

CLIMATE CHANGE - WHAT HAVE YOU GOT IN THE AIR?

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Climate Change: either it's happening or it's not. If it is, human activity is either the cause or it's not. *All of this is completely irrelevant when it comes to corporate profits and shareholder value.* Astute business leaders have begun to respond decisively to mitigate risks and realise opportunities. Here we look at the strategic thinking behind their approaches.



WHY ARE THERE RISKS?

I worked for several years with a great organisational development genius and former legal academic who once said to a group of global business leaders: “If your head is in the sand, your butt is in the air. That, in the legal profession, we call ‘an invitation to treat!’”

Never have I seen a more appropriate occasion for Jeff's warning than we have now. Where climate change and its effects on corporate shareholder value and profits are concerned, there are two key points that need to be established urgently:

1. It doesn't matter whether the science is indisputably proven
2. It doesn't matter whether it is caused by human activity

People who delay climate change strategy and action are going to see their more agile competitors:

- stealing market share
- winning valuable positive media coverage
- increasing investor confidence
- achieving better finance arrangements
- reducing insurance costs
- avoiding litigation in numerous areas
- suffering fewer attacks from activist groups
- side-stepping 'exposés' by hostile journalists
- reducing staff turnover rates
- attracting better graduates

Many frustrated climate scientists have compared the current 'climate denial' to the position of the tobacco industry in the 1980s: "For as long as there's the slightest doubt, we'll proceed on the basis that smoking tobacco is non-addictive and does not cause lung cancer!"

The absurd thing about climate denial is that it makes the tobacco giants look positively astute and saintly. After all they only lost multi-billion-dollar class action suits and killed many thousands of their customers. Climate deniers may soon be hit with some extremely large losses, are missing out on substantial commercial opportunities and will most likely owe their children and grandchildren a grovelling apology that lasts the rest of their lives.

The point is that, where corporate performance is concerned, RISK and OPPORTUNITY are the two big issues. It's nothing to do with climate science.

Let's take a look at risks first.

WHAT ARE THE RISKS?

The USA is often considered to be behind Europe in terms of response to climate change. Yet here is James Rogers, Chair and CEO of Cinergy, the fifth largest U.S. producer of electricity from coal:

"Avoiding the debate over global climate change and failing to understand its consequences are not options for us. Forget the science debate. The regulations will change someday. And if we're not ready, we're in trouble. I am convinced that it is prudent to take action now to address what we do know."

Rupert Murdoch, Chairman of News International – again, not known for his tree-hugging tendencies – in a recent speech to his own shareholders, had this to say:

"Australia is suffering its worst drought in 100 years. Now, I realize we can't take just one year in one city or even one continent as proof that something unusual is happening. And I am no scientist. But I do know how to assess a risk – and this one is clear. Climate change poses clear, catastrophic threats. We may not agree on the extent, but we certainly can't afford the risk of inaction."

When the Carbon Disclosure Project (CDP) opened its doors seven years ago, it represented a small number of investment funds who were concerned to learn of the investment risks of carbon emissions. In a few years they have grown to a staggering size: last year the CDP was backed by \$41 trillion-worth of assets under management. When you receive a CDP information request you are being addressed *by well over one third of all the investment funds in the world*. Big Investment is treating climate change very seriously indeed.

Here's how global investment bank Lehman Brothers summarised their well-researched 2007 report, *The Business of Climate Change: Challenges and Opportunities*:

"The pace of a firm's adaptation to climate change is likely to prove to be another of the forces that will influence whether, over the next several years, any given firm survives and prospers; or withers and likely dies."

So what are the key risks incurred by the failure to address climate change as a serious strategic issue? Our work with major corporations in almost all sectors has revealed that they fall into five main categories:

- **Regulatory Risk:** national and international regulation and policies aimed at reducing climate impact are becoming more numerous, more urgent and more stringent in their demands for corporate change
- **Competitive Risk:** those not addressing these challenges suitably early and at a senior, strategic level will increasingly incur higher costs and lose market share to those who respond decisively
- **Physical Risk:** temperature rises and extreme weather events are already impacting adversely on some sectors; this pattern is growing exponentially

and will spread to all sectors rapidly. (Of course, insurance risks and costs will rise concomitantly.)

- **Investment Risk:** with already \$41 trillion of the world's investment capital scrutinising companies' climate change responses, the cost of capital will continue to rise for high-risk organisations.
- **Low-Trust Risk:** customers, investors, staff, even suppliers, will lose trust in those not seen to be taking appropriate action – related litigation will worsen this situation

These risks cannot be taken in isolation: they are mutually reinforcing. The compounding impacts, for instance, of simultaneous falling market share; greater costs of capital; increased overheads in many areas; damaging litigation; staff disaffection; adverse media exposure and higher insurance premiums could create a huge, possibly terminal, hole in profits and shareholder value.

The challenges are strategic, systemic and critical. Climate scientists, legislators, economists and analysts are more or less all now convinced: the risks can only be met – and the opportunities fully realised – at a strategic level and in a systemic fashion. What is more, they cannot be dealt with by generalist strategists; specialists are required who can make the necessary connections between environmental, social and economic forces.

