



## Take on Board

# Transcript – Take on Board Breakfast with Brynn O’Brien, Part 2

Helga Svendsen 0:00

So folks, this is part two of our podcast last week with some additional questions and answers with Brynn O'Brien from the Australasian Centre for Corporate Responsibility about all things ESG. So Brynn, thanks for joining us again, for additional questions. There were so many fabulous questions last week that we couldn't answer them all. So we're picking up the additional ones now. So Gretchen asks, How much does a does public sentiment play into board actions or lack of action of a board?

Brynn O'Brien 0:33

Look, I think, to quite a great extent, I guess it depends on what kind of business but most businesses and most boards are sensitive to what the public thinks of their of their business, I think we, we really saw a kind of outpouring of anger and grief after Rio Cheetos destruction of the chicken gorge case. And I think the board didn't respond appropriately to that outpouring. And then the rage grew. And ultimately, they did have to take action with you know, the exit of a bunch of senior executives, you know, similarly, on climate change, the major fresh food retailers, Woolworths and Coles have been quite aggressive in their decarbonisation of their kind of their stores their physical assets, because their customers are demanding it, of them. And because there is an opportunity for them to show leadership. On the other side AGL have said quite publicly, that the way they were, I guess, bashed up by the Turnbull government at the time for announcing the closure of their the Dell coal fired power plant has bruised them very badly. So that kind of political sentiment is is absolutely relevant to how boards are responding to ESG issues. But I guess, in the climate space, what I would emphasize is public sentiment is that is a lagging indicator that public sentiment is lagging behind the science right now. So clever boards will look at where public sentiment is, as an absolute minimum floor, and then go much, much harder than then that I think the general public really has not absorbed just how urgent the challenges and just how big it is. So it is incumbent on boards to show to show leadership and go beyond that public minimum.

Helga Svendsen 2:26

The next question doesn't have a name next to it. So how do we move boards, or company attention from short term issues, to longer term, transformative quality conversations? You know, just a little one there bring if you can just give us you know, the if you can give us the answer the magic wand, that'd be awesome.

Brynn O'Brien 2:45

Well, look, I think there are lots of questions in the last part of the podcast about all of the different strategies that the board can use. So remuneration, advocacy, really understanding the science having good information, it's kind of all of the above. I think it is a deep awareness of the challenges that we face and a focus on the future. It is the linking, I guess, perverse incentives, so short term incentives to where they come into conflict with long term objectives around decarbonisation. I guess it takes a fundamental kind of mindset shift and commitment of boards to do it. I also think listening to that wide range of stakeholders, particularly, you know, so listed company, their major investors will be long term investors, they'll be investing over the term and the working life and superannuation funds in particular can have some very sensible long term insights around management of long term risk, but also, you know, as was discussed in the last round, listening to young people, really taking their view seriously, really taking that them into account as a key stakeholder group, I think could really benefit boards.

Helga Svendsen 4:01

So next question, do we need a different board composition to have long term focused conversations? Do we need climate change specialists on the board of a Dorothy Dixier a bear? I'm guessing your answer is yes. But what are your reflections there Brynn?

Brynn O'Brien 4:15

Like? I think it depends on the on the kind of visit for board composition, I don't think every visa say the climate change expert on the on the board. And in some cases, I mean, climate change expertise can be sourced externally. And what a business might need is, I guess, change management or transformation experience. So if I were an oil and gas company, I'm probably you know, like, yes, get a climate expert on my board or I'd get some really high quality, integrated, external expertise. But really what I would be looking at is either I'd be looking for the skills that will assist me in the in the challenges ahead, which is either they've got a choice to make, transform the business do something different, don't pull hydrocarbons out of the ground and sell them anymore. So Transformation or wind down. So you might need expertise on your board that is focused on decommissioning assets responsibly. You know, so in some cases, that will be climate change expertise, I certainly think for, for companies with large physical assets, that would really be an advantage. But in some cases, it will be other kinds of expertise. But certainly that kind of diversity of background diversity of experience diversity of thought, and looking for those kind of key strategic risks and how to get diverse expertise that can give new insights into those Risk Dimensions.

