

Chapter Zero

Principles and frameworks for climate change strategy and action: Executive summary



**Chapter
Zero**

The Directors' Climate Forum



Introduction

This toolkit is designed to help non-executive directors educate themselves on the business implications of climate change and provide a resource that they, their boards and executives can use to help design and implement a business response. As businesses look to 'build back better' post-Covid-19, we hope it is a useful source of information and inspiration.

The toolkit breaks the climate change journey into three phases:

Prioritising climate change

Defining the strategy

Ensuring action

1. Prioritising climate change

- Suggests strategies for getting climate change on your Board agenda.
- Highlights frameworks, external information sources and illustrations to help catalyse and drive the climate change journey with the right level of direction and energy.

2. Defining the strategy

- Includes frameworks to help the Board add substance and clarity to their climate change strategy, ideally as part of the broader company strategy.
- Non-executive directors may contribute to the idea generation in a Board strategy day or they may simply review and discuss papers presented by the Executive committee.

3. Ensuring action

- Describes observed best practices, Board discussion topics and questions for NEDs to help ensure action is taken to deliver on your climate change strategy.

What's in the toolkit?

The toolkit is made up of frameworks and case studies, structured around three phases in any organisation's climate change journey. We highlight the Board role at each phase and show how the toolkit can help. Non-executives can read this executive summary, and then selectively dive deeper into frameworks and resources provided throughout the full Principles and Frameworks document.

 <p>Board role:</p>	<p>Prioritising climate change</p> <ul style="list-style-type: none"> • Understand the relevant climate change issues for their business. • Review or create a set of hypotheses for what the potential risks and opportunities are for your business; acknowledge that 'doing nothing' is <i>not</i> an option. • Have a sense of the level of ambition your organisation wants to target and how it might measure progress; understand what 'net zero' means for your organisation. 	<p>Defining the strategy</p> <ul style="list-style-type: none"> • Contribute to and sign off the climate change strategy, ideally as part of the broader company strategy. • Understand the key initiatives, why they were chosen and their likely impact. • Create a view of the roadmap for change over various horizons. 	<p>Ensuring action</p> <ul style="list-style-type: none"> • Sign off the implementation plans for the climate change strategy. • Provide direct input to the governance, measurement, roles and accountabilities, remuneration and any organisational change. • Ensure that appropriate capabilities and communications are in place. • Encourage continuous improvement.
 <p>Tools in this section help:</p>	<ul style="list-style-type: none"> • Raise the issues constructively: peer comparisons. • Help the Board understand and frame the issues relevant to your company: <ul style="list-style-type: none"> 8-force trend analysis Scenario analysis Stakeholder insight • Generate hypotheses for where the benefits and risks might arise and therefore where the change effort should be focused. 	<ul style="list-style-type: none"> • Establish the baseline and measurement framework. • Make choices about which initiatives to pursue in your climate change strategy: <ul style="list-style-type: none"> Generate ideas, building from the hypotheses Facilitate comparisons with initiative templates Select initiatives with a prioritisation framework • Create a roadmap over several horizons. 	<ul style="list-style-type: none"> • Provide an overview of the change management framework, with more in-depth guidelines on: <ul style="list-style-type: none"> Governance Generating engagement and enthusiasm Programme management best practices Initiative monitoring and reporting

 *Case studies illustrate the climate change journeys being taken by a variety of companies across different sectors*



11 principles

The toolkit is based on an understanding of the practices observed in a range of companies already making strong progress on climate change action. They can be generalised into 11 broad principles.

1 A spark to start the fire

A catalyst is needed to get climate change onto the agenda. This can be an analysis of climate change risks – not just from physical changes but also from regulatory change, societal and competitive pressure – showing the likely resilience of the organisation to significant changes. Recent disruption from Covid-19 demonstrates the importance of understanding potential risks. Scenarios are an effective way to deal with uncertainty and can show how vulnerable the business is.

