The Chairperson’s Guide
to Climate Integrity
Earning and Enhancing
Trust through the
Sustainability Transition

WHITE PAPER
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Executive summary

Trust and integrity are at the core of human interactions and relationships, and business is no different. As stewards of the corporation, boards of directors have a crucial role in building and maintaining trust. Therefore, they must stay abreast of rising stakeholder expectations.

Due to stakeholder pressure, businesses are expected to respond more quickly, diligently and authentically to climate change and nature degradation. Environmental challenges are increasingly the focal point of garnering stakeholder trust, with expectations rapidly evolving in scope and intensity. Companies are expected to consider their impacts on the whole value chain, going beyond emissions to include equity and nature considerations. Action needs to be quicker and more ambitious than ever before.

To help build and maintain strong corporate trust, board members should understand their role in embedding integrity in four critical pillars of trust:

- **Humanity**, leading with genuine interest and curiosity on emerging stakeholder concerns related to climate and nature;

- **Transparency**, with open dialogue on the challenges, uncertainties and trade-offs required;

- **Capability**, by helping to ensure leadership and employees are upskilled to understand and effectively address risks presented by climate and nature; and

- **Reliability**, by holding leadership accountable to deliver on climate and nature commitments consistently and dependably.

Building and maintaining strong trust can yield significant value for the business, driving greater customer loyalty, employee productivity and community acceptance, as well as reinforcing investor and supplier relationships and business resilience during setbacks.

However, given the complexity and high stakes, it can be easy to lose stakeholder trust. Common risks to integrity and trust in the sustainability context include:

- Commitments and claims that are not achievable or substantiated;

- Commitments and claims that are not science-based, including over-reliance on carbon offsets;

- The high susceptibility of climate and nature investments to corruption and fraud due to the emerging nature of these markets;

- A lack of consideration of social and community impacts; and

- Communications that mislead the audience (often referred to as greenwashing).

As stakeholder scrutiny rises, companies are increasingly exposed to risks arising from litigation and changing reporting standards. Legislative change can often be a lagging indicator—the time companies have implemented mandatory climate- or nature-related reporting, community trust may already be eroded and, in some cases, result in legal action. In the case of climate, more than 2,000 litigation cases have been identified worldwide. With the number of cases doubling since 2015, high growth is expected to continue. As sustainability expectations continue to evolve, companies need to keep up to date with peer progress and remain in stride with corporate leaders to minimize the risk of litigation.

Mandatory sustainability reporting standards can further amplify the exposure to litigation. They can also offer a measure of protection when applied diligently and in good faith. Proactive companies may also use transparent sustainability reporting to obtain a competitive advantage. While the introduction of mandatory reporting does not change a director’s fiduciary duty to act in the company’s best interests by considering climate risks and opportunities, it aims to provide a framework to assist board members in identifying and disclosing them. All boards of directors,
regardless of whether the organization they serve is subject to mandatory climate and sustainability reporting, should have a view on what quantitative metrics are appropriate to report.

It is the board’s responsibility to support and develop the integrity of, and trust in, the organization. Boards can help support management by instilling a culture aligned with its purpose and applying a system-wide lens when responding to climate and nature risks. This involves considering the interdependencies between the many systems that share common elements – like industries and supply chains. It can include reflecting on stakeholder relationships by measuring and evaluating stakeholder trust. To help foster high levels of integrity and trust in commitments and claims, businesses can:

- **Build strong foundations** by adhering to science-based guidelines when developing an action plan and aligning internal and external messaging with demonstrable actions;
- **Be committed to the delivery** of claims and commitments by introducing leadership incentives, endorsing thorough due diligence and ensuring accountability of leadership; and
- **Clearly communicate** plans by being honest, straightforward and clear in the company’s disclosures and transition action plans.

As company stewards, board members are responsible for constantly scanning the horizon for changing stakeholder expectations. This comes with the recognition that decisions made today may be judged by the views held by society in the future. While the concept of climate integrity and trust can be elusive and difficult to navigate, implementing a thorough process for considering these issues can reveal tangible steps for action.

Considering your regulatory obligations is just the tip of the iceberg. Look to the activists and strategic litigators, who are society’s leading indicators. What was the bleeding-edge position one year might just be mainstream investor expectations the next.

