

Chapter Zero:

Helping business leaders
consider climate change in
board decision-making



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About Chapter Zero

It is increasingly clear that corporate boards need to explore the risks and opportunities that climate change poses to their firms, and make efforts to reduce their carbon footprints. All board members must understand these issues to participate in the debate, both executives and non-executives.

Chapter Zero was established to develop awareness of climate change, and the business risks it poses, amongst chairs, committee chairs and other non-executive directors. The network provides free information, events and webinars and tools on the climate change challenge for its membership.

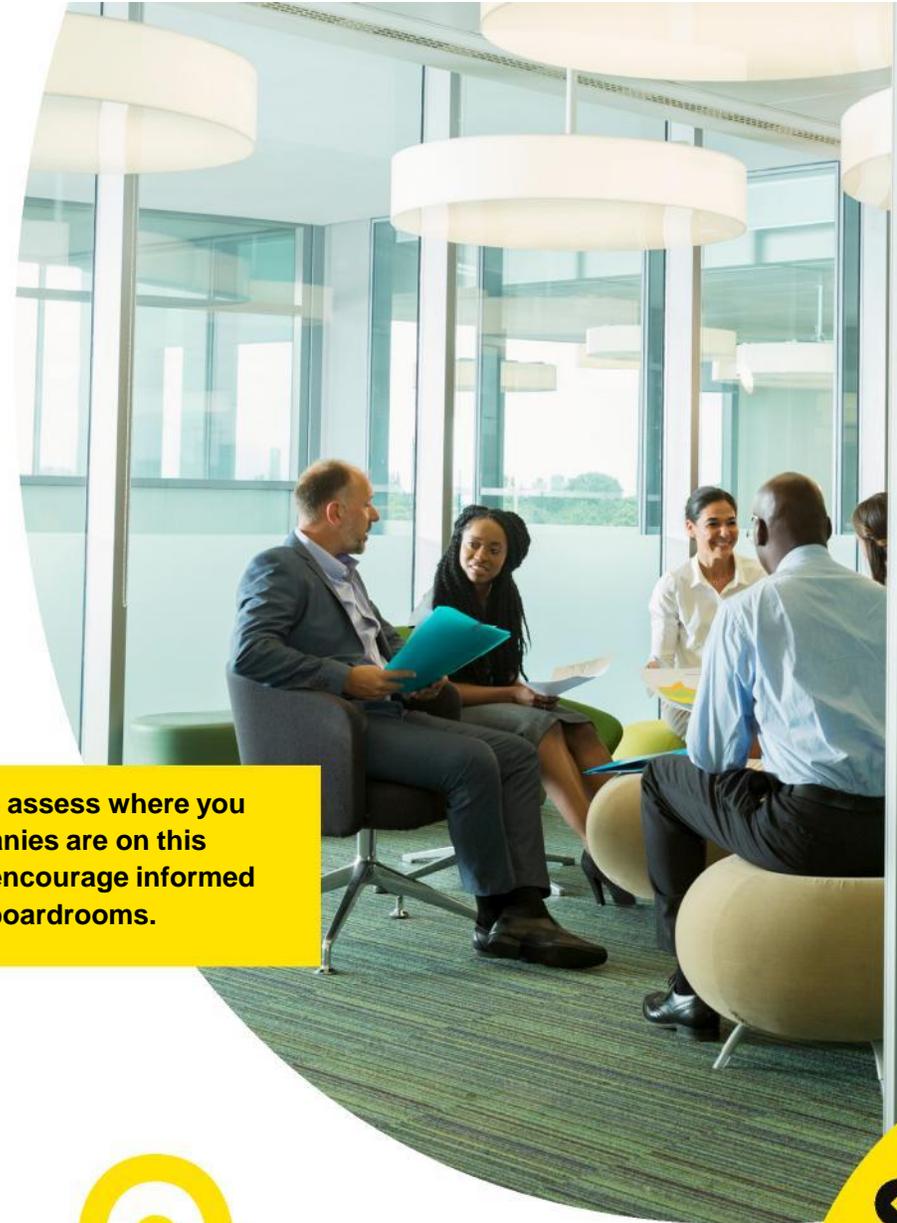
Climate change threatens the bottom line of businesses the world over, and companies find themselves under increasing environmental pressure from a variety of sources. The private sector is key to driving the necessary reduction in carbon emissions over the next decade, and should understand fully the risks to their business models, balance sheets and supply chains.