Helga Svendsen 5:36

Yeah, I think it's interesting, I tend to agree that we don't need a climate, you know, having a climate expert in the room is a bit like having the finance expert in the room and often means that everybody on the board might be tempted to outsource their responsibilities and their knowledge in that way to the inverted commas, climate expert in the room, whereas it's a responsibility for all of us to have.

Brynn O'Brien 5:58

Absolutely, I mean, I couldn't I couldn't agree more, you can't just switch off and defer to the expert on on such kind of material strategic topics, and, and again, climate change everything change. It, climate change isn't just about physical asset risk, it's about transition, it's about systems risk, it's about how different stakeholder groups will be disproportionately affected. So all of the directors around the board table, need to have an understanding of it. In some cases, yes, it's going to be helpful to have, you know, a really deep expert. But in other cases, the real expertise that you might need is expertise in serving a particular stakeholder group.

Helga Svendsen 6:38

So the next question is from Jenny Selway, and she's asking hyper dominant are conversations regarding adaptive asset management strategy to protect an organization from climate risk, versus emission reductions and offsets? What are your thoughts there?

Brynn O'Brien 6:54

It's dependent on the business. And, you know, each company will have its own asset profile, and its own idiosyncratic ways that climate change appears as material. So I think we've got to be looking at all of those Risk Dimensions and all of the opportunities as well. So for example, you know, there's some companies on our index that really contribute massively to the causes of climate change. And those companies, there's no kind of adaptive strategy that they can pursue that they really need to rapidly aggressively decarbonise. Other companies will be able to look at the net positive benefit they can have, we'll be able to look at perhaps going to negative emissions depends on the company.

Helga Svendsen 7:38

So the next question is, from again, the fabulous Dominique Hes, how do we monitor report and be transparent as part of policy? You know, that walking the talk?

Brynn O'Brien 7:49

Yeah, I think it's, you know, having a really the process. So having a place within the board that, you know, climate risk, or ESG risk is located, whether it's committee, whether it's individual with responsibility, who reports back, whether it's getting external advice, having a process for that risk, identification, and a method for doing it, having the time in the board calendar, to make sure that it's covered, not just kind of leaving it until the last minute. It's about building internal boardroom competence and confidence and capability, and getting credible external advisors, and then talking to a bunch of stakeholders, getting good advice, setting realistic, but ambitious KPIs, and then monitoring for those results. But I do think having a well developed methodology and a transparent one so that you can get constant feedback, having not only dates in the calendar, where climate risk is discussed, but having regular review dates for how you know how you're executing on the commitment, all of these things are really important.

Helga Svendsen 8:53

Next question, how do we make sure the conversation allows for the moral dimension and the moral risk not just the economic risk on boards, especially when there are trade offs? What are your thoughts there?

Brynn O'Brien 9:06

Well, yeah, great question. The conversation must, must allow for it. Again, climate change is everything changed? I know I sound like a broken record on this. But you know, some of the scenarios and most of the scenarios outlined in the recent IPCC Working Group report on the physical science come with an almost unimaginable degree of distress and suffering and upheaval and death. Some of the scenarios the trajectory that we are on is one of catastrophic impacts to people in Australia, to people all over the world. It is of extreme, deadly heat. It is of, again, deadly precipitation, weather events. It is of overtime, sea level rise. It is of respiratory disease. Due to wildfires and bushfires, the moral and justice dimensions, I think, are already becoming obvious. It's a much richer conversation now, kind of, you know, unfortunately, because the east coast of Australia has experienced catastrophic bushfires in the last couple of years, the moral dimensions and the Justice dimensions of climate change are the ones that I think, you know, directors as human beings might have experienced. So I think it's just it's just making the point that I mean, I don't think the boardroom should be a place for purely economic discussions. There's no, there's nothing in corporate law that suggests that acting in the best interests of the corporation requires only the consideration of economics and in the best interest of the organization acting with care and diligence often requires consideration of the moral dimensions of risk.

Helga Svendsen 10:58

And that leads to another question that's here, in a way exactly what you're saying. The question is around, is there a growing momentum on ASX boards away from that purely economic drive purpose as well? Is there that momentum happening in the ASX?