Sarah Barker, Co-Chair of the World Economic Forum’s Climate Governance Community of Experts
## Rising expectations spanning climate and nature

Business is being challenged and is responsible for responding more quickly, diligently and authentically to climate change and nature degradation.

This paper unpacks the evolution of corporate integrity and trust in the context of the sustainability crisis while highlighting the role of chairpersons and board members to build and maintain a strong position on climate and nature.

While businesses are increasingly taking action to address stakeholder expectations, there appears to be growing scrutiny of the credibility and integrity of commitments. Stakeholders are increasingly concerned that corporate claims may be false, misleading or have no reasonable basis, known as greenwashing. This is driven by the fact that:

- Climate change and nature degradation are complex topics and the extent of the impacts on business is rapidly expanding as they materialize.
- A number of stakeholders have high expectations with respect to climate action, yet the solutions are sometimes not clear or straightforward and can often involve material investment to successfully implement.
- Today’s board members will typically not be around to see the benefits of climate action and, although one of the roles of the board is to look over the horizon, there can be a perception that board members may not feel sufficient personal accountability for targets set in their term but not due to be delivered until later decades.
- Recent examples of corporate greenwashing and anti-climate lobbying have prompted greater stakeholder criticism of companies not meeting their commitments or slowing action on environmental, social, and governance (ESG) matters.

Social media and digital communications are further accelerating criticism, with access to information allowing for faster stakeholder mobilization. This heightened scrutiny can lead to a decline in trust in many companies, which can open them up to a variety of reputational, financial, regulatory and other risks. However, creating a high-trust environment can also generate significant value and may lead to enhanced financial performance.

<table>
<thead>
<tr>
<th>Value when trust is earned from key stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customers</strong></td>
</tr>
<tr>
<td>A trusted environmental record can be critical to maintaining loyalty. For example, a study in the US found that 88% of customers will return to buy from a brand they trust.</td>
</tr>
<tr>
<td><strong>Capital providers and shareholders</strong></td>
</tr>
<tr>
<td>Trust can bring greater access to a lower cost of capital. For example, globally, the percentage of retail and institutional investors that apply ESG principles to at least a quarter of their portfolios jumped from 48% in 2017 to 75% in 2019, noting that the standards of principles vary significantly.</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
</tr>
<tr>
<td>Trust can provide access to top talent and a productive workforce. For example, over half of workers under the age of 40 research a brand’s environmental impact and policies before accepting a job.</td>
</tr>
<tr>
<td><strong>Community</strong></td>
</tr>
<tr>
<td>Trust can be essential to general community acceptance and, therefore, the social license to operate. For example, companies in the mining industry view building trust with local communities as necessary to operate.</td>
</tr>
<tr>
<td><strong>Suppliers</strong></td>
</tr>
<tr>
<td>Keeping up with supplier ESG standards will likely be critical to maintaining business-to-business relationships. For example, BHP will expand its existing targets to include scope 3 emissions by requiring suppliers and shippers to achieve net-zero emissions by 2050. This requires a more collaborative way of working with suppliers and enables BHP to enhance the resilience and competitiveness of its entire supplier ecosystem.</td>
</tr>
</tbody>
</table>

Source: Deloitte Global

The Chairperson’s Guide to Climate Integrity 5
What are climate trust and integrity

As board members can attest, trust is at the core of successful relationships and businesses. It is earned when commitments are authentic to the organization’s purpose and grounded in the organization’s business strategy over time. However, the complexity and consequences presented by climate and nature have the potential to impact stakeholder trust.

To counteract the possibility of deteriorating trust, board members can demonstrate climate integrity by instilling strong principles and values within the organization to genuinely respond to climate change and be honest with all stakeholders in their response. It will require companies to be transparent with their commitments and progress, align with science-based targets and be accountable for the emissions they produce. The two fundamental principles of trust are:

- Every stakeholder counts, noting that each stakeholder may have different expectations of the company.
- Talk is cheap and trust is demonstrated through transparency, clearly stated promises and demonstrable action.

Several elements contribute to companies establishing and maintaining trust.

### Pillars of trust

#### Capability
Upskilling the firm’s workforce to understand and effectively address risks presented by climate and nature in line with science-based targets.

