5 Climate Change Risks You're Probably Not Talking About...

(But Should Be)

Introduction

Support for environmental proposals has never been higher, and companies are feeling the pressure from stakeholders of all kinds: not only investors, but also customers and employees.

In his January 2022 letter to CEOs, BlackRock CEO Larry Fink warns that organizations that fail to plan for a carbon-free future risk being left behind. Companies seen as not taking ESG and climate change seriously will be particularly vulnerable in today's activist shareholder environment.

The climate crisis can have a huge impact on your business – and while the longer-term implications may be obvious, there are a number of specific operational and business risks that your organization may not have considered. Below we outline five key climate change risks you could be in danger of overlooking – and we highlight the benefits of addressing them proactively.

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Transition Risk

01

We're all familiar with the business-adjacent physical risks that come with climate change. Think extreme weather events or rising sea levels – all of which impact society directly and have the potential to impact business and the economy more broadly.

But organizations must also give serious consideration to transition risk: the legal, technology, market and reputation risks associated with climate transition planning. Those risks may take the form of regulatory mandates on existing products and services or costly transitions to new technologies. In fact, transition risk is an important component of meeting TCFD requirements specifically related to scenario-based analysis (which requires companies to outline what their trajectory looks like by 2050 if they do nothing differently vs. if they make significant changes).

As businesses adjust to a low-carbon, less polluting economy, they may face big shifts in asset values or higher costs of doing business. To minimize the impact on the bottom line, organizations should address transition risk as early as possible. Identify and prioritize the most crucial transition risks for your organization and industry at an early stage.

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Scope 3 Emissions Risk

02

The regulatory grip is tightening on Scope 3 emissions (defined as all indirect emissions that occur in the company value chain, including both upstream and downstream emissions). While reporting on Scope 3 emissions is not yet mandatory for most businesses, it will soon become a requirement.

Following the 2021 United Nations Climate Change Conference (COP26) and the subsequent Glasgow Climate Pact, companies in 2022 will see heightened scrutiny on emissions generated within a company's supply chain – everything from purchased goods and services to business travel and employee commuting to waste disposal.

Scope 3 emissions are a particularly intricate and multifaceted type of reporting; companies must lay the data and technology groundwork now in order to prepare. Organizations that centralize all third-party data and record how their suppliers meet their climate targets will be best positioned for success.

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Talent Risk

03

The success – or failure – of an organization is dependent on the skills and expertise of those leading the way. As companies adjust to a low-carbon economy, they must anticipate the operational, reporting and leadership challenges ahead – and anticipate the skill sets they will need across all lines of business.

Organizations must act now to plug knowledge gaps and ensure that the skill sets supporting climate transition are integrated throughout the business. Segregating expertise from business lines will only confuse the broader approach and elevate tensions.

Don't be afraid to examine the credentials of current board members and executives to ascertain whether you have the right talent to achieve ambitious climate targets. A failure to meet climate change issues and their business impact will only become harder to remedy as time goes on.

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Diversity Risk

04

Diversity needs to be given serious thought from a climate standpoint. Failure to include marginalized voices will encourage a myopic approach to climate issues, which need to be considered from every angle. Furthermore, it may curb the enthusiasm of existing and potential employees who will see inaction around ESG principles as a regressive step.

At the COP26 conference, representatives committed to equal participation of women in climate action and gender-responsive climate solutions, establishing a precedent that should extend to the private sector.

Ultimately, diversity of thought leads to more robust, more effective solutions and innovations. Especially in the boardroom and C-suite, consideration should be given to the intersectionality of climate change and communities that are not usually in the room.

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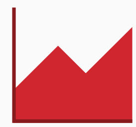
Profit Risk

05

Profit potential is rarely part of the business conversation when addressing climate change. But, as Larry Fink's recent 2022 letter to CEOs made clear, reducing a company's carbon footprint will make the business more resilient in the long term. Companies that fail to invest in this vision may find a target on their back.

In turn, businesses able to show the foresight to make climate-conscious investments now will reap rewards in the form of future growth and profit opportunities. Companies proactive in their transition to a low-carbon economy will likely benefit from a great impact financially, reputationally and in terms of attracting and retaining talent.

Organizations must identify ways to create value now through investments in businesses or in capabilities that will contribute to solving the climate crisis. A failure to do so will lead to an inability to keep pace with what Fink termed the "sustainable, scalable innovators" who are leading the charge.



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Learn More

Learn more about Diligent's Climate Leadership Certification Program.

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- Access an exclusive curriculum developed with industry experts including Glass Lewis
- Offered in an interactive eLearning format
- Complete the program in as little as 4 weeks or take up to 12 months
- Attend one live/hybrid Climate Leadership Briefing and graduation reception in New York, Austin or London
- Network with peers throughout the program

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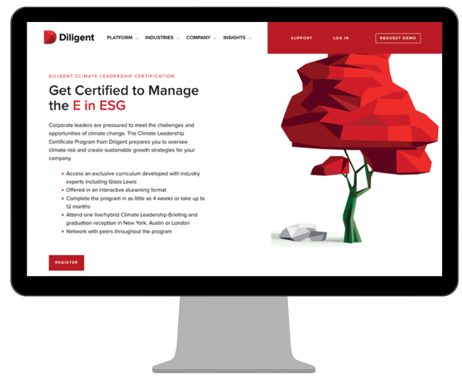

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