Opinion **Climate change**

Chief executives have a climate crisis blind spot

While many business leaders discuss environmental concerns, a PwC survey suggests few know where or how to start

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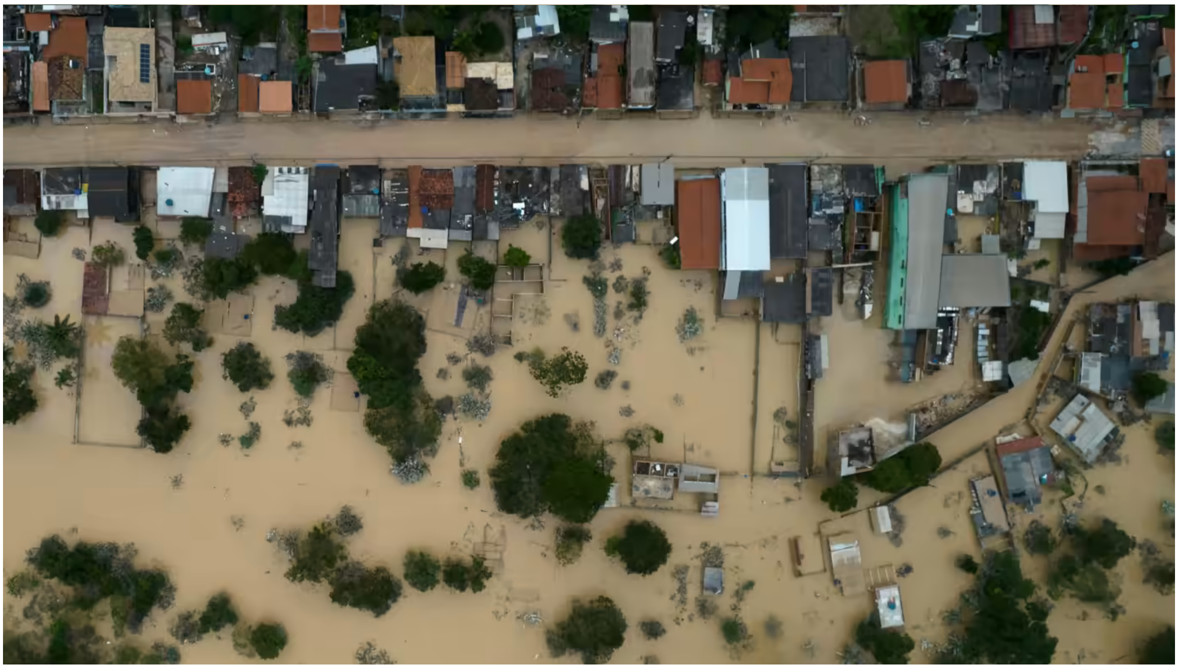

Flooded homes after heavy rains in Citrolandia, Brazil. With just 13% of CEOs having incentive plans linked to decarbonisation, the message is clear: climate change has little strategic impact © Jonne Roriz/Bloomberg

Margaret Heffernan JANUARY 18 2022

The writer is the author of 'Uncharted: How to navigate the Future'

A survey of 4,446 global chief executives, published on Monday by PwC, may give reason for cheer. The group is very optimistic, as 77 per cent expect economic growth to improve over the coming year. They care about their people and are focused on trust, transparency and a higher sense of purpose. What they do not seem to consider is whether or not they will have a future.

Just 22 per cent of leaders have made a net-zero commitment. Of those without such a target, more than half (57 per cent) do not think their company emits significant greenhouse gases. This strongly suggests that leaders in these companies — which are likely to be in the technology, consulting and insurance sectors, the research shows — do not understand how carbon impact is measured, and think they can focus on direct emissions only, ignoring the systemic impact their business makes.

Further, more than half (55 per cent) of chief executives at companies without a net-zero commitment admit they do not have the capability to measure emissions. And with just 13 per cent having incentive plans linked to decarbonisation, the message is clear: climate change has little strategic impact.

Such wilful blindness is startling but unsurprising. While many business leaders discuss their concerns about the climate, this survey suggests few know where or how to start. They cannot identify whose job this is, or how it fits into existing operations. Few are conversant with the categories — or scopes — of carbon operations. Few are conversant with the categories — or scopes — of carbon emissions for which they will be held accountable.

Many business leaders I talk to wish the government would be clearer and more directive. While it might be surprising to hear chief executives clamour for regulation, they believe it would level the playing field. Until then, they fear that seizing the initiative risks jeopardising competitiveness. Such leaders won't act until compelled to, and governments are frequently wary of corporate pushback. This mutually assured stalemate is the opposite of leadership.

In some companies where the climate emergency is discussed — or has even been formally declared — change is often visible but not strategic. For example, water fountains replace plastic water bottles and the canteen provides vegan options. A number of businesses now penalise expenditure on air travel where trains would be feasible.

Our response to climate change can't wait for the worst to strike because even the fastest learning won't be fast enough

But for deeper, more strategic change, businesses must address different questions. What are the external costs of profits and how are those eliminated? Who and what gets hurt by a business's decisions — and how does it address that before the damage is done? In a sustainable business, profit comes from solving problems — so how does a business solve more than it creates? What are the substitutions, redesigns, inventions that get carbon emissions to zero and then below?

These may sound idealistic questions, but they are the questions that companies like Interface, Tata, Danone, Mastercard, Levi Strauss, Patagonia, Salesforce and Natura & Co confront as core to the business — not as afterthoughts. It is telling that many are consumer-facing businesses, forced to tackle the danger of losing legitimacy among customers.

When Terry Smith calls out companies like Unilever for putting sustainability at the heart of its strategy, he helps those chief executives who would rather cling to the wreckage of environmental degradation than take the action required to build a positive future. Doing things in the familiar, old way is comforting; the new always feels risky. And it is easier to see the costs of strategic change because the costs of staying on the same course are not obvious. But that doesn't mean they do not exist: the status quo trap is dangerous precisely because it is so comforting.

All the chief executives I have met know about the climate crisis and think it is real. But when I have asked them where they see the risk of climate breakdown, few

But when I have asked them where they see the risk of climate breakdown, few have considered the civil disruption which accompanies it: famine, migration, social and political breakdown. In a globalised world, such disruption is impossible to contain or escape. Companies depend on civil society: without it, they cannot function.

In times of crisis, which we are in, one thing that keeps people, business and society going is social capital: a dense skein of relationships that create social cohesion. Its erosion is a critical danger in the next two years, according to the World Economic Forum. The environmental, social and democratic resilience we need won't be conjured up the moment we want it; it will be years in the making. That requires leadership in its most literal sense: getting ahead.

Optimistic, caring chief executives learnt a great deal about the importance of keeping people safe and healthy during the pandemic. They discovered, fast, just how important people are to their business resilience. But our response to climate change cannot wait for the worst to strike because even the fastest learning won't be fast enough. We must get ahead of the problem in this decade, devising and executing detailed, scientific plans now, building resilience now. Creating, out of stasis, something real to be optimistic about.

Climate Capital

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