#### Humanity
Demonstrating genuine interest, curiosity and values to support the transition to a sustainable future.

#### Reliability
Retaining trust by consistently and dependably delivering on climate and nature commitments.

#### Transparency
Being open and honest: in transition action plans or disclosures, on the challenges faced to meet targets, on the uncertainties in delivery and on the trade-offs required.

Source: Deloitte Global

Leaders who actively build trust may open up innovation and collaboration opportunities for the organization. Building trust can also enable the business to become more resilient in times of crisis.
As climate and nature science continues to evolve, society will undergo a significant mindset shift. This involves five key stages, based on Kuhn’s concept of paradigm shifts, adapted in the first row in Figure 3. The climate and nature transition is expected to shift the goalpost under two critical elements of trust:

- Society’s understanding of humanity shifts to incorporate sustainability values. To remain trusted, companies must continuously update their values to align with this understanding. To help anticipate tomorrow, it is important to listen to what all stakeholders have to say today.

- The capability to help understand and respond to climate change and nature degradation will likely require workforce upskilling. Companies should invest in human capital to remain competent in a sustainable world. See The Chairperson’s Guide to a Just Transition.

Through this societal mindset transformation, companies will need to decide how they will act. Figure 3 demonstrates two possible illustrative pathways on either side of the trust spectrum.

Companies that maintain high trust and strong principles of integrity (Pathway A) embrace new information and plan for various scenarios of scientific discovery. They willingly contribute to the sustainability transformation with the aim of improving society, recognizing that this may require a shift from the existing business strategy and operations. This foundation of integrity provides them with the internal drive to change society.

Companies that are reactive to societal change and lack adherence to principles of integrity (Pathway B) may be more likely to erode trust through the transition. Fear of losing their existing core business may drive companies to suppress and deny new information. Ultimately, the overwhelming scientific evidence of climate change and nature degradation becomes undeniable and the company is forced to change – in the most extreme cases, through litigation and government regulation.

As described in the Chairperson’s Insights into Climate Action, change broadly involves three stages: Why must we pay attention? How will we change? And how fast can we change? The path companies take can have implications for the trust society has and the pace of transition and intensity of litigation and regulation required to achieve a more sustainable future.
### Maintaining trust through the sustainability transformation

<table>
<thead>
<tr>
<th>Society-level transformation process</th>
<th>Current paradigm</th>
<th>Model drift</th>
<th>Model crisis</th>
<th>Model revolution</th>
<th>Paradigm change</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Post-industrial revolution “business as usual”</td>
<td>- Scientific discovery identifies “anomalies” in climate</td>
<td>- Science research on climate change emerges</td>
<td>- Regulations and litigation focus changes and accelerate</td>
<td>- Climate change broadly accepted by scientific community, “Why did we not do this sooner?”</td>
<td>- Societal norms and expectations adjust to new reality</td>
</tr>
</tbody>
</table>

#### Pathway A: Curious and proactive

**Historic operating norm**

- Keep abreast of “fringe ideas” and consider potential impact on business and stakeholders
- Societal expectations and science used in scenarios and backcasting to influence business strategy; company openly shares information that may contribute to scientific development

At any point, the company can switch approaches to shift from pathway B to pathway A

However, there will be a point at which trust is eroded and will take significant effort to rebuild

Ultimately, the expectations of society in the new operating norm are relatively similar, where society has eventually adjusted to reflect the new reality; however, the pathway taken may influence the time taken in each stage to reach paradigm change and affect the level of regulation and distrust among stakeholders

### Pathway B: Reactive

**Pathway B: Maintain strong trust**

- Suppress scientific discoveries that may harm your bottom line
- Continue to deny emerging science or size of the problem; information that may disrupt operating norm is held tightly
- Increasing litigation, tightening regulation and investor pressure push company to change

**New operating norm**

<table>
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<tr>
<th>Trust levels</th>
<th>High</th>
<th>Pathway A: Curious and proactive</th>
<th>Pathway B: Reactive</th>
<th>Low</th>
</tr>
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</table>

Source: Deloitte Global
Ørsted’s journey demonstrates how companies can benefit from building stakeholder trust through the credibility and integrity of their commitments in the climate sphere.

Today, Ørsted is a global leader in renewables, a marked change from two decades ago when it earned over 90% of its revenue from fossil fuels. In response to rising stakeholder concerns, Ørsted shifted away from its coal-intensive utility roots in 2009, setting goals to be coal-free by 2024 and achieve net-zero emissions by 2040.

