

The Board's Role in Managing Climate and Sustainability Risks

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Executive Summary

Climate and sustainability risks have evolved from operational concerns into strategic business issues that require active oversight from boards of directors. Increasing stakeholder expectations, evolving regulatory requirements, and the adoption of ISSB IFRS S1 and IFRS S2 standards are driving boards to move beyond compliance and integrate sustainability considerations into governance, enterprise risk management (ERM), and long-term strategy.

Effective boards recognise that climate-related physical risks, transition risks, and broader environmental, social, and governance (ESG) challenges can significantly affect organisational resilience, financial performance, access to capital, and corporate reputation. Consequently, boards are expected to ensure sustainability risks are systematically identified, assessed, monitored, and embedded within corporate decision-making processes.

This article explores the board's role in overseeing climate and sustainability risks, the importance of climate scenario analysis, the contribution of board committees, and the critical questions directors should ask management to strengthen governance and organisational resilience in an increasingly uncertain business environment.

VeriSustain Insight

Sustainability governance is no longer a reporting exercise. It is a strategic leadership responsibility.

Organisations that will outperform in the future are likely to be those whose boards actively oversee sustainability-related risks and opportunities, challenge management assumptions, and incorporate climate resilience into corporate strategy.

As Malaysian public listed companies prepare for enhanced sustainability reporting expectations under the National Sustainability Reporting Framework (NSRF) and ISSB-based disclosures, boards must ensure sustainability considerations are embedded into governance structures, enterprise risk management frameworks, capital allocation decisions, and long-term strategic planning.

At VeriSustain, we frequently observe that organisations achieve stronger sustainability outcomes when climate and ESG risks are discussed alongside financial, operational, and strategic risks in the boardroom rather than being treated as standalone compliance matters. Effective governance begins when boards view sustainability as a driver of long-term value creation, resilience, and stakeholder confidence.

Why Sustainability Risks Have Become a Board-Level Issue

In today's business environment, climate and sustainability risks are no longer operational concerns delegated solely to management teams. They have become strategic issues that demand active oversight from the Board of Directors.

Investors, regulators, customers, employees, and other stakeholders increasingly expect boards to demonstrate that sustainability risks are understood, governed, and integrated into business strategy. The question is no longer whether climate and sustainability risks matter, but whether boards are adequately prepared to oversee them.

Many organisations initially approached sustainability from a compliance perspective. Effective boards now recognise that sustainability-related risks directly influence profitability, business continuity, access to capital, reputation, and long-term competitiveness.

Strengthening Board Oversight of Sustainability Risks

One of the board's primary responsibilities is risk oversight. Climate-related risks include physical risks such as floods, extreme weather, heat stress, and resource scarcity; transition risks arising from regulations, carbon pricing, technology shifts, and changing customer expectations; and broader social and governance risks including labour practices, human rights concerns, and ethical conduct.

Boards should ensure that sustainability risks are embedded into enterprise risk management (ERM) frameworks rather than treated as stand-alone sustainability initiatives. Integrating these risks into strategic planning allows organisations to identify vulnerabilities and opportunities earlier and respond more effectively.

Building Strategic Resilience Through Board Leadership

Strategic resilience is increasingly a board-level responsibility. A resilient organisation is not one that avoids change, but one that anticipates, adapts, and thrives amidst uncertainty. Boards should challenge management on how climate scenarios could affect the business model, supply chain, operations, investments, and market demand over the next decade and beyond.

Climate Scenario Analysis as a Governance Tool

Climate scenario analysis is becoming an important governance tool. By evaluating multiple future pathways, ranging from accelerated decarbonisation to higher physical climate impacts, boards gain insights into potential disruptions and strategic opportunities. Scenario analysis helps management test assumptions, strengthen business continuity planning, and improve capital allocation decisions under uncertain conditions.

The Growing Importance of ISSB IFRS S1 and IFRS S2

Global reporting expectations are also evolving. Under IFRS S1 and IFRS S2 issued by the International Sustainability Standards Board (ISSB), organisations are expected to disclose material sustainability-related risks and opportunities, governance processes, strategy, risk management practices, and climate-related information. These standards place significant emphasis on the board's oversight responsibilities and the integration of sustainability considerations into corporate decision-making.

Lessons from Leading Organisations

A useful real-world example can be seen in leading multinational companies that have established dedicated sustainability and risk committees at board level. These committees regularly review climate targets, transition plans, emissions performance, and sustainability risks alongside traditional financial and operational risks. This governance structure strengthens accountability and ensures sustainability considerations influence strategic decisions.

Board committees play a critical role in supporting effective oversight. Audit Committees may review sustainability disclosures and assurance readiness. Risk Committees can monitor climate, environmental, social, and governance risks within the enterprise risk management framework. Sustainability Committees often provide focused oversight of climate strategy, stakeholder expectations, and performance against sustainability objectives. Regardless of the structure adopted, clear responsibilities and regular reporting are essential.

To strengthen oversight, directors should consistently ask management several key questions: What are our most significant climate and sustainability risks? How resilient is our business model under different climate scenarios? Are sustainability risks integrated into enterprise risk management processes? Do our capital expenditure decisions support long-term sustainability objectives? How are executive incentives aligned with sustainability performance? What emerging opportunities could create future value for the organisation?

Effective oversight requires competency. Boards should continuously assess whether directors collectively possess sufficient knowledge of sustainability, climate-related risks, governance, and stakeholder expectations. Continuous learning enables boards to challenge assumptions and make better-informed decisions.

The most effective organisations do not treat sustainability as a separate agenda item. Instead, sustainability considerations are embedded into strategic planning, capital allocation, risk assessments, business transformation initiatives, performance monitoring, and executive accountability.

Final Thoughts

The boardroom is where strategic direction and risk oversight intersect. As climate, environmental, social, and governance challenges continue to evolve, boards must play an active role in ensuring their organisations remain resilient, responsible, and future-ready. Strong governance is not simply about protecting value today; it is about creating the conditions for sustainable success tomorrow.

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"Helping organisations build resilience, strengthen governance, and create sustainable long-term value."

About VeriSustain

VeriSustain MyESG PLT supports organisations in ESG governance, sustainability reporting (IFRS S1S2), enterprise risk management (ERM), anti-bribery management systems (ISO 37001), climate risk management, internal audit and assurance readiness programmes.

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