The business response to the climate challenge

June 2020

The postponement of COP26 to 2021 has given us a little more time to recover from the immediate COVID crisis and develop the business response to the continuing climate challenge. Now, the challenge faced in the boardroom is not only how the economy should be restarted but how non-executive directors can ensure that businesses are ready to deal with the bigger and more permanent global event that is climate change. The following perspectives explore how non-executives and the wider business community can build back better.

Susan Hooper
Non-executive Director at Uber UK, Affinity Water Ltd., Wizz Air plc and Rank Group plc.

There is no question that things are going to be different in the aftermath of the pandemic. Unwittingly, we're all part of the largest global real-time research project into what difference we can make to the environment if we can orchestrate a wholesale change in consumer habits. COVID-19 has been a wakeup call for the significantly greater costs of not being prepared for a pretty much foreseen cataclysmic event. Unlike the virus, we won't be able to find a vaccine for climate change.

> **"Unlike the virus, there will never be a vaccine for climate change."**
>
> Susan Hooper

Chapter Zero has received a lot of feedback from members saying that they are unsure of their level of comprehension on climate change, and wanting to explore how they can feel confident that they are 'competent' to represent this topic at board level. There has never been a topic as amorphous and impactful to the overall existence of a business as climate change. As non-executive directors, we don't all need to be experts, but we do need to ensure that the right discussions are being had in the boardroom. Every sector and business will have different requirements and solutions; exchanging experiences will be a critical component in moving onto the right trajectory.

The *Chapter Zero Directors' Climate Journey* is a programme that has been developed to enhance the ability of board directors to facilitate discussion on climate change. It comprises 8 steps which, when completed, will provide a level of competency and confidence on the topic to non-executive directors. Chapter Zero has also been working in collaboration with Eden McCallum to design a toolkit for corporations to create their own sustainability strategy, which was released on 17th June. It is important that fellow non-executive directors work with us on this topic, so your feedback around what is working for you on your boards is greatly appreciated. We're only going to solve the climate challenge if we collaborate.

Rain Newton-Smith
Chief Economist at CBI

The business community's role in tackling climate change is critical. The private sector has the power to bring forward myriad solutions to contribute to our long-term emissions reduction targets from low-carbon infrastructure, to green finance and technology. It is widely known that those businesses who commit to and set a net-zero aligned strategy and incorporate climate resiliency within their business models will see the greatest rewards.

COVID-19 has revealed that when there is a common cause, government and business can really work together to make positive things happen. There is now an opportunity in the approaching renew phase to build the economy back better and more resilient. COVID-19 has also shown us what a low-carbon future may look like, with cleaner air and quieter roads. We have seen what can be achieved with large-scale behaviour change – both of which are critical to tackling the climate crisis. If we can make the transition to increased renewable energy and make the right investment in technology, the UK will be able to have a sustainable economy with a healthier environment.

> **"As non-executive directors, you have an important role and platform. Asking the right questions and knowing your company's climate risk exposure, carbon footprint, and learning from best practice will help your businesses to make the transition."**
>
> Rain Newton-Smith

The CBI has worked with businesses across sectors over the last decade to bring forward the climate agenda as a top issue, and over the last few years especially, firms have started to listen. Boards are now waking up to the responsibility they have to use their business and its employees for the greater good, to play a role in driving towards the UK's low-carbon economy and reaping the benefits in doing so. But there is plenty more to do, and NEDs on Boards who have yet to act have an even greater role to challenge their colleagues to get in the climate game, or risk losing out.

Last year, the CBI contributed to the Committee on Climate Change's Net-Zero advice and played an instrumental role in getting the raised target legislated for a campaign driven by the private sector. The CBI reiterated that the sooner businesses and society acts, the lower the overall cost to the economy and planet. Should UK business invest early, and the UK Government get the policy right, there are benefits to be rewarded globally.

Such positions were also detailed in the CBI's report: Decade of Delivery, which was published in November 2019. The report set out the business group's policy asks across energy, transport and buildings all in pursuit of our long-term climate targets and in 2020, the CBI is working to ensure the business community has a role to play in the global climate change summit, COP26.