“Confront your reality in a changing landscape” is Ørsted’s first lesson of its green transformation. It recommends that companies “look to the fringes of your stakeholder landscape to identify the risks and opportunities that will shape and impact your business environment in the future”. Through the company’s transformation, Ørsted has addressed some of the critical pillars of building stakeholder trust:

- **Capability** – ensuring the senior leadership team is driving the strategy and offering opportunities to employees to work in the transformed renewable energy business.

- **Transparency** – establishing an annual sustainability report in 2014 and starting to disclose ESG performance in 2017, including how the company is performing against specific metrics.

- **Reliability** – consistently meeting targets such that Ørsted has reduced scope 1 and 2 emissions by 87% since 2006 and scope 3 emissions by 62% since 2018 and generates over 90% of its energy through renewable power.

Ørsted’s efforts are reflected in the market, with numerous top rankings from independent organizations over the past half-decade, such as the World Benchmarking Alliance, Fortune and Harvard Business Review. Since its IPO in 2016, the company’s market capitalization has increased by 314%.

In the Board, we firmly believe that corporate governance is fundamental for Ørsted’s growth journey towards becoming the world’s leading green energy major. Our corporate governance model is built on three pillars: enabling the right decision-making, having the right competencies, and fostering a company culture rooted in integrity.

It is a priority for the Board to support and develop a company culture based on high ethical standards and clear values that permeate across our entire business. Sustainability is incorporated into our entire way of working, from the Board to the individual employee.

Thomas Thune Andersen, Chair of Ørsted

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CASE STUDY

Ørsted

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Thomas Thune Andersen, Chair of Ørsted
Common risks to integrity and trust in the sustainability context

At the 2022 United Nations Climate Change Conference (COP27), the UN High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities released a report highlighting the importance of integrity in corporate climate commitments. Recommendations follow key themes of ambition, integrity, transparency, credibility and commitment.36

Trust can easily be eroded through a company’s action or inaction. The following section outlines common mistakes or actions that can lead to a loss of trust, often resulting from the absence of integrity to drive genuine sustainable outcomes for stakeholders. While these principles may seem self-evident, the challenge and complexity of climate and nature necessitate a deeper level of consideration when it comes to their applicability to this area.

Leaders are expected to balance being bold while being realistic – in line with obligations to act in the company’s best interest. As most leaders today will not be held accountable by the time most long-term sustainability targets are to be met (e.g. in 2050), incentives are skewed to make ambitious long-term commitments without an immediate and achievable climate (or nature) transition action plan37 to achieve this.38

Companies showing lower levels of trust may be perceived as unreliable, undergo greater scrutiny for targets set, and be considered “unrealistic” in their response. Where trust is damaged, the absence of a climate or nature transition action plan could further cement views that the company lacks competence and transparency in achieving its proposed goals. In comparison, companies showing higher levels of trust by demonstrating their reliability and competence through quantitative disclosures may be more likely viewed as bold and ambitious.

However, stakeholder expectations may conflict and commitments may not satisfy all. As stakeholder trade-offs become more complex (see The Chairperson’s Guide to Climate Stakeholders), boards should give greater consideration to determining trade-offs and how to mitigate the impact on trust for those most impacted by the decision.

2.1 Commitments that are not achievable or substantiated
2.2 Commitments and actions that are not science-aligned

More than one-third of the world's largest publicly traded companies have net-zero targets, yet almost two-thirds of these targets do not meet minimum standards of robustness. Companies may tend to set commitments based on market pressures, such as committing to net-zero emissions by 2050, meaning what is scientifically necessary to limit global warming becomes a secondary consideration. However, as stakeholders become increasingly engaged and knowledgeable on environmental topics, there will be greater pressure for companies to demonstrate that their commitments are scientifically credible, for example, aligned with or approved by independent frameworks such as the Science-Based Target initiative (SBTi) for climate and the Science Based Targets Network (SBTN) for nature.

