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Effective climate governance – New Zealand board structure case studies

Leading boards share their climate governance structures

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Table of contents

Introduction

Page 3

Whole board approach

Page 4

Advisory group

Page 4

Board committees

Page 5

Board/management working group

Page 6

Introduction

Are you a director or board considering (or reconsidering) your board structure in light of climate-related challenges? Want to learn more from other New Zealand companies? With no right structure, several of New Zealand's leading directors share their boards' approaches and outline the rationale for their choice.

There is no single way to tackle the integration of climate-related or ESG risks and opportunities in your organisation, says consultancy firm KPMG (Foundation Partner of Chapter Zero New Zealand).

In working with boards across different sectors, KPMG has discovered that identifying a structure that works in the context of the organisation is critical.

Simply replicating a process seen at another organisation, or even another group entity, can result in critical risk exposures that will be minimised by a bespoke structure suitable for the organisation.

Boards across New Zealand need to determine how to effectively embed climate awareness into existing board and committee structures to enable adequate oversight in a way that is proportionate to the seriousness of the risks and opportunities faced by the organisation. Targets should be set and supported by the whole board.

Given that board structures differ across companies, there are multiple ways to anchor climate into these structures – from standalone sustainability committees, to integration into risk or audit committees, or via formal or informal advisory boards.

In each case, the design should enable sufficient scrutiny of climate as a financial risk and opportunity, and close interaction with executive management.

This document provides examples of structures adopted by a range of New Zealand companies, including a number who are part of both the Sustainable Business Council and the Climate Leaders Coalition.

“This is a scenario where no one size fits all. There's certainly an evolution going on as boards come to understand their responsibilities, and how they set about getting an appropriate structure, setting up targets and then executing.”

– Joan Withers CFinstD, Chair, The Warehouse Group

Whole board approach

Summerset Group Holdings, a company in the retirement and aged care sector, has integrated sustainability into its board as a whole, rather than having a dedicated committee, though this is likely to evolve to suit to Summerset's strategy. A key consideration when looking at their board recruitment is a candidate's understanding of, and potential contribution to, the climate debate.

The company is committed to continuing to better communicate its climate-related objectives both internally and externally, and ensuring there is clear messaging behind the targets and focus areas.

“Everybody can't be an expert in every area; the first step is actually having a diversity of views and context and experience around the table.”

– Mark Verbiest CFinStD, Chair, Summerset Group Holdings

Advisory group

Since 2018, Fonterra has had a Sustainability Advisory Panel made up of external experts and has recently put in place a new subcommittee of the board called the Sustainability and Innovation Committee.

Fonterra also ensures climate issues sit across all relevant board committees.

The Audit, Finance and Risk Committee, for example, takes the lead on matters relating to climate-related disclosures.

Board members understand the need to apply the same rigour to climate reporting as is given to financial reporting and financial forecasts. Fonterra is committed to spending nearly \$1 billion on sustainability initiatives by 2030 to meet its long-term aspirations.

Having a separate advisory panel encourages robust debate. By its nature of separation, the panel is encouraged to challenge the board and is viewed as a “constructive critic or friend” of Fonterra.

Board committees

New Zealand businesses have boards with a range of committees focusing on climate change.

- **Audit and Risk Committee**

Fisher & Paykel Healthcare manages climate-related issues through its Audit and Risk Committee. It is responsible for reviewing and monitoring the company's performance against its environmental and social risk management framework "managing the money and risk". It also reviews actions based on this performance and ensures the wider board is across all material climate-related risks, including approving reporting on these to external stakeholders. The company is committed to continuing to build the committee's climate literacy.

“Ensuring climate risk and opportunity are addressed by the Audit and Risk Committee allows us to look at the bigger picture and make sure climate is well integrated into our broader strategic approach.”

– **Scott St John CFIInstD, Chair Fisher & Paykel Healthcare**

- **Health, Safety and Sustainability Committee**

In 2018, Fletcher Building's Health, Safety and Sustainability Committee was highly focused on safety in light of a spate of incidents. While safety continues to be a prime concern of the committee, the importance put on sustainability has increased. To ensure sustainability gets sufficient airtime, space has been created in the subcommittee's work plan including a separate meeting (where required) focused purely on sustainability.

- **Committee workshops**

The importance of committee workshops should not be underestimated as they help drive strategy and better understanding of risk. Directors approach ESG from a variety of viewpoints. The lead director should know where each director stands on the relevant ESG issues and where there is consensus,

if any, as a board. The chair can also help determine if the board needs additional education, whether through presentations by management or outside experts, or through educational programmes.

Ensuring there is enough airtime to consider these viewpoints is crucial, whether there is a dedicated committee, or another structure is adopted.

- **Environment and Social committee**

The Warehouse Group set up an Environmental and Social Sustainability Committee in 2021 and prioritised setting aspirational but achievable targets. The company has short-, medium- and long-term targets so it can not only focus on where it is headed but measure progress on its journey to get there. It recognises that social and consumer expectations of business engagement with climate change are constantly evolving. The company sees climate action as part of its DNA. When making key decisions at both a board and executive level, it asks: 'Does this pass the tomorrow test? Is this sustainable and the right thing to do?'

“A key part of that challenge is the initial task of setting those metrics that are achievable and proportionate to the size and scale of a firm, so they can be appropriately monitored.”

– **Joan Withers CFIInstD, Chair, The Warehouse Group**

Board/management working group

Auckland Transport is an example in the public sector where establishing a new committee was considered. Knowing climate change would have multiple impacts on people, assets, infrastructure and services, the board sought good governance oversight. A climate governance working group made up of directors and members of the management team was established. It has a role to make recommendations to the board on which climate matters are addressed by which board committees and, ultimately, whether a permanent sustainability committee or the like be established.

One of the advantages of establishing a working group was the informality of the arrangement, lending itself to freer discussions than the more formal board and committee meetings. By opening a forum for discussion, you build a shared understanding through conversation, which is useful for establishing a way forward.

“It was important for the board and management to work in partnership, given the climate emergency declared by our owner, and the need to build capability and understanding quickly.”

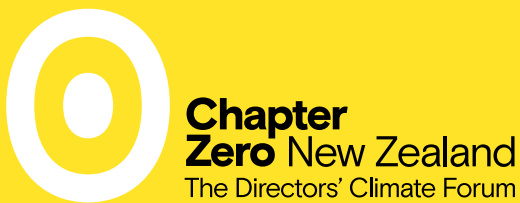
– Abbie Reynolds, director, Auckland Transport



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 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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