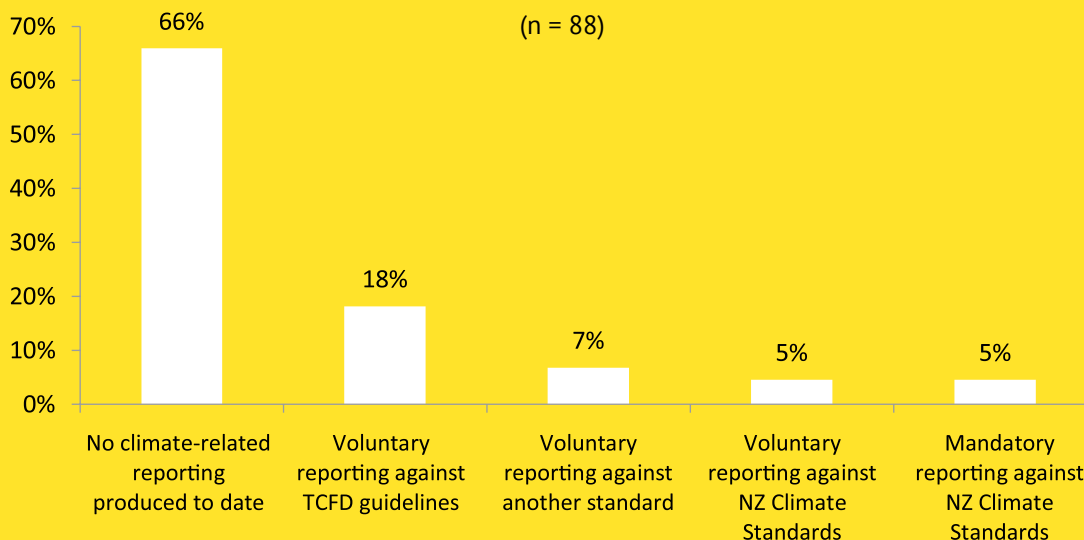
Upping the game on reporting

From 2023, more than 200 New Zealand financial institutions, including publicly listed companies, insurers, banks, non-bank deposit takers and investment managers will be subject to a mandatory **climate-related disclosures regime** published by the External Reporting Board (XRB) and based on the **Task Force on Climate-related Financial Disclosures** (TCFD) recommendations.

The majority of respondents indicated their organisations were not currently undertaking climate-related reporting (66%). A further 18% of respondents

said their organisations had produced voluntary reporting against the TCFD guidelines, 5% said their organisations have chosen to report voluntarily against the New Zealand Climate Standards, and a further 5% noted they were delivering mandatory reporting. Additionally, 7% of respondents reported their organisations were reporting against another standard such as Toitū, B Corporation certification, ISO 14064 (Greenhouse Gases Package) and the European Sustainability Reporting Standards.

Question 9: Has your organisation produced any reporting against climate-related disclosures? Select one



EXTRA INSIGHT: In preparing mandatory climate statements, Climate Reporting Entities (CREs) are required to prepare scenario analyses and report on Scope 3 greenhouse gas emissions (those not produced by the company itself, but down its value chain). It is anticipated that this will trigger discussions and reporting requirements for emissions data from a range of companies across the supply chain.

Low incentivisation for climate action

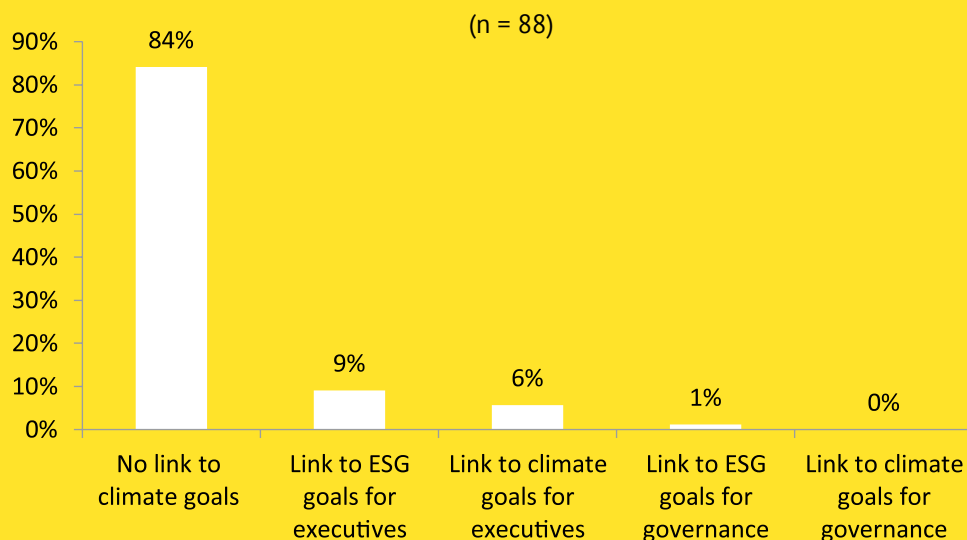
One of the eight World Economic Forum **Principles of Effective Climate Governance** is incentivisation – aligning executive remuneration and incentives with climate-related targets.

