6 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. Increasingly, scrutiny from shareholders and the public has turned on companies.

They want to know if the organizations they do business with and work for are authentically upholding their values — and they're ready to apply pressure, financially and reputationally. After all, in 2022 alone, as per Insightia's ESG Activism report, some 135 companies were subject to public pressure on their environmental impact.

On top of that, rising regulations are moving ESG from being just a compliance issue to one that organizations must address to stay in step with their industries. The closely watched decisions of the US Securities and Exchange Commission (SEC) on climate change disclosures and other ESG-related reporting are one key indicator of how regulations are having an ever greater impact. Meanwhile, the Corporate Sustainability Reporting Directive (CSRD) from the EU is mandating corporations to regularly report on their social and environmental impact.

Today, 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 six 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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Regulatory Risk

02

The pressure is rising for ESG regulatory compliance. As disclosure requirements continue to evolve, organizations must be able to stay ahead of reporting.

The CSRD is going into effect throughout the European Union, the SEC is driving forward a flurry of activity on climate risk and other ESG disclosures, and the German Supply Chain Act is requiring strengthened due diligence for sustainability and human rights compliance. With all these rapid developments from a variety of global regulatory bodies, being prepared with accurate, complete data for compliant reporting will be crucial to mitigate regulatory risk.

Corporations will need to focus on implementing internal controls and will need to ensure strong oversight of ESG data management. Having in-depth reporting capabilities will be critical amid evolving reporting requirements, and your organization should consider leveraging automation to help ensure accurate and efficient data processing.

To mitigate costly compliance issues, companies must continuously monitor ESG disclosure requirements and maintain proper oversight over ESG data.

Scope 3 Emissions Risk

03

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.

At the 2022 United Nations Climate Change Conference (COP27), discussions highlighted the need to significantly reduce emissions by holding business accountable as well as increasing transparency on their environmental impact. Companies can expect to 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. Technology solutions like Diligent's Carbon Accounting Software can help automatically collate this data and generate audit-ready reports for your organization.

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Talent Risk

04

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

05

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. As per Insightia, with 148 companies facing public demands in 2022 from activists calling for decisive action on social issues, it's clear that there are many eyes on this issue.

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

06

Profit potential is rarely part of the business conversation when addressing climate change. But, as climate risk and stakeholder and regulatory scrutiny increase, 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.

It's also crucial that companies maintain due diligence on sustainability across their supply chains. Violations on the part of the third-party suppliers and vendors could also pose significant financial and reputational risk, as recent legislation — CSRD, for example — makes clear.

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.

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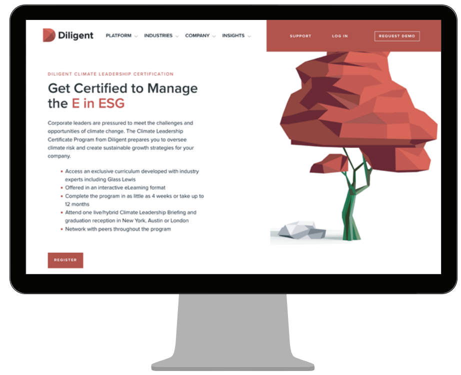
Learn More



Learn more about Diligent's Climate Leadership Certification Program.

Your reaction to climate change now will define how your business fares in the future. Stay a step ahead with the Diligent Climate Leadership Certification Program. Prepare to oversee climate risk and create sustainable growth strategies for your company.

- 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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