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White paper

How can your organization anticipate on climate-related risks and opportunities?

Introduction

Sustainability and climate change are becoming increasingly important for organisations of all shapes and sizes. From the perspective of the organisations' impact on its environment, but also risks of the changing climate for the organisation: Think of extreme weather disrupting production, changes in laws and regulations, or changing consumer awareness and purchasing behaviour. Where there are risks, there are also opportunities. Opportunities around efficiency, positioning, raising capital and new business models. How can you capitalise on these opportunities and prepare your company for the future?

Although an increasing amount of organisations is starting to implement sustainability strategy, the number of companies taking into account climate-related opportunities and risks is still very limited. Yet, in a report published by the World Economic Forum this year, we see that in the top-five of most likely risks and in the top-five of risks with the most impact, three of the five risks are climate related. This highlights the urgency for including these climate-related risks and opportunities going forward.

What exactly are the risks and opportunities? And how do you anticipate these? Will your organisation even be around in 10 years?

This whitepaper provides an overview of the risks and opportunities related to climate change and offers organisations tools and guidance for anticipating on these changes.

Figure 1: Top-five most likely and most impactful risks in 2009 vs. 2019

Top 5 global risk in terms of likelihood

2009		2019
Asset price collapse	1	Extreme weathe events
Slowing Chinese economy (<6%)	2	Failure climate-change mitigation and adaption
Chronic disease	3	Natural disasters
Global governance gaps	4	Data fraud or theft
Retrenchment from globalization	5	Cyber-attacks

Top 5 global risk in terms of impact

2009		2019
Asset price collapse	1	Weapons of mass destruction
Retrenchment from globalization (developed)	2	Failure climate-change mitigation and adaption
Oil and gas price spike	3	Extreme weather events
Chronic disease	4	Water crisis
Fiscal crisis	5	Natural disasters

Economic — Geopolitical — Societal — Technological — Environmental

What are the risks?

The exact risks your organisation faces, depends on context, products, services and the business model. Generally speaking however, several types of risk may apply to your organisation. Climate-related risks can be split into two main groups: 1. Transition risks, and 2. Physical risks. The paragraph below outlines these risks in more detail.

1. Transition risks

Transition risks are those risks related to the transition towards a cleaner, more climate-positive economy. This includes the following risk categories:

Policies, laws and jurisprudence
Organisations are increasingly confronted with policies and laws related to climate. These can be aimed at accelerating the transition to a cleaner economy and, for example, stimulate organisations to emit less, to use cleaner energy or to process waste in a smarter way. A concrete example is the upcoming CO2 tax. Recent years have seen a substantial increase in climate-related court cases against organisations, e.g. the current climate case against Shell. Cases have been made for not (timely) preventing an organisation's negative impact on the climate, not anticipating (damages and loss through) climate change (think of extreme weather such as draught and floods) and insufficient transparency about financial risks (e.g. to shareholders) following climate-related events.

Technological risks
Technological innovations related to the transition towards a cleaner economy, can also provide both opportunities and risks for operations. Think, for example, of renewable energy, storage of CO2 and hydrogen as fuel. When an organisation depends for a large part on 'old', polluting technology or fuel, for example in production or distribution, these new technologies can prove disruptive to operations.

Market risks
Changes in supply and demand can pose risks for organisations. What are your supply-side dependencies? You may face problems as a result of a reduction in the raw materials available or the failure of harvests due to extreme weather. On the demand side, there's a reduced demand for products and services with a negative impact when it comes to sustainability. We see this both in B2B and in B2C business models.

Reputational risks
Social awareness around climate change, and the responsibility companies have to reduce their impact, is growing. If an organisation does not cater to this, they may face reputational risks. This could be through reduced demand, because consumers increasingly choose organisations that have a (more) positive impact on humans and on nature, or, for example because they find it difficult to recruit and retain staff.

2. Physical risks
Physical risks are directly related to the weather and linked to climate change. These risks can be either incident-driven (acute in nature), or chronic (as a result of permanent, long-term changes in weather patterns):

Acute risks
Risks related to specific incidents, such as extreme weather conditions. Flooding or cyclones, for example.

Chronic risks
Risks that are related to changes in climate patterns, such as heat waves, drier seasons and higher sea levels.

Like with transition risks, physical risks often lead to financial implications for an organisation, such as damage to possessions or disruption in the availability of goods or raw materials, loss of quality or safety of employees.

What are the opportunities?

Where there are risks, there are also opportunities. Here too, specific opportunities for your organisation will depend on context and on the business model, but on the whole, opportunities arise in the following areas:

Efficiency and cost-saving
Innovations in the field of sustainability can lead to improved efficiency in, for example, production or distribution processes, but also within the organisation internally, through more efficient buildings, a better use of resources through recycling, or through the use of circular models. With potential cost savings as a result. The subsidies around sustainability also provide plenty of opportunities for organisations.

Positioning and reputation
Changing customer awareness is leading to changing demand. More and more organisations are acting on this by taking a position when it comes to climate change and improving the sustainability of their products, services and business models. This also helps them to become more attractive employers.

Market
Sustainable positioning creates market opportunities. By developing new business models, opening up new markets (think of governments who increasingly offer contracts to sustainable partners), and in raising new capital for organisations. These days, investors prefer to do business with an organisation that has a sustainable strategy.