Of those surveyed, 84% reported that their organisations provide no link to climate goals at all. Only 9% reported linking to broader Environmental, Social and Governance (ESG) goals for executives and just 6% reported a link to climate goals for executives.

Of the sample, only 1% reported a link between governance remuneration or incentives with broader ESG goals and none of the organisations surveyed yet have a link to climate goals.

This is consistent with Australia, where only 4% of respondents in the **2021 Climate Governance Study** said they had amended executive remuneration or incentive arrangements to align with climate-related goals.

Question 10: Does your organisation link remuneration/incentivisation with climate-related performance? Select one



EXTRA INSIGHT: Executive remuneration is regarded as a change agent and is an effective tool to focus management’s efforts on key priorities and drive desired outcomes. As the saying goes, “what gets measured and rewarded, gets done”. Aligning internal incentives (such as remuneration and performance management) with strategic objectives is considered a key element of organisational culture.

Increasing use of climate change scenarios

Climate change scenarios are a powerful tool for understanding climate change, charting response strategies, and supporting climate policies. While they can't provide exact data, they provide projections of what could happen and/or pathways of how to reach certain goals. The New Zealand Climate Standards require reporting entities to prepare three scenarios.

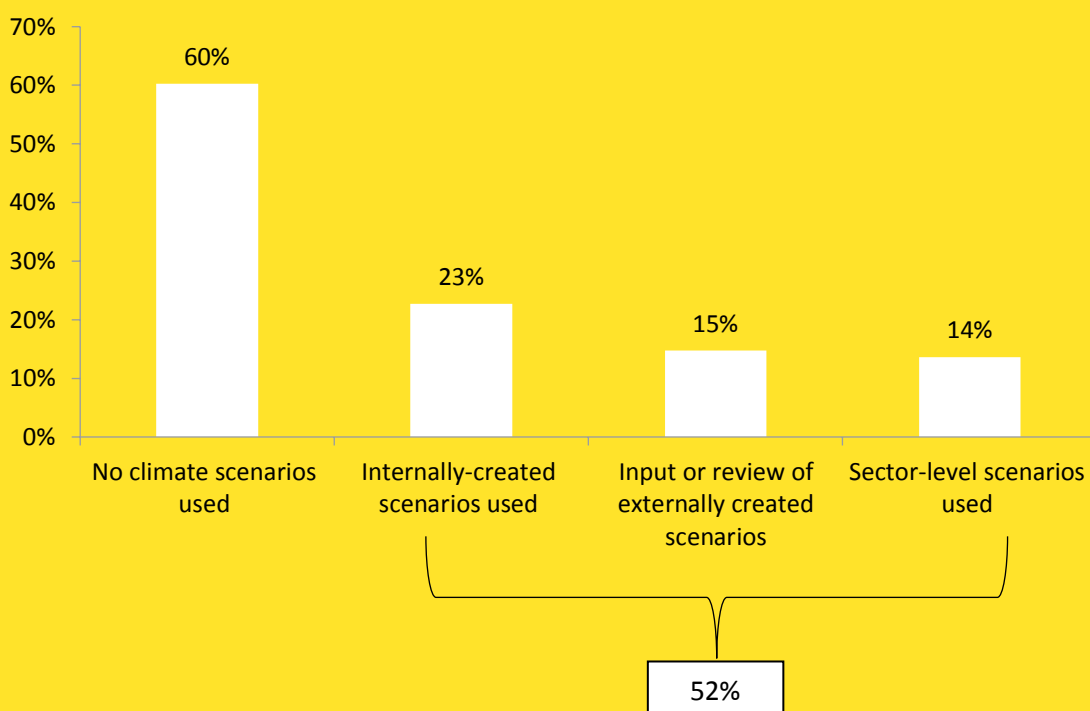
Sixty per cent of respondents said their organisations are not using climate scenarios to support their risk and opportunity assessments. Of those who are using scenarios, 23% are using internally created scenarios, 15% have provided input or review of externally

created scenarios and 14% are using sector-level scenarios or a combination thereof.

