

Principle-based leadership in times of change

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According to American author and businessman Stephen Covey, there are three constants in life: change, choice and principles. It's a view that neatly sums up concepts at the very heart of sustainable investment. Sustainable Investment Consulting at Ogier works with clients to navigate and embrace change - and we turn sustainable change into a value creator.

To date 194 countries joined the Paris Agreement, making public obligations to limit the global temperature increase in this century to 2 degrees Celsius with the effort to limit further increase to 1.5 degrees. As of Jan 2023, over USD11 trillion in AUM from 84 institutional investors globally was committed to achieving net-zero emissions by 2050 or sooner. Based on the [Intergovernmental Panel on Climate Change's \(IPCC\) most recent pathways](#), the Alliance identified emissions reduction requirements for sub-portfolio targets in the range of -22% to -32% by 2025 and -40% to -60% by 2030, which is in alignment with Paris Agreement schedule.

As IPCC continues to issue further guidance on target setting and disclosures, Boards need to be aware of these increasing demands, as well as risks and opportunities for financial market participants. However, change can only be managed effectively when leadership makes a choice to be guided by core principles.

In this article, we provide some practical tips on how it can be done, based on our experience working with clients globally. We also provide some high profile examples of instances when climate risks influenced boards' agendas and shareholders' resolutions.

Clear definitions and communication

Boards need to be very clear as to what ESG, sustainable investment and impact means for the organisation or products that they oversee. This clarity has to be continuously communicated to the organisation to ensure consistency and focus and to prevent disconnection between what the board discusses and what the executives then implement.

Review relevant systems, processes and behaviours

If boards are finding it difficult to decide who should manage oversight of the sustainable investment agenda, and how it should be done, it can be useful to hire external experts to conduct independent evaluation to ensure that optimal corporate governance and structures are in place, prior to adding new demands. An audit committee should then see that recommendations of independent evaluation translate into an action plan that is discussed frequently.

Appoint a lead director for ESG oversight

Once the strategic priorities are determined and an ESG agenda is discussed in the context of such priorities, the boards can decide if a separate ESG committee needs to be formed, or specialised non-executive directors (NED) or staff should be hired, versus engagement with consultants. It can be useful for the same NED to sit on ESG and risk and/or audit committees as well as R&N committees to ensure continuity and consistent communication.

Establish relevant ESG matrix and targets

For instance, if the board agrees on a net-zero strategy and approves the intermediate targets or thresholds, it is then the job of the executive team to execute and report progress to the board. The board can set relevant KPIs to ensure execution of this strategy.

Seek expert advice during implementation

It can be useful to engage an independent expert to support with the execution of such targets in order to have an independent verification and in case the executive team needs further guidance. This way the board will not be involved in operational work but would be freed up to focus on strategic priorities.

Innovation

Invest in innovative products and solutions that would be necessary to deliver net zero strategies and similar pledges.

In summary

These steps minimise the risk of any miscommunication that is one of the reasons for misstatements like greenwashing or greenhushing. With increasing transparency around ESG agendas and execution, it is especially important to avoid such reputational risks.

How climate risks have influenced boards' agendas and shareholders' resolutions

Most recently, a UK asset owner roundtable convened asset managers over proxy voting concerns

As more companies commit to net zero strategies, such resolutions will remain at the top of boards' agendas - evidenced by the fact that already ahead of the 2023 AGM season, investors wrote to chairs of UK listed companies asking to disclose their plans for transitioning to a low carbon economy. Shareholders are asking for a specific "Say on Climate" vote during the next AGMs.

Sustainable Investment Consulting: who we are and what we do

Our mission is to build an integrated approach to connect sustainability to investment strategy and create results. We work with clients globally, offering expert advice regarding sustainable investment strategy and implementation. We are a team of solvers, combining knowledge from our prior investment, corporate and science careers to deliver sustainability expertise for change. Our

mission is to build an integrated approach to client deliverables that connects sustainability to your investment strategy – and to results.

When offering our consulting services to boards, we review the overall mission, strategy and organisational structure of each client. This allows us to engage with relevant stakeholders and present ESG risks and opportunities that are material to each organisation and investment strategy. This holistic approach offers the best outcome because it ensures effective communication and execution, preventing any inadvertent misstatements that often arise as a result of communication gaps between the various departments, as well as between the board and management.

About Ogier

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