Corporate Governance

Boards Can Continue to Lead the Way on Climate Governance

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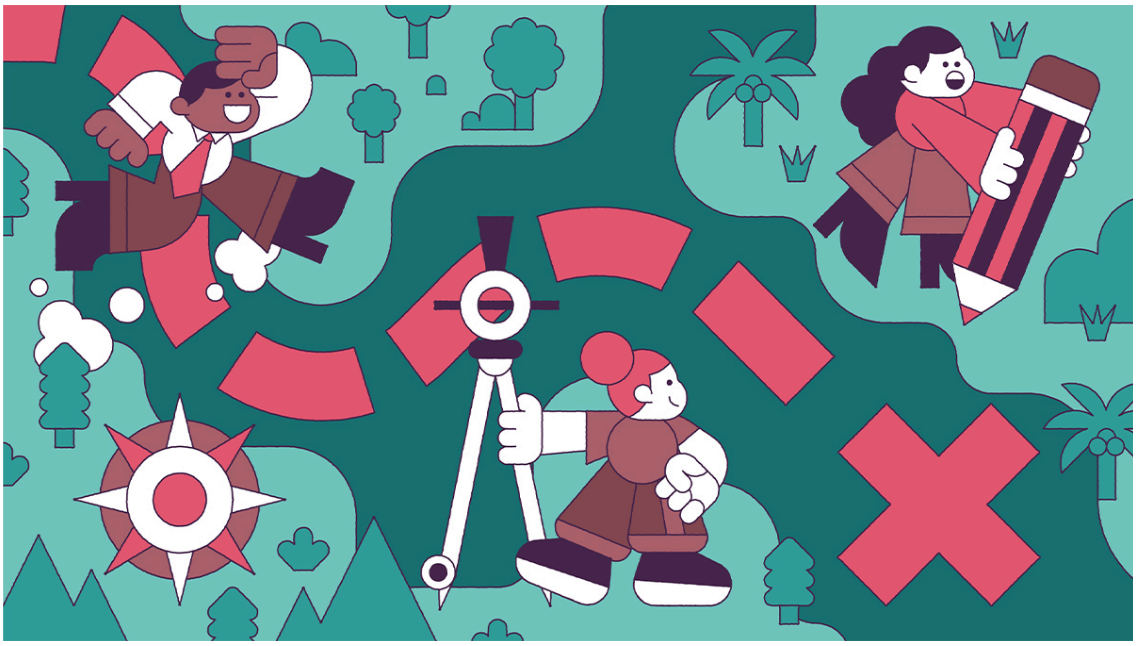

Illustration by David Comai

Summary. Corporate boards have a critical role to play in addressing climate change, not only by overseeing risk and compliance but also by guiding strategy and innovation. As climate-related challenges intensify, boards must move beyond traditional governance... more

During the past year, political and investor pushback against corporate climate efforts has intensified. Nearly 320 anti-ESG bills have been introduced across U.S. state legislatures since 2021. States such as Florida and Texas have curbed the use of ESG considerations in public investments. The U.S. SEC has all but repealed its climate-disclosure rules, and pending climate-disclosure rules in California are mired in litigation.

This backlash has triggered a corporate retreat in some parts of corporate America. Firms are scaling back climate disclosures, reducing sustainability headcount, and in some cases abandoning emissions goals. Major financial institutions—including BlackRock, Goldman Sachs, State Street, and JPMorgan Chase—have withdrawn from global climate alliances, while companies such as Alphabet and McDonald's have purged "ESG" from public statements. ExxonMobil took the unusual step of suing shareholders for proposing stronger emissions targets.

Yet the underlying risks associated with climate change—from supply-chain disruption to asset impairment and shifting consumer preferences—haven't disappeared. If anything, they are accelerating. As climate impacts grow more visible, companies will need strategies that address both mitigation (reducing emissions) and adaptation (strengthening resilience to physical and operational climate risks). Globally, companies appear to recognize these risks. Despite headlines about ESG retreat, a PwC study found that 37% of the more than 4,000 companies reporting climate targets to CDP in 2024 had increased their ambitions, and only 16% had dialed them back. The question for boards then is not whether they should engage in climate governance, but how to do so credibly, legally, and effectively in an era of heightened scrutiny.

Guidance for a Shifting Landscape

Last year, in an HBR article "How Robust Is Your Climate Governance?" we outlined eight hallmarks of meaningful board engagement on climate. In view of the political and social changes that have taken place since that article was published, we provide the following updated guidance for navigating today's shifting climate landscape.

1. Know your climate profile, now more than ever.

In an era of heightened scrutiny, a board's foundational knowledge of its climate profile serves as its first line of defense. Boards must develop rock-solid understanding of their climate exposure—how the company affects climate and especially vice versa. Climate data must be not only internally accurate but externally defensible.

This means requesting third-party verification of emissions metrics, rigorously stress-testing assumptions, and preparing for public scrutiny. Scenario planning should incorporate a range of plausible futures—including regulatory fragmentation, delays in policy implementation, supply-chain instability, reduced tax benefits, and escalating physical climate impacts. For each scenario, boards should understand the risks and opportunities it presents for the company as well as how it affects the company's responsibilities as a corporate citizen.

2. Define the board's role.

When facing pressure to retreat from climate oversight, boards should recognize that climate risks connect to core business fundamentals rather than ESG trends. As we wrote in our earlier article, the board's role in climate oversight should be clearly defined and documented in charters, committee descriptions, and proxy filings.