Climate scenarios are regarded as a tool to drive resilient business strategy, enhance organisational resilience by enabling strategic conversations on climate risks and opportunities, and underpin business continuity planning. While only the top 1% of New Zealand companies will be affected by the mandatory climate-related disclosures, climate scenarios are a key part of the new legislation and will become increasingly important as businesses continue to experience climate change impacts.

Question 11: Does your organisation utilise scenario planning for climate-related risk and opportunity assessment? Select all that apply

(n = 88)



05 Personal development and support

36%

of respondents said a lack of knowledge was their key barrier to climate governance

34%

of respondents reported a lack of practical tools and resources was a key barrier to climate governance

30%

considered another key barrier to action was a lack of information about risks and opportunities

Climate knowledge is key

The respondents considered the complexity of the topic and their lack of knowledge was their key barrier to climate governance (36%), followed by lack of practical tools and resources (34%), and lack of information about risks and opportunities (30%).

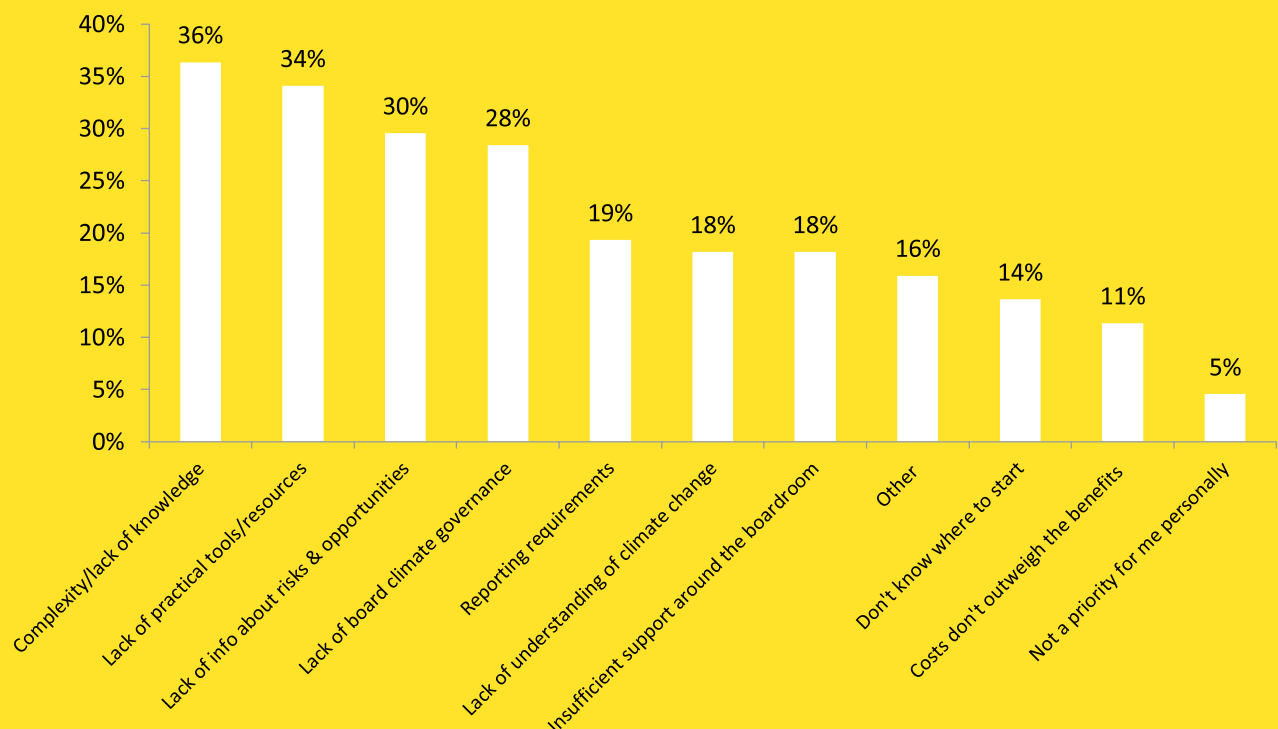
These key areas flow through to what support and advice they are seeking from Chapter Zero NZ to help them with climate governance.

The ranking demonstrates the importance of gaining knowledge first, in order to be able to apply the tools and resources.

Similarly, these barriers are considered to be impacting on the ability of boards as a whole to progress climate governance, with complexity of topic (36%) and lack of director understanding (25%) considered key barriers to action (refer Question 3).