Consumers are becoming much more climate-aware, and many capital providers are demanding higher standards of behaviour from the companies they lend to and invest in. Businesses that fail to address the climate challenge could find themselves burdened with stranded assets and obsolete business models.

Regulators are also demanding change. Governments across the world have made commitments to reduce drastically greenhouse gas emissions. Firms are likely to soon find themselves operating under stricter regulations, in addition to disclosing their climate impact. Central banks are also increasingly concerned about the threat posed by climate change to financial stability, and are asking banks and financial sector participants to disclose their exposure to various climate-related risks through their lending.

Corporate boards are charged with safeguarding the long-term health of their businesses, and delivering value to shareholders and society at large. Boards that start to act now will be in a much better position to compete for customers and investment as society becomes ever more climate conscious.

Use our tools to assess where you and your companies are on this journey and to encourage informed debate in your boardrooms.



Chapter Zero tools

Chapter Zero has designed a set of tools to help non-executive directors:

- Articulate the long-term scale of the challenge for their business of net zero by 2050
- Understand the wider stakeholder group and their ambitions: customers, employees, providers of capital (both financial institutions and investors).
- Have developed a strategy which is being integrated into the business model
- Ensure the appropriate executive director ownership and stakeholder engagement and communication takes place
- Adopt the [WEF Principles of Climate Change Governance](#)
- Recognise the requirements on directors to ensure consideration of key climate risks under [s172 of the Companies Act 2006](#)
- Ask the right questions of the CFO, CEO and COO to ensure the board has the papers it needs for effective discussion, challenge and oversight
- Know the landscape of specialist advisers
- Prepare for reporting in line with the Taskforce for Climate-related Financial Disclosure
- Participate in the climate debate and *remain up to date* on the policy, regulatory environment and innovation

How Chapter Zero can help



How can I as a NED educate myself on climate change?

Follow Chapter Zero's [Directors' Climate Journey](#)



What evidence can I gather to get climate change onto the board agenda?

What difference can NEDs make?

How prepared is my board?

Reference our [Board Toolkit](#), or try our board readiness [self-assessment tool](#) on page 14

(developed in collaboration with the Berkeley Partnership)



What are other companies doing?

How can I help my company develop a [better] climate change strategy?

How do we make it stick?

Reference our [Principles and frameworks for strategy and action](#)

(developed in collaboration with Eden McCallum)



What does climate change mean for our brand?

Read about [Principles for growing a successful Brand](#)

(developed in collaboration with Wolf Olins)

Why this is important and urgent: the business impact of climate change

Failing to prepare for climate change could have a significant impact on the sustainability, performance and risk profile of businesses. This can start with 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.

Operation

Supply chain disruption – inability to source materials on time, reliably and at a manageable price (WEF: disruptions up 29% since 2012).

Location of operations or services – ongoing viability challenge given heat, extreme weather events, political instability and other impacts.

Insurance – reduced ability/ increased cost to insure operations and services against extreme weather impacts.

Employee view – misalignment with employee demands for environmental action leading to reduced ability to attract and retain talent.

Consumer & Customer Attitudes and Behaviour

Sector stigmatisation and Consumer Feedback: Consumer sentiment and preferences can change quickly due to raised awareness, e.g. response to Blue Planet plastics, and availability of other business models such as rental or shared ownership of items, e.g. car clubs.

Consumer Behaviour: Changes could manifest in reduction of overall demand, or moving to competitor equivalent or substitute products with lower environmental impact (e.g. electric cars).

Capital provider demands

Lenders transition in thinking is taking place across the sector from viewing climate change as a potential reputational risk to a core financial and strategic risk.