2 Climate change is not an *add-on* to the strategy, it's part of the strategy

When climate change targets and initiatives are part of broader corporate goals and initiatives, the regular organisational mechanisms to implement successfully can be used to drive progress in climate change.

3 Championship from the top

Where businesses have made strong progress, it is because the climate change agenda is championed by the CEO or Chair.

4 Clear accountability and governance at senior levels

Governance for climate change is at the most senior levels, reporting into the Board. Significant change will only happen with strong executive director support. It is critical to have the right accountability embedded at senior levels, e.g. Sustainability Directors reporting directly to the CEO; executive climate change committees made up of a broad mix of functional and business line heads. Specific initiatives and outcomes need to be owned by senior executives, not buried too deep in the organisation structure.

5 Organisational engagement is powerful

When the people in the organisation are engaged in defining the evolving solutions and are measured on the success of climate change initiatives, they are more motivated and effective in driving the change.

6 If it matters to stakeholders, it should matter to you

Engaging with stakeholders and understanding what matters both today and in the future helps the Board set the ambition, understand risks and understand the scope of the challenge.

7 Financial case for change is strong

As the company lowers emissions it also has the potential to achieve operational savings, enhanced market share, reduced waste and reduced risk. There may be opportunities to access new business areas and models. Carbon pricing is an important financial consideration in business cases.

8 It's a journey

It can take time to make deep and lasting change; be prepared for a journey of several years. Evolving stakeholder perspectives over the next 10-20 years need to be factored into the thinking.

9 Transparency and collaboration are very helpful

Case studies show the benefits of operating in a spirit of transparency and collaboration within and across sectors. Continuous improvement is more likely if companies are open with their ambitions and measures, even in the knowledge that these measures are not perfect.

10 What gets measured gets done

Companies that have measured their baseline and made a public commitment to improvement say it helps to mobilise the organisation. They use accepted standards like Task Force on Climate-related Financial Disclosures (TCFD) and Science Based Targets (SBT).

11 A company's level of ambition is a *conscious* decision

It is worth having a conscious, well-researched discussion on the level of ambition over a timeframe, otherwise the business can end up, by default, missing out on opportunities and being exposed to unquantified risks.



Case study insights

Insights from the case studies demonstrate that, like other critically important issues facing a company, the tools and frameworks used in the disciplines of strategy development and change management are relevant and helpful to Boards as they seek to achieve real change.

Prioritising climate change

- When the Chairman and CEO are passionate and committed, it is much easier to set a more ambitious programme and make rapid progress.
- A sense of urgency to take positive action can be driven by a peer or competitor review.
- More often, the urgency arises from a thorough risk assessment (usually led by the risk team or audit committee). Risks from anticipated physical changes, competitor risks, regulatory risks or changing societal and customer attitudes bring the issue to life.
- Evaluating more alarming future scenarios and their potentially dramatic impact on the business model and profitability can create a strong catalyst for change.
- It is critical to understand competitors and the perspectives of stakeholders (customers, employees, suppliers, shareholders, regulators, others). This helps set the level of ambition and scope of the challenge.
- As the issues become better understood, evaluation of business impact can move from risk reduction and resilience to emissions reduction, cost savings and enhanced market appeal.

Defining the strategy

- Having raised climate change as a strategic issue, planning is done the same way as any other important strategic initiative.
- The journey needs to start with a baseline measure and a target. Science Based Targets (SBT) are commonly used. The best science should be used to constantly update targets. Having a public target is very mobilising.
- Part of the baselining process is to map where in the value chain the emissions are most significant.
- People from inside and outside the business can be engaged to generate ideas to improve emissions, improve operations or create new opportunities.
- Once the best ideas are shaped into initiatives, prioritisation frameworks help select the right mix of initiatives.
- Accountability is key: working with directors to take on and drive initiatives in their part of the business will build momentum.
- Initiatives and objectives can be phased over several horizons in a roadmap.