The linkages to fiduciary duties—risk management, strategic resilience, and long-term value creation—should also be clear. We recommend having legal counsel review governance documents to ensure compliance with evolving expectations.

3. Build a defensible oversight structure.

Rather than centralize oversight in a stand-alone ESG committee, a distributed governance model is more resilient and less vulnerable to attacks. A stand-alone "ESG committee" makes an easy target for activists.

We continue to recommend assigning responsibility for coordinating climate oversight to a primary committee (such as governance or nominating), while embedding specific climate responsibilities into other relevant committees: audit (for disclosure), risk (for exposure), and compensation (for incentives). The integrated approach becomes even more valuable when facing criticism, because it demonstrates that climate considerations are embedded in core business processes. This signals integration into the business, not conformity to the latest trend.

Explicitly document how the board's structure supports accountability and coherence, reducing perceptions of arbitrary decision-making. Should the political winds shift again, boards can adjust emphasis without wholesale structural change.

4. Build expertise thoughtfully.

Meaningful oversight requires informed engagement. Focus on ensuring that directors have business-relevant expertise—transition economics, energy systems, regulatory risk—rather than symbolic "climate credentials." Use independent briefings, industry site visits, and neutral education partners to demonstrate a multi-source learning approach.

Boards that show deliberate, ongoing engagement will enhance both their credibility and their understanding. At a time when trade-offs are more complex than ever, boards lacking climate literacy will struggle to make informed choices—or explain their climate position to skeptical stakeholders.

5. Clarify climate positioning—consistency is critical.

Companies face the delicate task of defining their climate posture without appearing to abandon commitments or stakeholder expectations. Whether the company aims to lead, follow, or comply on climate the current environment, clarity is crucial. As we've previously emphasized, boards must align with management on the company's climate posture.

They should also communicate the company's stance accurately. "Greenhushing"—downplaying or withholding information about climate commitments and activities from the public—may seem sensible as a way to avoid the spotlight, but lack of transparency can alienate other stakeholders, and failure to disclose financially material climate-related information raises legal issues. Lack of transparency also makes collective action to address climate change more difficult.

Inconsistent or opaque positioning creates unnecessary risk. Stakeholders—including employees—will be watching to see whether a company's actions consistently reflect its stated climate position and corporate values. This means aligning internal strategy with public statements, investor presentations, and regulatory filings. If you are scaling back goals, explain why—whether due to technology limits, economic shifts, or capital reallocation. Such positioning should be the result of business strategy, not political convenience.

In the face of skepticism about climate initiatives, a coherent climate stance—regardless of ambition level—builds trust.

6. Probe management plans, and demand clarity and accountability.

With average shareholder support for ESG resolutions declining from 33.3% in 2021 to 19.6% in 2024, boards must ensure their oversight provides the accountability that external mechanisms may not. We continue to advocate the approach from our previous article: Boards must review climate strategies with the same rigor as financial forecasts.

This includes emissions targets, capital allocation, and operational planning. Avoid aspirational goals without clear roadmaps. Ask: What assumptions underpin our targets? Who is accountable? Can we defend these assumptions publicly—to shareholders, the media, or policymakers? Independent verification and board-level dashboards add credibility and clarity to climate oversight. Plans to scale back strategies or relax emissions targets should get the same level of scrutiny as plans to increase them.

A useful litmus test: “If called before a Congressional hearing, can we explain our climate plan with clarity and credibility?”

7. Tie incentives to operations.

Though controversial, tying climate goals to executive incentives can signal serious intent. Figures for 2025 are not yet available, but the practice actually grew slightly in 2024—28% of S&P 500 companies linked executive pay to climate metrics in 2024, up from 23% in 2023. Whenever it is used, climate-linked compensation must be auditable, proportionate, and clearly tied to operational outcomes.

Consider how climate performance connects to business outcomes rather than external recognition or ratings. If incentives are politically sensitive, use non-compensation levers such as performance reviews, strategy reviews, or balanced scorecards. The goal is creating alignment through accountability mechanisms.

8. Acknowledge trade-offs and embrace complexity.

Climate governance is no longer about win-win narratives (if it ever was). It requires navigating real tensions: short- vs. long-term returns, investor expectations vs. emissions goals, and resilience vs. risk. Be honest about trade-offs and avoid overly simplistic ESG narratives, such as “Doing well by doing good.”

Instead, document how the board weighs competing priorities and scenarios. Sophistication and transparency signal integrity. The best defense against politicized criticism is a well-reasoned, well-documented decision-making process rooted in business realities. Articulate clearly how the board weighs competing stakeholder interests and time horizons.

More than ever, boards must embrace a realistic perspective on climate governance, acknowledging the complexities and uncertainties involved. In an environment where climate action faces criticism, transparently acknowledging challenges and demonstrating a thoughtful approach to overcoming them—rather than presenting a simplistic narrative—will foster greater trust and resilience.

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Retreating from climate governance in the current political moment may provide short-term relief, but it carries long-term strategic risk. Climate change remains a material business issue. Even if the pushback grows, some stakeholders—from insurers to employees—will continue to demand clarity and accountability. That means embedding climate into the core of governance—not as a political gesture but as a strategic necessity. And it means preparing for scrutiny, not fearing it.

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