More institutional investors are challenging the long term viability of products and business models. They are expecting more focus and diligence from executives, including scenario analysis and climate-related disclosure of Governance, Strategy, Risk Management, and Metrics and Targets (Source: TCFD). E.g. Schroders have voted on over 60% more climate change and renewable energy shareholder resolutions in each of 2015-2017 compared to 2010.

Regulatory, Policy and Legal

Stricter laws - In June 2019, parliament passed legislation requiring the government to reduce the UK's net emissions of greenhouse gases by 100% relative to 1990 levels by 2050.

Wider reaching remit with greater impact – e.g. carbon price is set to rise significantly and will soon cover a quarter of global emissions. With higher costs, demands could fall, demand elasticity could lead to c.10% decrease in profits (Schroders).

Risk of litigation for breaches or lack of progress: Recent major litigation cases have included Exxon Mobil, the Dutch government, the US government and RWE. Cases weren't all upheld, but illustrate a turn in sentiment against under performance or apathy.

But there are opportunities too:

Resource efficiency
(energy, water, waste etc.)

New energy sources
(renewables)

Access to government
incentives

Better competitive
positioning

New
markets

New products and
services

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Is your board prepared?

- Does the Board understand the risks and opportunities to the business with respect to climate change?
- How does the company identify climate-related risks and opportunities, both from a physical and transition risk perspective, that are material to the business?
- Are climate-change risks incorporated into the company's enterprise risk management activities?
- Has management undertaken any form of scenario analysis to evaluate climate risk across different time horizons as informed by leading market initiatives (such as IPCC)?
- Has the Board developed a climate change strategy, supported by objectives and targets? Does it have an implementation plan?
- Does the company understand what types of disclosures its stakeholders (including institutional shareholders) seek, and how the company and the board should respond?
- How does the company collect data that supports high-quality disclosure against its plan, strategy, objectives and targets? What processes and controls are in place to address evolving climate-change risks and related disclosure aligned with TCFD recommendations? Does a Board committee regularly consider these issues?
- Does the company obtain external assurance on disclosures of climate performance?
- How does the Board oversee the ongoing management of climate-related risks, and is the Board's role in the management of that risk disclosed?



Preventing climate breakdown requires rapid transitions of unprecedented scale in economic, social and political systems. (IPPR, 2019)

Further detail is provided in the [Climate Change Board Toolkit:](#)

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Chapter Zero tools available

The boardroom toolkit and Climate Awareness Self Assessment can be found in a single document on the website but explained separately here.

[Directors' Climate Journey:](#)

Maps out a path for NEDs to increase their understanding of the climate topic.

Helps NEDs have high quality and effective boardroom discussions and debate of the impacts of climate change on businesses and strategic response.

8 steps to help initiate and continue the conversation about business' climate response.

[A climate change boardroom toolkit](#)

Arms NEDs with evidence to get climate change on the board agenda.

Shows how, through a few clear steps, NEDs can help their boards begin to tackle the implications of climate change.

A high level summary of the 5 key steps to help set businesses up for success both in minimising their emissions and being prepared for the impact of climate change.

[Climate Awareness Self Assessment](#)

Helps the Board to recognise the need for action and specify an intended high level direction of travel.

Provides a platform from which to initiate/direct the in-depth analysis and planning that will be needed to identify and implement specific improvements.

A series of questions that enable boards to Self-Assess their 'Current' state, understand its implications and, based on this, specify their intended 'Target' state.

[Strategy development and change management toolkit](#)

Guides directors through the creation and implementation of climate change strategies; outlining a typical end-to-end roadmap - from prioritising climate change on the Board agenda to monitoring and reporting.

The toolkit is structured around 3 phases, highlighting what boards will be doing at each stage. 11 principles have been drawn from case studies of companies' climate change strategies.

[Principles for growing a Successful Brand](#)

Helps boards to ask the right questions of marketing executives.

Outlines the risk and opportunities that brands face as net zero strategies are adopted.

7 principles for how brands can encourage these more sustainable behaviours with examples from across a range of sectors and markets.

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