Brynn O'Brien 11:14

The moral and economic dimensions of climate risk, in particular, are converging? And I should have said that the answer to the last question as well like then they're not really that distinct from one another, although the way we speak about them is distinct. And I'm a fan of using whatever argument is going to get me over the line with a particular individual or institution. So look, there are parts of, of the effects of Australian corporate culture that have no sensitivity towards these issues whatsoever, still very much part of the problem. But there are other parts where momentum is building in and I would say on overall momentum is certainly building in the right direction. It's just that the incumbent industries and institutions, you know, the mining industry, particularly the coal mining sector, the oil and gas industry, they occupy such an enormous have enormous resources. They are experts at deploying them, and they have enormous political power. So there is a small vocal minority, which is holding back progress and momentum for the rest of the business community.

Helga Svendsen 12:21

Rachel's question is around your views on measurement of the success of companies for ESG funds, where there is a lack of agreed common standards, does this lead to greenwashing?

Brynn O'Brien 12:34

Yeah, I certainly think it's pretty loose out there in the ESG, commitments, monitoring and marketing world, I would say. So I do think there, you know, there are risks. I guess my advice to people trying to discharge these responsibilities within corporations is that ultimately, you know, greenwashing or other kind of fudging will be found out consumers, customers, stakeholders getting increasingly sophisticated. And hopefully, there will be a moment where regulators and certainly in the climate space, I think the courts will be taking a much more proactive interest in assessing whether company commitments, particularly around decarbonisation targets are supported by evidence or whether they contravene provisions of the Consumer Law and the corporation's law against misleading and deceptive conduct. So, I mean, that the most recent opinion that the 2021 opinion, Noel Huntly SC on directors duties and climate change really pointed quite directly to these this risk that if directors are found by a regulator or a court to have been greenwashing, then there will be legal consequences for them.

Helga Svendsen 13:47

So the next question is, and I'll confess I don't know exactly what this question means, but I'm hoping that you do Brynn, it says New Zealand in the UK are planning to legislate for TCFD \*I don't know what that is, but you're going to tell me in a minute\*. Should Australia do this as well or a current arrangements for directors responsibility and disclosure enough? So firstly, what is TCFD and then what should we do with it?

Brynn O'Brien 14:12

So TCFD stands for the Task Force on climate related C, financial disclosures F and D. initiative of the Financial Stability Board, kind of lots of well respected people from business and boffins came together. Think it was 2015 and developed this reporting framework to guide companies to ask the right questions, make sure they're covering off all of the relevant data sets and then reporting on those to their stakeholders and shareholders in a kind of standardized way, so TCFD taskforce on climate related financial disclosures. So as the questioner says some other jurisdictions legislating around mandatory disclosure, this has been a live comment. session about whether Australia should do this since about 2016 / 2017. We're not going to get it and under this government I mean, there has no interest in in increasing corporate Australia's focus on these issues. Would corporate Australia benefit from it? Absolutely. Would Australian society and Australian companies in the global marketplace to benefit from this? Absolutely. I mean, it's a, it's really is a no brainer. At this stage, I'd almost go so far as to say, for certain classes of companies, particularly emissions intensive, major listed equities. TCFD is a bit out of date. To be frank, it's, you know, there, there are other reporting for frameworks, there's the climate action 100 plus benchmark is another one that I can, I can send you a link to that a better design. So TCFD is just really, you know, minimum kind of standard at this point in time. And it's really frustrating for Australians and Australian companies to be kind of held back by an ideological opposition to legislating for this. So Australia law is not serving the interests of corporations and society as well as it could it could do a better job by requiring mandatory disclosure.

Helga Svendsen 16:09

And again, building on that there's two questions here that I think are connected and build on what you've just said. So there might be some broader reflections. Firstly, how is the lack of government leadership on climate change going to impact Australia's transition to a safe pace climate wise? And secondly, we'll clear our policies and regulation help boards and directors to take action? I think they're probably connected and connected to what you've just said.