Noting that this is a continuously evolving landscape, some key science-based concepts that are sometimes ignored or forgotten when developing targets include:

- Setting shorter-term interim targets and adhering to sectoral carbon budgets, such as setting five and ten-year targets to complement longer-term milestones.
- Following the mitigation hierarchy - to avoid and reduce value chain emissions in the first instance before taking actions to mitigate remaining emissions through offsetting.
- Linking commitments and actions to activities or actions both within the company and more broadly throughout the value chain:
  - Internal ESG integration helps embed the company's sustainability and broader core strategies into decision-making at all levels.
  - Consider impacts on value chain (scope 3) emissions when designing climate commitments to reduce direct emissions (scopes 1 and 2). For example, outsourcing production to a more emissions-intensive supplier may result in an overall net increase in emissions.

Overreliance on carbon offsets

An overreliance on low-quality or unverified carbon offsets may also not be considered scientifically credible or acceptable to key stakeholders who expect offsets to be used as a last resort. While carbon offsets are seen as an affordable and low-effort solution, they can present two critical risks to the climate transition:

1. Overreliance on offsets can perpetuate business-as-usual thinking and enable increased operational emissions, negating the purpose of the offsets to lower the overall emissions in the atmosphere.

2. Offsets are not all considered equal by stakeholders and there is a perception that quality is varied. Analysis indicates that some voluntary market projects may not represent genuine carbon reductions, potentially causing variability in the quality of the offset schemes. Unverified offsets may also be more exposed to corruption and fraud (refer to section 2.3). Offsets focused on “removal only” can be considered higher-integrity offsets, compared to offsets that represent “avoided deforestation” and may require increased scrutiny to ensure the offsets are genuine and permanent.

Although carbon offsets play an essential role in the transition, companies that are highly dependent on offsets, especially those perceived to be low quality, are likely to be more exposed to scrutiny from stakeholders. To achieve net-zero emissions, SBTi guidance recommends that offsets account for less than 10% of baseline emissions in final targets, which limits its application within science-based targets. Ultimately, reductions should be the priority before considering nature-based or mechanical removals.
Climate and nature investment is a rapidly expanding and evolving landscape with limited standardization or regulation, resulting in an elevated risk of corruption and fraud. The complexity involved and the high volumes of investment needed, often in short timeframes, may result in companies pursuing cheaper and faster pathways to deliver on their commitments. This may mean trading off more costly verifiable investments for “fast-track solutions”. Further, much of the global investment in transition and adaptation is being directed towards countries most vulnerable to the impacts of climate change that sometimes have weak institutions or regulatory oversight. This means companies may face a higher risk of being associated with corrupt or fraudulent behaviour. Areas outside the company's direct control, such as carbon offset markets, are particularly susceptible. A lack of robust board due diligence and controls throughout the value chain may amplify the exposure to fraudulent or corrupt practices. This should be safeguarded by quality standards and expectations of transparency, accountability and integrity in evaluating solutions, including building verification, reporting and anti-corruption assessment structures.

A lack of consideration for the social impacts of transition can create new business risks, including the risk of public resistance to climate action or, conversely, heightened climate activism from a perceived lack of action. Either of these can result in social instability and reduced economic activity. The effects of such risks can lead to reputational damage and loss of stakeholder trust. By considering the needs and impacts of the climate transition on people and communities, businesses can be better positioned to grow underlying capital and value. Managing these social risks and harnessing the opportunities of the climate transition can empower businesses to help elevate social value, improve corporate reputation, and reduce systemic risk. Ultimately, recognizing that people are at the heart of the transition can support the achievement of sustainability targets and help businesses strengthen trust with stakeholders. For a detailed analysis of this topic, see The Chairperson’s Guide to a Just Transition.
How companies present their efforts publicly is critical to concerns of integrity. While companies want to market themselves as sustainable, it can be easy to over-claim merits. A source of eroded trust is often from real or perceived insincerity, such as publicizing investments in low-carbon technology while increasing capital in polluting activities.