Question 12: What are the key barriers to you in terms of climate governance? Select up to four

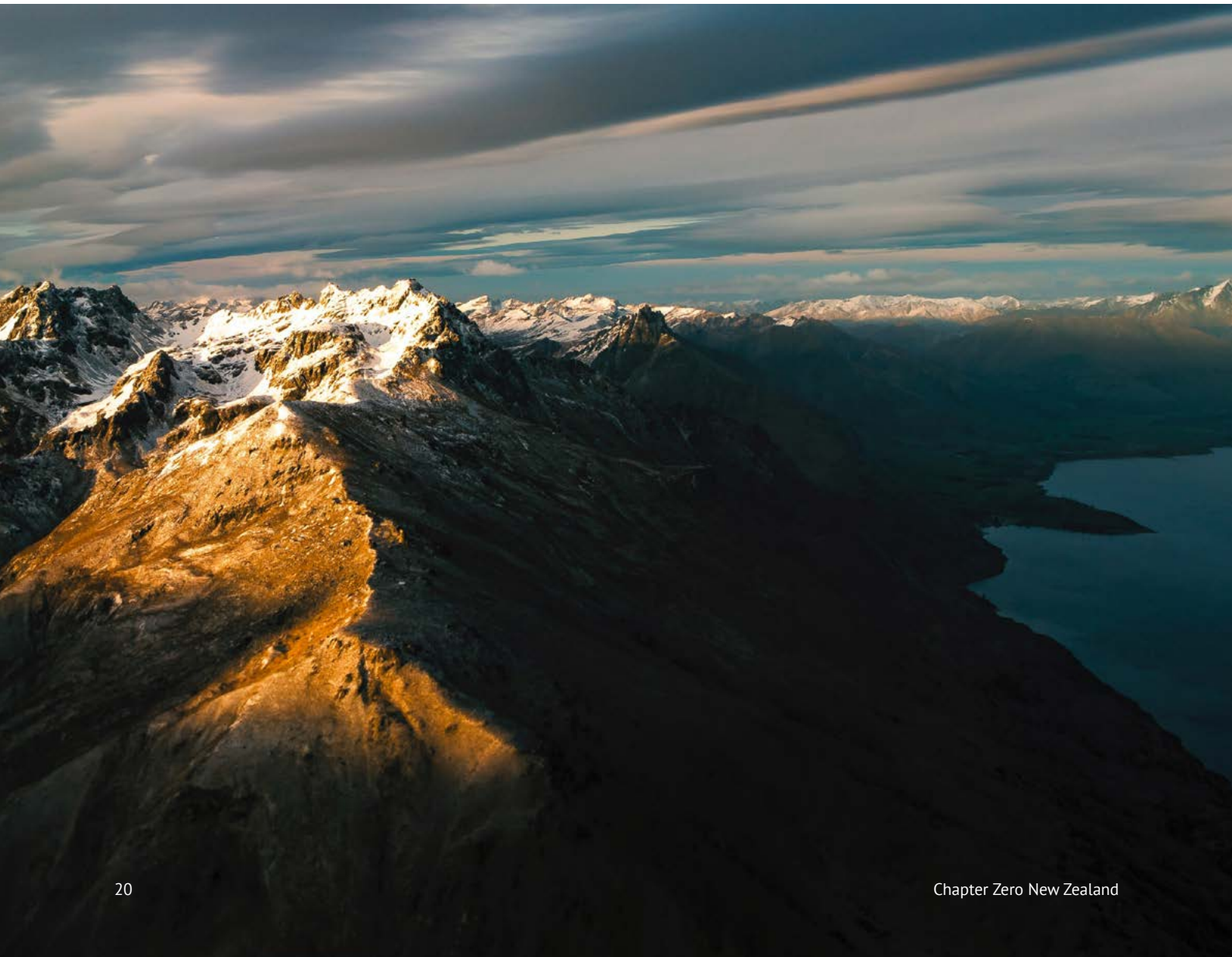
(n = 88)



EXTRA INSIGHT: The Institute of Directors' [The Four Pillars of Governance Best Practice](#) notes it is essential for boards to build climate competence into their composition, and upskill to ensure leadership and stewardship for future generations. While some boards may do this by way of a "climate champion", the board still needs to consider how skills are transferred for shared responsibility and how other board members are upskilled. The board needs to look at the risks from climate as they would any other risk facing the company – and take full responsibility.

The role of Chapter Zero NZ

The survey also provided insights about the information, tools and resources that would be beneficial in helping to support boards. These included helping build knowledge of best practice (68%), providing New Zealand-specific tools, materials and resources (63%), providing updates on legislation, regulations and compliance (49%), providing practical training (47%) and information and insights (42%). A need for “scaled information” was also identified to support small, low-resourced companies and not-for-profit organisations. Other opportunities exist around creating a supportive network for directors (41%) and facilitating collaboration opportunities (38%).