This is not to say that environmentalists and social scientists are failing to make a significant contribution. Many sustainability, corporate social responsibility and citizenship departments have achieved striking results within and beyond their companies. Their impacts have been hampered, however, in most cases, by the absence of meaningful access to the board. Their efforts have created, therefore, necessary but not sufficient change.

Lehman Brothers' 2007 report goes on to say this on the subject:

“The firms that will prosper are most likely to be those that are early to recognise the importance and inexorability of climate change, foresee at least some of the implications for their industry, and take appropriate steps, well in advance.”

Already we are seeing the early signs of direct climate change impacts on corporate fortunes. Munich Re acknowledges that although Hurricane Katrina was only the sixth strongest hurricane on record, it generated an unprecedented \$125 billion in losses, of which \$60 billion was insured. The costs to business of weather-related incidents are climbing more rapidly than we have ever seen before. Insurers are already listing as uninsurable whole bands of real estate – both residential and commercial – in coastal areas and in flood and storm-risk zones.

By contrast, a client company, having acknowledged the need for timely, well-informed strategic advice and practical innovation, achieved savings that made the organisation significantly more competitive. This company went on to win additional business worth hundreds of millions in the following year and has continued to hold and grow its new-found market penetration in an environment of sharply increasing competitiveness and regulation. (This financial performance, incidentally, is in addition to significant Human Resources benefits, raised PR profile and many other advantages achieved through the same programme.)

In another case, it was announced in late-May 2007 that General Electric had boosted its profits by \$6 billion as a result of adopting a climate-friendly innovation and communications strategy. GE now, understandably, has \$50 billion-worth of new developments in the pipeline based on the same strategy (sadly – this was not one of ours!).

In one of our recent client engagements, we were briefed to help one of the world's largest and most profitable multinationals to identify risks and opportunities within the existing environmental agenda. Our approach enabled us not only to provide a full response to the brief but, in addition, to identify one of the most substantial commercial opportunities this company has encountered in a decade – *and the small but previously unnoticed blockage that was preventing the client from capitalizing on the opportunity!*

WHY ARE THERE OPPORTUNITIES WE HAVEN'T SEEN?

So, with those brief examples of how profitably it *can* be done, let's move on to the subject of *maximising opportunities*. Almost twenty years in corporate responsibility consulting has taught us a good deal about what works and what doesn't. There are a few 'tricks of the trade' that can yield sometimes astonishing commercial benefits, yet they are all too often missed. Here are six reasons why:

Reactive, compliance-driven, tactical responses: Many corporations have mistakenly addressed climate change and the other disciplines that make up citizenship and CSR programmes as something they're simply forced to do. Like filling in forms for the taxman, it's a chore, we don't want to do it but we don't want to suffer the consequences of ignoring it. We hire someone in a relatively lowly position to do it for us. This is the thin end of the wedge: the trouble starts. Here are some of the sorts of comments we have heard from clients over the years...

Mistaking a profit centre for a cost-centre: "We have hired or moved middle managers to complete the questionnaires sent out by investor groups, analysts, benchmarkers, NGOs and the media. Now our people want extra staff and increased budgets to deal with the increasing demands for information. It seems

we must be seen to be busy in this area so now we have to pay for a special glossy report and a dedicated website...where will it end?"

Just another specialist silo: "Well we realised we couldn't get by much longer with a few seconded health and safety managers (even after we added an 'e' to their job titles). So we decided to combine the creeping budgets and creaking staff to launch our own Citizenship Department. The specialist Head of Citizenship reports directly to the board. Trouble is, she's so good, everybody else in the organisation assumes she's got it under control – they've all gone back to business-as-usual; performance is down and staff pride has dropped again."

Missing the link with corporate strategy: "Even with a full CSR department, a glossy report and reams of completed questionnaires and web pages, it's as if we're driving with one foot on the brake and the other on the accelerator. Everything we're doing at corporate level seems to clash with what our so-called Corporate Citizenship people are saying. The media clashes are *more* frequent now, not less – activist groups are now reporting us for hypocrisy, spin and 'greenwash'. The problem with staff turnover and disaffection is worse than ever; our competitors are poaching our best talent; the marketing people don't know which way to turn – they thought this was going to be a blessing. It's as if we're in the midst of a civil war around here."

Thinking that 'comms' means 'monologue': "We briefed our agency to produce a huge campaign based on our ethical performance; we took on specialist headhunters to make the most of the 'green' ticket with top graduates; we made our glossy report even thicker *and* used recycled paper; we added a couple of hundred web pages; we started making suitable announcements on the staff intranet; we commissioned a new 'caring' corporate identity; we even had an Exec Team away-day to devise a new mission statement. *We've spent millions. Why isn't anybody listening to us?*"

Not thinking 'organismically': "OK, we began to realize that things could be significantly improved around here and we got that thing you told us about the monologue problem. It became clear that the right hand didn't know what the left hand was doing. Our Non-Execs and investors began to ask questions about the chaos – they also wanted to see justification of the growing budget for citizenship and CSR. Basically, they wanted more for less. So we set up a company-wide competition. We offered a big cash prize to see who could come up with the best commercially viable idea. Suddenly everybody's keen but they've started taking time off from their day-jobs to work on their ideas. They've also begun to get a bit snappy with each other. They're behaving like, well, like people in competition with each other. What are we supposed to do now? This is becoming ridiculous!"