Research by the European Commission in 2021 found that 42% of corporate climate claims were exaggerated, false or deceptive, with a majority not providing accessible evidence to support claims.47 Even if done naively, misleading marketing can be perceived as intentionally deceptive and one of the leading causes of greenwashing claims. Boards should be wary of six “shades of greenwashing”:48

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
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<tbody>
<tr>
<td>1</td>
<td>Greencrowding: Hiding behind others to avoid being exposed for inaction</td>
</tr>
<tr>
<td>2</td>
<td>Greenlabelling: Misleading consumers by calling something green or sustainable</td>
</tr>
<tr>
<td>3</td>
<td>Greenhushing: Under-reporting or hiding sustainability efforts to avoid investor scrutiny</td>
</tr>
<tr>
<td>4</td>
<td>Greenlighting: Spotlighting green actions to draw attention away from environmentally damaging activities</td>
</tr>
<tr>
<td>5</td>
<td>Greenrinsing: Changing ESG targets before they are achieved</td>
</tr>
<tr>
<td>6</td>
<td>Greenshifting: Moving blame for climate action onto the consumer</td>
</tr>
</tbody>
</table>


Vague claims such as “green” or “sustainable” often have alternative meanings and can mislead consumers. Similarly, absolute statements such as “100% recyclable” or “zero emissions” can also be misrepresentations if the claims are unclear and not backed by strong evidence.49 Consumers may also be misled if businesses use certification trademarks incorrectly or use imagery that can give the impression of being a Trustmark.50 If a reputable third party does not certify a business or its products, businesses may be misleading consumers.51

As sustainability disclosures and reporting become more important for companies, directors should be mindful of the content of such disclosures and reporting. Regulators worldwide are starting to take a tough stance on greenwashing. For example, some regulators have banned advertisements from, fined and even commenced court proceedings against companies that engage in deceptive sustainability practices, such as financial institutions and airlines.52

It is important to note that risks related to greenwashing do not mean it is safer for companies to avoid setting net-zero emissions goals or related commitments. Directors have a duty of due care and diligence that extends to oversight of disclosures. Boards with genuine intentions to deliver on clear sustainability strategies will often instruct management to be transparent on progress to protect the company from greenwashing risks. Ultimately, there is a greater danger in not setting a target at all.53
Litigation and sustainability disclosures

Many jurisdictions are mandating sustainability disclosures. However, regulation is often a lagging indicator – by the time companies have implemented mandatory sustainability reporting, community trust may already have eroded, sometimes resulting in legal action. This can be seen in the context of climate and sustainability. Despite reporting and disclosure requirements moving extraordinarily fast, regulation continues to trail behind stakeholder expectations and rising litigation.

3.1 Climate litigation

While the broad concept of environmental litigation has existed for many decades, targeted climate litigation is increasing. More than 2,000 climate litigation cases have been identified worldwide. With the number of cases doubling since 2015, this trend is expected to continue.

Previously, climate litigation almost exclusively threatened government bodies and the oil and gas sector. Today, there is diversification in claimants, their approaches and affected defendants. More than half of cases filed against corporate actors in the 2021 calendar year featured defendants outside the fossil-fuelled energy sector.

At the heart of climate litigation, claimants’ motives often stretch beyond compensation, instead focusing on creating a broader societal awareness. Even if the claimant is unsuccessful in court, they may succeed in swaying public opinion, causing stakeholders to question the integrity of the defendant and damaging levels of trust.

Figure 6 demonstrates some of the broad categories of litigation being brought forward. This does not cover the full range of liabilities that may arise in the future. For example, in some extreme instances, actions can include the case for holding emissions-intensive companies liable for “climate homicide.”
Defendant | Litigation categories
---|---
Company and/or directors in a personal capacity | Greenwashing
Challenges to misleading or deceptive communications; can be filed in the courts or with advertising boards

Company only | Failure to adapt
Failure to ensure material physical climate risks are considered in company decision-making

| Corporate framework
Seeking to disincentivize business-as-usual activity due to a failure to integrate sustainability targets into companywide policy, strategy and decision-making

| Enforcing procedural climate standards
Challenges to specific projects or policies based on a failure to integrate appropriate consideration of procedural, environmental and climate standards or principles in the approval process, such as environmental impact assessments

| Human rights
Due diligence obligations of companies to consider the increasing application of human rights to climate

| Financing and investment
Challenging public and private financial institutions for their portfolio emissions and prudence of financial management

| Personal responsibility
Attributing personal responsibility to directors or boards of directors for contributing to or failing to manage climate risks adequately

Note 1: Some cases can include multiple claims or alternate lines of reasoning, meaning a single case can fall under multiple categories.

Note 2: Categories with darker shading represent areas of acute litigation risk based on current trends; categories with lighter shading represent emerging or less acute risks at present.

