CLIMATE & CAPITAL MEDIA

CLIMATE VOICES

A better balance of carrot and stick is needed for companies to reach net zero

by Helena Wayth | Jul 16, 2021

Encouraging businesses of all sizes to commit to net zero and supporting them in building a robust strategy is essential to ensure success.

This week, the European Union launched the world's most ambitious climate plan, a blueprint for reducing 55% of its 27 member states' emissions by 2030 compared to 1990 levels to become the first net zero continent. The plan includes a tax on aviation and maritime fuels, and the phase-out of free carbon credits while imposing a carbon tax on imports from countries that don't have equivalent carbon pricing. The initial reaction from leaders of heavy emission sectors has been mixed with some claiming the plan is anti-investment and anti-innovation, while others recognize it as the right idea, and necessary, but are looking for the policies and financial support mechanisms to make the roadmap competitively neutral.

What does this major upping of climate ambition and the looming COP26, the next United Nations climate negotiations in November, mean for business? Most have a long way to go to even come close to acting at this scale and with this urgency. And they will need significant support to get there.

Currently, only 19% of companies' total greenhouse gas emissions, Scope 1 and 2, are being accounted for according to the MSCI index net zero emissions tracker announced in May. The majority of over 9,000 globally listed companies assessed are not disclosing the indirect emissions, Scope 3, in their value chain where the bulk may occur despite their net zero corporate pledges. As the world prepares for COP26, the rhetoric versus the reality from business and national leaders is raising concern.

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The U.K. Government's 6th Carbon Budget, the first country to set legally binding carbon targets, will be enshrined in law by the end of 2021 with the reduction of emissions by 76% by 2035. The government is positioning the transition to net zero as an opportunity for the country to "build back greener," and is encouraging businesses to '"transition early" to reap benefits.

Kwasi Kwarteng, the U.K. Secretary of State at the Department of Business, Energy and Industrial Strategy, seen by some as pivotal to the country fulfilling its net zero commitment, believes there is a role for the state to provide support for vital industries to change the behavior of business and individuals. At the same time, he acknowledged in an interview in The Times that there is a feeling that individual enterprise and initiative have been stifled by an obsession with rules and regulations. With such a big net zero stake in the ground, what is the right balance of carrot and stick to drive the change needed?

Last month at their Road to Net Zero conference, the Confederation of British Industry (CBI) supported the government's net zero stance but also highlighted the need for more effective collaboration between business, government and consumers to overcome anticipated challenges and called on the government 'to help business to help business.'

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Why is this important? Today there are six million registered businesses in the U.K. Of those, 99% are SMEs with under 250 employees. As highlighted recently by HSBC Group chief executive Noel Quinn at the Climate Innovation Forum, this year many SMEs are fighting to remain liquid as they navigate the fallout of COVID and Brexit, they may be better positioned for climate change next year. Only 1% are large businesses, which represent 48% of U.K. business turnover and 39% of employment. Understandably, government and stakeholder attention is focused on the transition of large businesses and high emissions sectors' infrastructure such as energy and transport. Changes include a combination of policy, incentives for investment and innovation, and consumer education.

Approximately 44% of the U.K. SMEs are B2B businesses where there is currently less consumer scrutiny on environmental and social issues. Many play an essential part in the value chains of large businesses, contributing to their Scope 3 emissions. These companies will not only need to understand, measure and manage their own emissions, but also meet their large customers' reduction targets and criteria, which may vary by customer. However, unlike large businesses, most SMEs will not have the access to data, finance or capability to do this. They will need more help.

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The divide between SMEs and big businesses, where climate action support is concerned, is a challenge in countries all over the world. Better access to tools, talent, advice and resources for a start will help enable companies to meet increasing regulatory and stakeholder demands while creating new opportunities and capitalizing on available incentives to innovate. In this context, governments have a central role to play. The professional services also need to step up to inject critical support for leaders and business owners to balance compliance with strategy.

Set up in 2019, Chapter Zero provides non-executive directors with the knowledge and tools to enable boards to engage in climate change discussions and oversee organizational change to protect enterprise value by minimizing emissions.

Announced last month PwC's global strategy, The New Equation, will invest $12 billion over five years to expand global capability to serve its clients in audit, disclosure and reporting, and integrate the fundamentals of ESG topics such as climate risk, diversity and supply chain throughout their work.

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The Chancery Lane Project, a global collaborative network of over 740 legal professionals, equips businesses with tool kits such as guidance and checklists for sustainability-linked loans, and green supplier contracts to assist incentivizing supply chain adoption of environmental targets to reduce Scope 3 emissions.

Encouraging businesses of all sizes to commit to net zero, the U.K. Business Climate Hub provides tools including The 1.5C Business Playbook to help companies build a strategy and robust plan for net zero emissions, to measure, report and reduce their own, direct, and value chain, indirect, emissions.

The quality of company stewardship is under question seen most recently by activist investor action against Exxon Mobil's board and the Dutch court's landmark ruling ordering Shell to commit to greater emissions cuts and take responsibility for its own CO2 emissions and those of its value chain. Growing criticism of companies who have made science-based targets and net zero commitments, and the majority who haven't, is a double-edged sword. It effectively brings attention to the lack of priority to transition business models to a low carbon economy and, in some cases, forces changes. At the same time, it can reinforce a more defensive mindset and behavior focused on reputation risk instead of encouraging good intent.

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Written by

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Helena Wayth is the founder and CEO of sustainability consultancy A Bird's Eye View advising clients on purpose, strategy and governance. Prior to this Helena held senior leadership roles at L'Oréal and Unilever working across countries, sectors and cultures. In more recent years Helena worked with several International NGOs at a strategic, programme and community level. She sits on the Board of two International Non-Profits, PATH and Practical Action, which focus on developing and scaling solutions for global health and technology equity to create systems change.