Brynn O'Brien 16:32

We're getting to really to a crunch point. So the lack of political leadership in Australia for every day that we delayed taking some of these actions that we need to take, ideally, you know, you have a just an orderly transition from high carbon economy to a low carbon economy. But every day that we delay, the chances of just an orderly diminish, we will transition one way or another to a low carbon economy, because the entire world will demand it of us. And because there will be no market for our

emissions intensive export product. So you know, there just won't be a market for coal, there won't be a market for oil and gas, or the market will be very, very small. At some point, in the foreseeable future, we're really behind the game here, we should have been looking at transitioning these industries, for a long period of time, and our societies, our communities, and our companies will not be served well by by this delay. So we will transition there is an inevitability about energy transition, it will happen, it must happen. But the justness, and the orderliness of it is put at risk for every further day of delay. And that is political leadership that is lacking, it's that level of coordination that is required that can only be delivered by the state, it can only be delivered by the government. You know, it is not the role of corporations. I mean, corporations are in many respects, or a big part of the sector is well ahead of government, and is the other part of the sector that's holding government back and, you know, holding them hostage in certain certain respects, the level of coordination, the level of Policy and Planning required, it is the role of government is the role of the state to do that. And what we're seeing now is that sub national government, so our state governments are stepping in and doing some of that work. But the federal government is, is just nowhere to be seen. And it's a real shame, and it will hurt our society. Ultimately.

Helga Svendsen 18:45

I was gonna say great, thanks, but not really anything at all, and no greatness there about anything that you've just said, unfortunately, everything you said was fabulous. But you know, it's all not good news isn't.

Brynn O'Brien 18:56

It's pretty grim. I mean, yeah. But, you know, Australia is increasingly an outlier on this, you know, we were ranked last in the OECD, on our, on our climate targets, because, you know, we're a wealthy, prosperous country with the highest standard of living, and emissions intensive economy, we've got a really educated population. But we're hugely part of the problem, you know, that that gap between what we should be doing and what we are doing is just extraordinary in, in Australia. And I mean, the rest of the world is taking notice at this point in time, I regularly hear from colleagues in other parts of the world saying like, What on earth do you guys do?

Helga Svendsen 19:38

What on earth are we doing? It's an excellent question. So final question. And, again, I think we've touched on this, but it's actually a nice way to close it out. I think in a way it comes from Alicia Rathbone. What are your tips about how we go about introducing this topic and having a genuine discussion on impact for our organisations?

Brynn O'Brien 19:56

Well, a great question. And look, I can I hate saying this feels like a bit of a cop out. But I think it depends on the organisation. I think one of the things to be mindful of is that even though this is it is

a crisis. And it feels overwhelming is that this is a marathon, not a sprint, or there might be sprints within the marathon. But this is this will be the work of our lives, as directors, this is this issue is not going anywhere, we will have to keep building competence and confidence and capability in relationships across the term of our careers, as directors, boardroom conversations are always like this fad, bringing people along, bringing people you know, on the journey with you. So I would say a little depending on the kind of the kind of businesses and the challenges that you face, you could work on staging the conversation on just getting a sense of people's capability and confidence can look at a board kind of questionnaire or skills audit, and go from there seek external advice. We're fortunate in Australia to have kind of a community of climate scientists and boffins who, in my experience are pretty eager to jump in and, and assist in delivering information to people who have the power to make decisions to improve our situation. I think that is those internal board kind of conversations and then moving along that journey of having a process to manage climate risk and engage in advocacy externally with listen to stakeholders, and then go to government and trade association stakeholders. There's lots of things you can do, this will be the work of your entire board career. And there are people out there who are eager to help and certainly, you know, ACCR is very keen to assist so if there's anything we can do, please get in touch we will gladly assist you.

Helga Svendsen 21:57

What a beautiful way to close this out. So folks, we will make sure ACCR details are in the show notes as well. As always, if you're out walking, listening to this and are like I can't manage the phone and also check the show notes. Just go to the website, all of the links, as well as transcripts of the episodes will be on the website. So you can just go back to it later. Brynn. Amazing. Thank you so much. I can already tell from the feedback that's been piling into my both my text and my inbox. We're recording this straight after the event. And people have just so grateful and invigorated I think by the conversation that we've just had. So thank you for sharing with the take onboard community today. I know. How did you describe in a moment ago, this is the task of our lifetime as board directors and having this sort of information in our head will I know that people in the take on board community up to the task. So thanks for giving us the tools to make that happen. Well, thank you it's been an absolute pleasure.