Source: Deloitte Global, based on information from the Climate Governance Initiative, Commonwealth Climate and Law Initiative, Grantham Research Institute on Climate Change and the Environment, and the London School of Economics and Political Science.

For more information, see Climate Change Litigation – What Board Directors Need to Know.

3.2 Sustainability disclosures

Globally, ESG disclosure requirements are becoming increasingly standardized and prevalent, introducing new rigorous and comprehensive frameworks and standards.

While new disclosure frameworks, such as IFRS S1 and IFRS S2 (the first standards issued by the International Financial Reporting Standards (IFRS) Foundation’s International Sustainability Standards Board (ISSB)), build on existing standards and practices, it is important to stay aware of the latest developments. This might include expanded reporting requirements for global operations and the value chain, the level of assurance required, climate transition action plan expectations and the liability of directors for forward-looking statements.

Governments and financial and securities regulators in certain jurisdictions have already begun issuing or adopting sustainability standards as mandatory. This number is expected to increase over the coming years.

IFRS S1 – General Requirements for Disclosure of Sustainability-related Financial Information – establishes overarching principles and sets out...
Addressing climate change and nature degradation requires significant investment in technology, capital and people. Collective action through industry collaboration can help spread knowledge and investment costs, potentially facilitating a faster-paced transition. This includes avoiding first-mover cost disadvantages, which may sometimes limit companies’ ability to act alone. However, the present scope of competition laws may pose a perceived or actual roadblock in allowing companies to collaborate.

Concern about the risk of anticompetitive conduct can stall effective action. For example, one survey indicated that 60% of companies did not cooperate with competitors due to antitrust and competition law concerns. In response, regulators are beginning to consider how agreements that pursue sustainability objectives interact with competition law. Some regulators have introduced innovative sandbox initiatives to encourage companies to bring forward proposals for assessment.

Other authorities have acknowledged sustainability and the transition to a net zero economy as an area of focus and have released guidance materials regarding the application of competition law to sustainability initiatives. For example, the European Commission adopted revised Horizontal Guidelines that address sustainability agreements. This includes outlining forms of sustainability agreements that are unlikely to raise competition concerns and a “soft safe harbour” for certain sustainability standardization agreements provided conditions are met. Other regulators are also providing public guidance regarding projects they have assessed that will deliver environmental benefits. For example, two petroleum companies in the Netherlands were allowed to collaborate to store carbon dioxide in the North Sea on the grounds that it would help realize climate objectives.

The intersection between competition law and sustainability agreements remains an evolving issue. Policy makers, regulators and companies in different countries are at varying stages in considering this issue, including whether existing laws are appropriate or if a regulatory change or further guidance is required. Ultimately, it is the role of the board to guide management on the benefits of pursuing collaborative activities with industry participants in a way that manages regulatory risks, including antitrust, in relevant jurisdictions.
What is the board’s role in building trust and integrity?

It is the board’s responsibility to ensure the integrity of, and trust in, the organization. Board members recognize they should actively steer the trust agenda and provide effective oversight of management. Directors can complement management’s activities by bringing in a system-wide view of the interdependencies and connections across the core systems of the global economy.

Chairs should embed genuine purpose into culture so decision-makers understand the long-term opportunity and risks at stake. Creating a culture of authentic action can be vital to helping prevent management from focusing only on the shorter term.

As highlighted by the Ørsted case study, directors should continuously stay abreast of changing and evolving stakeholder views by considering scenarios of how stakeholder values may change. Directors bring value to executive management through their perspectives of the current market environment and how the economy is likely to change. This allows for a view of where corporate value is likely to be created – and eroded – including through scenario planning of stakeholder evolution. This can unlock critical new opportunities to address the sustainability crisis while also creating new value through emerging sustainable systems.

Directors can complement management’s activities by bringing in a system-wide view of the interdependencies and connections across the core systems of the global economy.
4.1 What can chairs do?

A survey of global director and executive leaders indicates that complacency, lack of clarity on what to do and absence of a designated owner of trust management are the three biggest barriers to building trust as an organization. Self-awareness is the starting point for addressing complacency. Organizational trust does not occur naturally but should be intentionally developed. Measure and evaluate stakeholders’ trust in the company to understand where the company sits from the stakeholder perspective, identify gaps to be addressed and consider the authenticity of the company’s current public positioning.

To help avoid some of the common errors and risks described in Section 2, chairs can ask the following questions to enhance the integrity and reliability of commitments and claims.