COP26 should be used to reiterate that the private sector still sees climate change as a top issue despite COVID-19, which requires a coordinated business, societal and political response. The UK must show global leadership to tackle climate change. In pursuit of this, COP26 will provide the platform to:

- highlight the forward-thinking action already taken by the private sector and reiterate its commitment to net-zero emissions
- promote the support and advocacy given from the Government to support businesses in this ambition and;
- share the best practice from those businesses already taking action to reduce their emissions and invest in low-carbon technology

3 take-aways from Rain for non-executive directors around the UK:

- Gain a better understanding of climate risk and exposures within your businesses and how these can be mitigated
- Know your company's carbon footprint across the business and supply chain, and how this can be reduced within a given timeframe
- Galvanise your employees to be a part of the plan; developing a clear strategy to reduce environmental impact not only helps attract talent to the business, it also reinforces a company's purpose

David Tyler
Chair at Hammerson plc

Some of us have grandchildren who in the years to come will ask, "What did you do about climate warming in the UK when you had some influence?", and we need to be able to answer that question.

There is hope that the impact of COVID is going to change attitudes in the right way regarding climate change. The way we are polluting the world is much more obvious than ever, as can be seen from the Himalayas being visible 100 miles away in areas of Northern Punjab for the first time in over 30 years. This is a wake-up call. Surely, this pandemic is teaching us the importance of planning for the worst. Global problems, above all climate change, need global solutions. This needs to lead to a change in investment priorities with more of a focus on broadbands and electronics, for example.

> **"We need to put our shoulders to the wheel do the right thing for the long term, despite short term pressures."**
>
> David Tyler

The transition that's needed within business requires a long, sustained plan that is adapted as appropriate year by year. This plan needs to be supported by the CEO and Chair who need to be putting their shoulder to the wheel. Their leadership in this is incredibly important. There is a need for regular meetings where developments are discussed.

At Hammerson, this started back in 2007 and the company has created a governance structure around it. The company set its first carbon reduction targets over 5 years in 2006 and then again in 2011, delivering reductions over 10 years on a like for like basis. Hammerson then set a net positive target in 2016, the first real estate company to set an ambitious target, which includes an element of scope 3 emissions looking at the carbon expenditure of tenants and retailers. At the end of 2019, the business delivered a further 30% reduction in emissions on top of the previous 40% reduction.

Every capital expenditure decision requires the sustainability team internally to review its impact on the use of carbon before it is signed off. Colleagues' annual incentive arrangements also included a carbon reduction target. Hammerson have been publishing an annual sustainability report every year for the last 12 years alongside their annual reports, which Deloitte independently assure to give it credibility.

Looking to the future, Hammerson are planning to do a major climate risk review using the IPCC's medium emissions scenario (2-3'C degree increase compared to industrial levels by 2030), to assess how the business strategy could be impacted by this and the necessary adaptive measures.

Rowan Douglas
Head of the Climate and Resilience Hub at Willis Towers Watson

Evolving policy and regulation, such as the UK's target of a net zero carbon economy by 2050, in tandem with rising investor and consumer expectations and activism, will only be addressed effectively through a strategic risk management and mitigation approach that encompasses a full range of people, risk and capital actions, underpinned by appropriate methods and metrics.

The bottom line is that climate risk is financially material and becoming more so. This is clearly board territory. COVID-19 has generated additional debate about issues of risk and resilience and the need to 'build back better' as economies reset, but that withstanding, there are several more immediate reasons why boards can't afford to let planning for the low carbon economy slip off the agenda. These include:

- Increasing frequency and severity of storms and flooding leading to greater physical climate risk exposure of assets and supply chains
- Reporting requirements e.g. The Task Force for Climate-related Disclosures (currently voluntary, but becoming mandatory for larger UK companies in 2022), the Bank of England BES stress tests
- Investor and financial institution sentiment, including the growing focus on ESG (environmental, social and governance) principles. It's worth noting, for example, that Larry Fink, CEO of the world's largest asset manager, BlackRock, has already said that measures of sustainability will be central to its future investments
- Potential implications for recruitment and retention and for reputation from perceived inaction or 'greenwashing'.