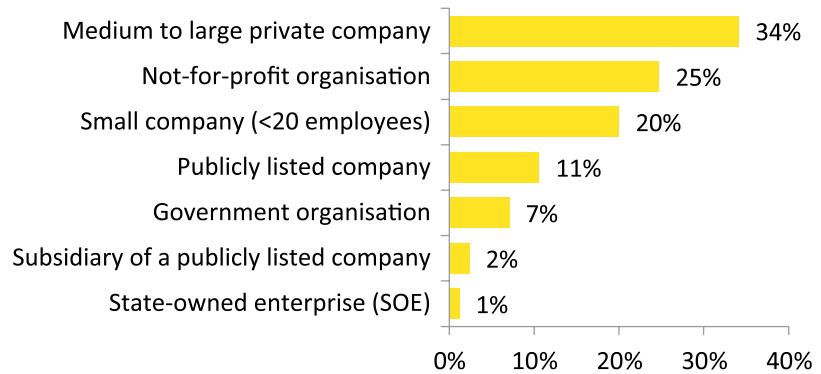
06 Demographics

The majority of recipients were directors of medium to large private companies with a turnover of greater than \$10 million or more than 20 employees (34%). A quarter of respondents were from not-for-profit organisations and only 11% were publicly listed companies.

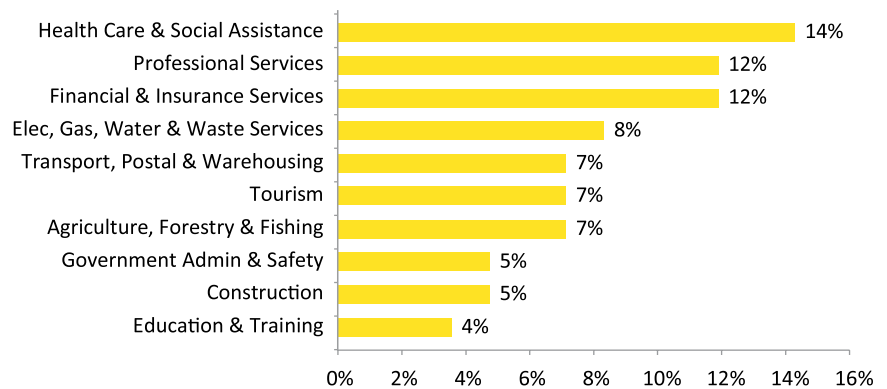
Respondents were spread across a broad range of sectors with the largest proportion from healthcare and social assistance (14%) and financial and insurance services (12%). The graph shows the top 10 sectors represented.

The majority of respondents were fairly new to their current governance role, with 48% having been on their substantive board for three years or less.

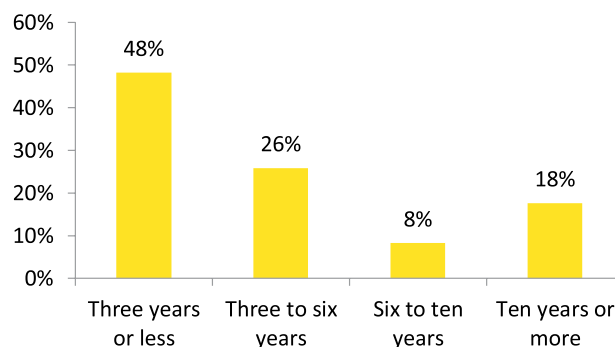
Question 14: Please indicate the organisational category to which your most substantial directorship belongs (n = 85)



Question 15: To which industry sector does your organisation belong? (n = 84)



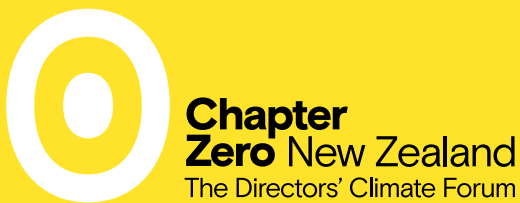
Question 16: How long have you served on the board to which your most substantial directorship belongs? (n = 85)



About Chapter Zero New Zealand

The Institute of Directors New Zealand (IoD) is proud to be the host of Chapter Zero New Zealand, the national chapter of the Climate Governance Initiative (CGI). This global network seeks to mobilise, educate and equip directors with the skills and knowledge necessary to address climate change at the board level.

Chapter Zero NZ is grateful for the support of our key partners who provide guidance and expertise to help us serve the director community.



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