Ensuring action

- The World Economic Forum's governance model can be followed as transformation journeys are established. Best practices include clear accountabilities for progress, led directly by the Board and executive team.
- Link initiatives in the roadmap and progress on key metrics to senior individuals' performance objectives and remuneration.
- Communicate the vision and progress internally and externally.
- Employees may need new or different skills/capabilities. Companies may need new people to drive the change or a new organisation design.
- Set financial objectives using accepted frameworks and standards (Task Force on Climate-related Financial Disclosures and others).
- Ensure investment cases for all company activities include financial and climate change impact (incl. carbon pricing).
- Being part of industry bodies or forums helps to exchange ideas and drive continued improvement.
- Build innovation in climate adaptation into the firm's culture: actively encourage employees, suppliers, other stakeholders to participate.
- Continue to monitor key climate change metrics and provide clear feedback to specific stakeholder groups.

Companies featured in our case studies:





Illustrative content

Each section of the toolkit contains frameworks, information and quotes.

Prioritising climate change

Chapter Zero: Principles and frameworks for climate change strategy and action | Prioritising climate change

8-force trend analysis

8 powerful and inter-dependent forces are driving the climate change agenda in businesses of all sizes. These categories can be used as a checklist for identifying where the critical issues for your business lie.

Framework

1. Physical factors

2. Technology

3. Employees

4. Investors and lenders

5. Safety and resource scarcity

6. Customers

7. Competition

8. Regulation

Illustrative examples

- The Atlantic Basin Storm count by National Oceanic and Atmospheric Administration shows stronger and more frequent storms over 70 years.
- NOAA Climate.gov sees more intense droughts since mid 80's.
- UK's Met Office State of Climate reports show wetter winters and potentially higher risk of floods.
- Oil power is already shifting to decentralised, renewable and gas.
- Smart meters plus storage means businesses can produce and trade in power, reducing net cost.
- Smart buildings save money at the same time as reducing emissions.
- A recent BRTA survey shows 86% of Millennials & Gen Z put employer's environmental performance near top of their concerns.
- Significant investors led by e.g. Blackrock are starting to turn away from fossil fuel and actively seeking environmentally sustainable investments (see p. 15).
- Climate protests already disrupt businesses and can create negative PR (see Mærsk quote).
- MNU Stern research in 2019 found that 50% of consumer packaged goods (CPG) growth from 2013-2018 came from sustainability-marketed products despite representing only 16.6% of the category.
- Competitors are looking to gain advantage by advancing their climate change and sustainability credentials, e.g. vegan burgers by Burger King, KFC, McDonalds and more sustainable packaging by Kellogg.
- The UK Climate Change Act mandates caps on the economy's carbon emissions through 'carbon budgets'.
- Subsidies, carbon trading and carbon pricing or taxes impose costs on high emission businesses, while creating opportunities for low emission technology. Further net zero policies are anticipated.
- Regulations and subsidy schemes are constantly updating which imposes further costs in monitoring and compliance.

Source: CarbonTrust, McKinsey, HFDirect, Sage, KFC, Burger King, Kellogg UK, New York Times, Christ, BRTA Professional Life is Better Financed via HFD, NOAA, Met Office, NYU Stern Research on RF Purchasing deals, Eden McMillan analysis

Defining the strategy

Chapter Zero: Principles and frameworks for climate change strategy and action | Defining the strategy

Measuring the baseline

The case studies show the value of establishing a clear baseline as early as possible to measure the company's carbon footprint, mapping out how the company's activities - including upstream and downstream - create emissions. These will be used to track progress and report at Board level.

Measuring the baseline

Specialist consultancies can assess the carbon footprint across all operations. Definitions and calculation tools can be found at www.ghgprotocol.org. Support can also be found at the **Carbon Trust** and other consultancies.

Measures may be imperfect but form a clear baseline from which to track progress.

