BRINGING CLIMATE CHANGE TO THE COMPOSITION AND STRUCTURE OF BOARDS OF DIRECTORS

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A new set of what organizational scholars would call “contingencies” - factors in the external environment that place pressure on companies, affecting their legitimation and/or competitiveness – is surging. These new elements playing an increasingly significant role include gender equality, social justice, LGTBI issues, ethnic equality and, of course, climate change. These factors are novel, at least in terms of their intensity and how widespread they now are.

Climate change is a good case to reflect on the challenges that these contingencies – some scholars also call them “necessities” – pose for the composition and decision-making processes of board of directors. An example of how climate change may affect companies is expressed in a 2020 quote in the *Financial Times* by Sir Christopher Hohn, director of the activist hedge fund TCI (The Children's Investment Fund), who stated that “‘investing in a company that doesn’t disclose its pollution is like investing in a company that doesn’t disclose its balance sheet”. There are reasons to believe that climate change will be a long-term social movement exercising pressure on firms, as there is hard science behind the data supporting the need for pro environmental action, and it universally affects the population, especially, and prospectively, youth - a demographic group that is knowledgeable and highly predisposed to using social media and new technologies to organize and coordinate spectacular and intense collective action. As every action generates a reaction, there is, of course, a block of climate change deniers, a reactionary movement opposing the climate change movement, as well as attempts by some populist forces to use climate change as a wedge issue in their efforts to divide societies, but climate is still the least politically partisan of the contingencies mentioned above.

The question is not, then, whether companies should, whether they like it or not, factor in climate change sooner rather than later into their values, purposes, cultures, strategies and operations. The question is how and it has two components. One is the particular policies that each company needs to enact with regards to climate change to secure social legitimacy, and, at the same time, good economic results. There is a second question: how to design the structure and composition of boards of directors so that they are capable of regularly producing the right decisions in this area. Another way to express this would be to say how to make the enactment of corporate climate change policies sustainable –the response in their corporate governance and in its center piece:

boards of directors. Ideally, boards should function as teams, though all too often they fall short of the necessary degree of integration to deserve that name, and only constitute what are called "co-working" groups. In any case, all strategic company decisions must go through boards of directors, including climate change policies.

Boards come in many types and forms. In some of them, when there is contention between directors representing different ownership groups it is difficult to reach consensus on the voluntary adaptation of boards' compositions and processes to new demands, such as climate change. In these cases, climate change policies by companies will only come via external regulations. In other cases, where there is, for instance, a dominant block of ownership, or there are good relationships between the different shareholder groups represented on the board, there can be positive discussions about board design.

The basic requisite for any organizational design is "isomorphism". The structures of a company - for instance, an executive committee - have to be "isomorphic" with their context; that is, they must have the same form, reproducing internally the complexity of the company's external work. As organizational scholars like to say: only variety absorbs variety. Because climate change has become a relevant issue, and there is activism out there promoting it, and stakeholders require companies to respond, etc., companies must develop specialized capacities and units focused on this contingency.

One example of isomorphism is the growing trend of executives leading units specialized in Climate Change. The role of Chief Climate Change Officer arose a few years ago, mostly at public organizations, as these are immediately and strongly affected by public opinion. An example is the Inter-American Development Bank. This role has now spread to all sorts of organizations. Incumbents in this new role are already launching Associations of Climate Change Officers (ACCOs), which issues credentials, offers courses, organizes events, etc. Likewise, the World Economic Forum has established a Climate Governance Initiative (CGI) following Davos meeting in 2019 and published eight guiding Climate Governance Principles to help foster effective climate governance on corporate boards. Since then, 15 country chapters were established globally with the latest launch of Chapter Zero France to provide platforms for dialogue, exchange and development related to the governance of climate issues. The aim of this initiative is to drive companies' adoption of the principles of climate governance initiated by the World Economic Forum.

The logic of isomorphism underlying the design of structures also applies to boards. What composition and structure solutions may they have? There are three basic possibilities, which are certainly not mutually exclusive.

One option is the most traditional: the development of climate change-related capacities in incumbent board members: education via seminars; coaching, etc.

A second option is boards creating *ad hoc* committees on climate change, the same way there are specialized committees within boards charged with subjects like investments, risks, audits, etc. Such a board committee could be a promising initial step. These do not necessarily have to be permanent, but could be put in place to

spearhead the push to take climate change seriously, especially until option one, the development of climate change capabilities in incumbent directors, is complete. The members of these committees could be internal executives in charge of the issue, such as the Chief Climate Change Officers just mentioned. Another resource here is soliciting counsel from a specialized consulting firm.

Finally, another option is the nomination to the board of a director specialized in environmental issues. However, this is often not enough since, as team scholars know well, a minority of one or even two very rarely influences a group.

These options are not mutually exclusive. In fact, they should be enacted in parallel to reinforce each other and reach a critical mass of influence. It is only in boards where the consequences of companies' positioning towards climate change for their business, reputational and compliance risks can be fully examined. The challenge for current boards is to consider their own design solutions to acquire the ability to deal with the contingency of climate challenge, which will be increasingly relevant and inevitable, and rightly so.

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