**FIGURE 7** Questions chairs can ask to enhance the integrity and reliability of commitments and claims

1. **Science-based**
   - Are the company’s commitments embedded in science and aligned with science-based frameworks such as the SBTi and STBN?
   - Does management have an evidence-based transition action plan? Does the plan focus on avoiding and reducing in the first instance?
   - Does the company’s transition action plan consider the value chain of impacts beyond its own operations, such as scope 3 and social equity issues?
   - To what degree is the company willing to rely on carbon offsets? And if so, what quality is it willing to adopt?
   - What are the most critical trade-offs between conservative and bold commitments that should be considered at the board level?

2. **Consistent**
   - How aligned are your sustainability strategy and core business strategy? If the sustainability strategy was implemented in full, would the core business strategy still be able to be upheld? If not, what needs to change to embed sustainability deeply into the core business strategy?
   - Are the company’s marketing campaigns aligned with the reality of the company’s services and actions?
   - Do industry associations, of which you are a member, have a position that is consistent with your strategy?

3. **Invested**
   - Does the company’s culture support environmental sustainability and is the leadership team invested in taking action? Does leadership consider this more than just a box-ticking exercise?
   - Are the incentives aligned appropriately with the sustainable business strategy to encourage genuine change? For example, some companies have issued bonds to investors with a conditional penalty if the company fails to meet its sustainability goals.

4. **Diligent**
   - Has management undertaken reasonable due diligence, such as comparing against the Corporate Climate Responsibility Guide and Assessment Criteria?
   - Has your company effectively considered and managed its potential exposure to climate and nature-related corruption? Are additional climate and nature corruption principles required, similar to anti-money laundering frameworks?
According to an old Dutch parable, “Trust arrives on foot and leaves on horseback.”

As company stewards, board members are responsible for constantly scanning the horizon for changing stakeholder expectations. This comes with the recognition that decisions made today will be judged by the views held by society in the future.

The role of the board and the principles of good governance will continue to evolve over time to reflect contemporary practices, considering changes in the internal and external environment. As the world matures, it is the board’s role to maintain the appropriate governance framework, including accountability of critical roles within the board and management to build, enhance and maintain high trust.

### Independent
- Have the company’s climate and nature disclosures, action plan and claims been externally verified and assured by trusted third-party entities and aligned with appropriate frameworks (e.g., Task Force on Climate-Related Financial Disclosures (TCFD), Taskforce on Nature-related Financial Disclosures (TNFD), the International Sustainability Standards Board (ISSB) standards)?

### Accountable
- How can the board and management stay accountable for commitments? For example, disclosing progress on commitments and reflecting sustainability in remuneration can be vital to holding leadership accountable.
- Has the board appropriately considered and embedded short versus long-term accountability?
- Are internal incident and whistleblowing channels functioning appropriately in the context of climate and nature?

### Authentic
- Does the company’s transition action plan have a clear purpose that authentically aligns with the company’s values?
- Has oversight of the reporting process been established?
- Can an authentic culture be created by opening honest conversations on challenges with stakeholders, including trade-offs that must be made?
- Is the leadership team engaging in frequent and open dialogue with all stakeholders? Such authenticity is easier if the company starts from a place of trust with stakeholders.

### Simple
- Are the company’s disclosures and transition action plan unnecessarily complex? How can the company simplify its reporting and commitments to avoid confusion and avoid claims of being misleading? Undue complexity can be perceived as intentionally attempting to obscure the truth.

### Clearly communicated

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Source: Deloitte Global

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Endnotes


2. Deloitte Global, How boards are nurturing and measuring stakeholder trust, Deloitte, 2023, p. 11.


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31. Ørsted, By the numbers: How we build a world that runs on renewable energy, 2021.

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36. For a summary of how recommendations relate to board members see the Climate Governance Initiative’s Integrity Matters: a briefing for board directors on the UN report on net zero commitments by non-state entities.

37. The Transition Plan Taskforce has prepared best practice guidance on preparing and implementing transition action plans.

41. A value chain encompasses the activities, resources and relationships an entity uses and relies on to create its products or services from conception to delivery, consumption, and end-of-life.
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The World Economic Forum, committed to improving the state of the world, is the International Organization for Public-Private Cooperation.

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