There are already standard ways of measuring most climate-related outputs. It is simpler to use these as they can then be tracked and reported on for the relevant stakeholders. Various organisations provide guidance:

- Task Force on Climate-related Financial Disclosures (TCFD)
- Climate Disclosure Standards Board (CDSB)
- Accounting for Sustainability (A4S)
- Science Based Targets (SBT) are commonly used for setting emission targets.

In some cases, companies innovate or work with universities to develop the right metrics for their organisation.

As companies set their ambition levels, many will want to understand what 'net zero' means to them and in what time frame. Different companies consider different scopes (net zero in scopes 1 and 2, for example) and some include carbon offsetting. As the definition evolves, it is important to consider the latest guidance.

Source: Case studies, Eden McMillan research. For more information, click on the link. Other measurement standards include: GHG protocol and Global Reporting Initiative (GRI) for GRI emissions reporting, and also with broader environmental reporting standards including EU Non-Financial Reporting Directive, ISO14001 and the UK's Environmental Reporting Regulations (EPR).

Carbon Trust describes 3 scopes of emissions

Source: Carbon Trust, Eden McMillan Analysis

*Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company. Scope 3 includes all other indirect emissions that occur in a company's value chain.

Ensuring action

Chapter Zero: Principles and frameworks for climate change strategy and action | Ensuring action

WEF governance guidelines

The World Economic Forum has published 8 specific guidelines on best practice in governance.

Climate accountability on boards

The board should be accountable for the company's long-term resilience with respect to potential shifts in the business landscape that may result from climate change.

Strategic & organisational integration

The board should ensure that climate systematically informs strategic investment planning and decision-making processes and is embedded into the management of risk and opportunities across the organisation.

Command of the (climate) subject

The board should ensure that its composition is sufficiently diverse in knowledge, skills, experience and background to effectively debate and take decisions informed by an awareness and understanding of climate-related threats and opportunities.

Incentivisation

The board should ensure that executive incentives are aligned to promote the long-term prosperity of the company. The board may want to consider including climate-related targets and indicators in their executive incentive schemes, where appropriate. In markets where it is commonplace to extend variable incentives to non-executive directors, a similar approach can be considered.

Board structure

As the stewards for long-term performance and resilience, the board should determine the most effective way to integrate climate considerations into its structure and committees.

Reporting and disclosure

The board should ensure that material climate-related risks, opportunities and strategic decisions are consistently and transparently disclosed to all stakeholders - particularly to investors and, where required, regulators. Such disclosures should be made in financial filings, such as annual reports and accounts, and be subject to the same disclosure governance as financial reporting.

Material risk and opportunity assessment

The board should ensure that management assesses the short-, medium- and long-term materiality of climate-related risks and opportunities for the company on an ongoing basis. The board should further ensure that the organisation's actions and responses to climate are proportionate to the materiality of climate to the company.

Exchange

The Board should maintain regular exchanges and dialogues with peers, policy-makers, investors and other stakeholders to encourage the sharing of methodologies and to stay informed about the latest climate-relevant risks, regulatory requirements etc.

Source: Chapter Zero website, WEF website: http://www.weforum.org/publications/WEF_Creating_effective_climate_governance_on_corporate_boards.pdf

Hypothesis generation - why should we take action?

Chapter Zero: Principles and frameworks for climate change strategy and action | Prioritising climate change

What is the case for taking action? There are usually four areas of impact arising from climate change initiatives, and these make a good basis from which to form hypotheses for your business. At this stage in the process, these are the first thoughts and ideas about where the organisation might be at risk or where it could find new opportunities.

Risk management and resilience

- The potential negative impact of not being prepared for physical, regulatory, carbon pricing or stakeholder changes can be evaluated.
- Risks are often the first category to be considered by boards, as risk management is a normal part of the Board's responsibilities.
- Measuring the potential financial cost of 'doing nothing' about the risks can create a strong catalyst for change.