One can see how responses to climate change – and all the other corporate responsibility issues – can often, at best, produce low return on investment and,

at worst, prove counter-productive by *increasing risk*. This is often the case when there is a failure to deploy the appropriate disciplines, *used in the appropriate combinations, with the right timings and as an integral part of corporate strategy*.

THE SOLUTION

We call the solution *Organismics*.

Organismics is a corporate responsibility system that has been developed and refined over several years and has been proven effective in every sector and every organisation in which it has been applied. It is based on the deeply-researched but rarely applied field of Systems Thinking and has been vindicated by academics, practitioners, business thinkers and leaders all over the world.

The application of *Organismics* to Corporate Responsibility requires an unusual blend of skills, knowledge, people and experience, including:

1. The synthesis of citizenship and corporate strategy
2. Strategic use of corporate communications
3. Organisational development and personal development systems
4. Comprehensive social and environmental technical strengths
5. Sophisticated grasp of complex adaptive systems epistemology
6. Exemplary writers, researchers, facilitators and consultants
7. Proven, world-class teams
8. Academic rigour – and the relevant qualifications
9. Many years of practical experience
10. A sound track record in industry

These are the parts but, as with all organisms, the whole is always greater than the sum of the parts. The whole also evolves differently for every organization to which these parts are applied. However, we can certainly examine in broad terms how this can take place.

HOW ARE THE OPPORTUNITIES REALISED?

Having established the appropriate team of specialists for a given engagement, a typical programme might involve, for instance:

- Setting the strategic agenda and leadership at board level
- Establishing baseline performance metrics
- Building an organisation-wide culture of learning and action
- Establishing an interactive network of 'communication neurons'
- Coaching and mentoring key individuals towards systemic understanding
- Creating a dynamic internal and external communications programme
- Growing a multi-stakeholder research network and information exchange
- Encouraging ownership of the programme and collaborative action

- Developing clear metrics for the measurement of progress
- Stimulating innovation and rewarding achievement

Much of the 'action' takes place on the basis of a unique *Organismic Communications* model we have developed. An *Organismic communications* programme is not quite like any standard corporate communications programme. It includes internal and external communications, interpersonal and artefact-based communications. It is based on dialogue and not monologue. It is iterative and exponential, not ad hoc and not linear. It works exceedingly well in this context.

If you would like to discuss your company's response to the issues raised in this paper, please contact us (details below).

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Ford, Allied Domecq, NatWest Bank, Barclays Bank, Toyota, Bechtel, BP, DHL, Trinity Mirror Group, Scottish Power, Carillion, BUPA, Microsoft, OECD, DfID, DTI, DEFRA, RSA, Chartered Institute of Purchasing and Supply, New Academy of Business, The Ugandan Government, Sustrans/National Cycle Network, WWF Survival International, The Soil Association.

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**The following, from the David Suzuki Foundation, gives an admirably precise summary of the state of the scientific debate on climate change. It also explains elegantly why the public are appallingly under-informed on the topic – though this is changing very rapidly now.*

“To gain an understanding of the level of scientific consensus on climate change, a recent study examined every article on climate change published in [peer-reviewed scientific journals](#) over a 10-year period. Of the 928 articles on climate change the authors found, *not one of them disagreed* with the consensus position that climate change is happening and is human-induced.

These findings contrast dramatically with the [popular media's reporting on climate change](#). One recent study analyzed coverage of climate change in four influential American newspapers (New York Times, Washington Post, LA Times, and Wall Street Journal) over a 14-year period. It found that *more than half of the articles* discussing climate change gave equal weight to the scientifically discredited views of the skeptics.

This discrepancy is largely due to the media's drive for balance in reporting. Journalists are trained to identify one position on any issue, and then seek out a conflicting position, providing both sides with roughly equal attention. Unfortunately, the “balance” of the different views within the media does not always correspond with the actual prevalence of each view within society, and can result in unintended bias. This has been the case with reporting on climate change, and as a result, many people believe that climate change is still being debated by scientists when in fact it is not.

While some level of debate is of course useful when looking at major social problems, eventually society needs to move on and actually address the issue. To do nothing about the problem of climate change is akin to letting a fire burn down a building because the precise temperature of the flames is unknown, or to not address the problem of smoking because one or two doctors still claim that it does not cause lung cancer. As the [United Nations Framework Convention on Climate Change](#) (UNFCCC) acknowledges, a lack of full scientific certainty about some aspects of climate change is not a reason for delaying an immediate response that will, at a reasonable cost, prevent dangerous consequences in the climate system.”

The entire story can be found at:

http://www.davidsuzuki.org/Climate_Change/Science/Skeptics.asp