Emissions reduction

- Potential to reduce Greenhouse Gas (GHG) emissions across all scopes.
- Affects the company's support from stakeholders, including its license to operate.
- New business models arising from low carbon technology will open opportunities for fast movers.

Cost savings/efficiency

- Eliminating waste and sourcing cheaper forms of energy can reduce operating costs.
- Having real climate change reduction plans can improve morale and reduce staff turnover.

Market appeal

- Introducing products and services that are more sustainable will appeal to an increasing number of customers, potentially creating market advantage.

Note: if members of the Board are sceptical about the impact of climate change, please refer to Chapter Zero's 2019 Board Toolkit where the science and facts are clearly laid out.

Building a roadmap

Chapter Zero: Principles and frameworks for climate change strategy and action | Defining the strategy

The initiatives identified can then be sequenced and grouped into planning horizons on a roadmap. Too much too quickly can lead to failure; it is important to pace the change over time.

Good business practices

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Competitive differentiation

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Game-changing innovation

Time to impact	Near term (<2 years)	Medium term (2-5 years)	Longer term (>5 years)
Scope 1*	<ul style="list-style-type: none"> Drive low emissions in core office functions. Optimise production processes and capture business efficiency gains. 	<ul style="list-style-type: none"> Net zero in office functions. Drive low emissions in existing production processes and gain benefits of low waste processes. 	<ul style="list-style-type: none"> Redesigning core business processes and products using new technology to minimise emissions and gain new economic benefits.
Scope 2*	<ul style="list-style-type: none"> Identify low emission energy sources, and begin to shift to renewables. 	<ul style="list-style-type: none"> Shift in full to renewables. Capture opportunities from new technologies (e.g. smart meters, local storage). 	<ul style="list-style-type: none"> Optimise energy management to minimise emissions and optimise business outcomes.
Scope 3*	<ul style="list-style-type: none"> Encourage low emission commuting. Quantify and analyse emissions throughout supply chain. 	<ul style="list-style-type: none"> Build environmental criteria into supplier selection processes. Encourage low emission processes among suppliers. 	<ul style="list-style-type: none"> Negotiate with suppliers and customers to become net zero across value chain.

Illustrative example

Source: Carbon Trust, Eden McMillan Analysis

*Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company. Scope 3 includes all other indirect emissions that occur in a company's value chain.

Monitoring and reporting

Chapter Zero: Principles and frameworks for climate change strategy and action | Ensuring action

Having set the baseline measures, the organisation should continue to monitor progress and report to internal and external stakeholders. Many business leaders in climate change admit to not knowing the answers or having all the right information - but despite this they set targets, then monitor and refine them.

Observations and best practice

Request regular updates by initiative so progress can be monitored.

Make it ok to fail and don't demand everything has to be known, or figured out, before an initiative begins.

When things don't go to plan - provide support and input to get plans back on track.

Board discussion

Agreeing frequency and format of reporting

Deciding right time to communicate results and success.

Conducting initiative portfolio review on an annual or bi-annual basis - what initiatives should stop, start and continue?

Understanding top 3 change plan issues and risks

Further questions

What tangible actions can we (as Board members) take to unblock issues for day to day delivery teams?

Which initiatives seem to languish at 'amber' on status reports month after month... what do we need to do to shift them towards 'green'?

What examples of success can we highlight and celebrate?

Source: Carbon Trust, Eden McMillan Analysis



Download the full Principles and Frameworks for Climate Change Strategy and Action **here**



Chapter Zero is a network of over 860 chairs and non-executive directors working to put climate change firmly on the Boardroom agenda. Members span many of the UK's largest listed companies and it is part of the World Economic Forum Climate Governance Initiative.

www.chapterzero.org.uk



Eden McCallum is a pioneering management consultancy with a deliberately agile approach, bringing their global team of independent consultants to the most pressing management challenges. Eden McCallum is delighted to have partnered with Chapter Zero to develop 'Principles and Frameworks for Climate Change Strategy and Action' on a pro bono basis.

www.edenmccallum.com