Continuity
Ultimately, by adjusting business models to incorporate climate change, sustainability and impact, you will create opportunities for the healthy continuity of the organisation. There where others fail. Making your organisation future-proof ensures that you remain relevant in the market and for your clients, and that you are able to positively answer the question: ‘Will my organisation exist in 10 years’ time?’

What are the financial implications?

Management information often makes a distinction between financial information and non-financial information. Non-financial information relates to the key performance indicators (KPIs) related to people and planet, e.g. an organisation's CO2 emissions, waste flows, HR and diversity policy. Such non-financial information is crucial for charting and anticipating climate-related opportunities and risks.

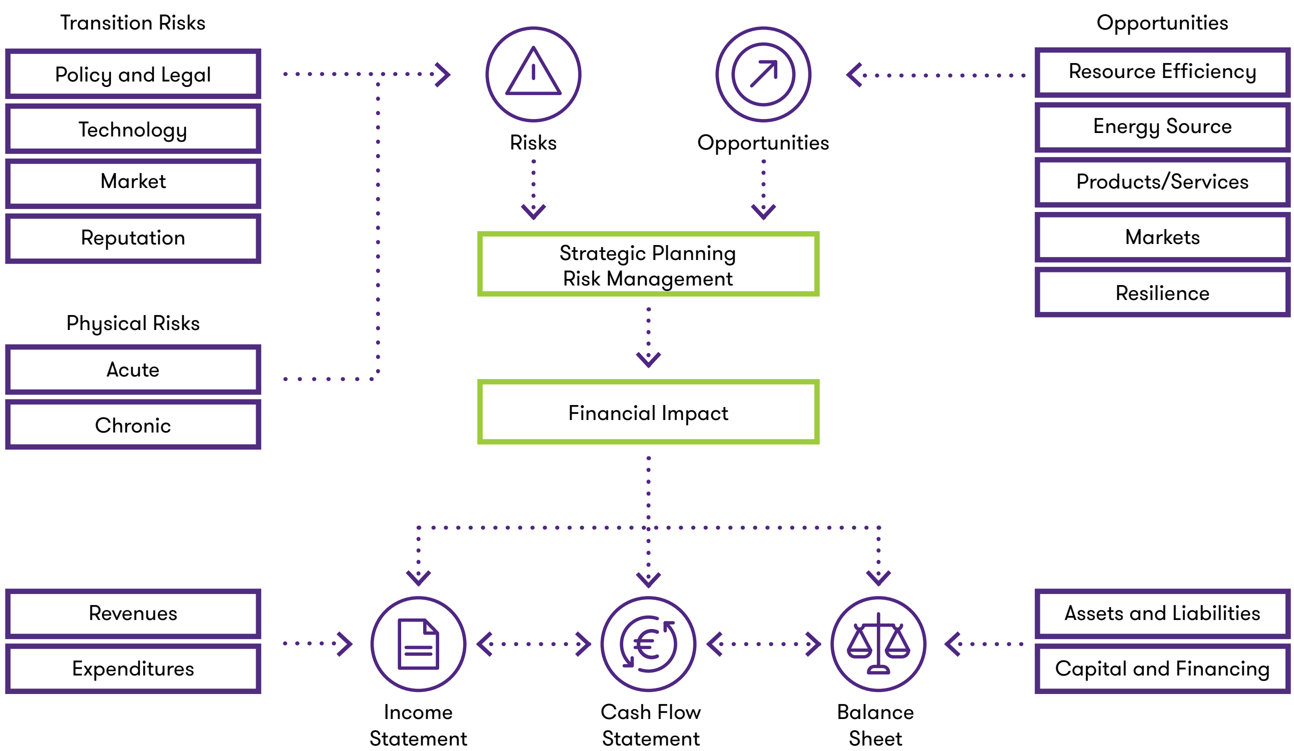
When it comes to organisational strategy, however, this distinction between financial and non-financial information does not make much sense: increasingly, climate-related risks and opportunities can have large impact on an organisation's financial performance, as illustrated in figure 2.

Questions you must answer?

What role will climate and sustainability play for your organisation and where should you start in order to include this in your organisational strategy? Relevant questions to answer in this regard are:

a) Which climate-related dependencies and risks does my organisation face, in which timeframe, and to what extent?
b) What are the opportunities, e.g. in the field of product development, positioning or financing?
c) What are the financial implications when these risks and opportunities materialise? How will this affect the business case?
d) What could and should I anticipate in order to ensure my organisation's continuation? What are the costs involved?
e) How can I embed steering and managing of these types of opportunities and risks in company processes?

Figure 2: Financial implications of climate-related opportunities and risks



Step-by-step plan for organisations

Will your organisation take action?
If so, the following steps are important.

1. Analysis of dependencies, risks and opportunities

a) Which climate-related matters does the organisation depend on (raw materials, land, supply chains, technology, people, possessions, etc.)?
b) What climate-related impact (negative and positive) does the organisation create in its production cycle, operations, products and services (emissions, water, waste, biodiversity, ecosystems, materials, people)?
c) Which material risks does the organisation face (transition risks and physical risks)?
d) Which opportunities are there in the field of climate and sustainability for the organisation? (positioning, efficiency, cost-saving, future-proofing).
e) What are the potential financial implications of risk and opportunities (based on scenario analyses and forecasts)?

2. Sustainability strategy

a) How can the organisation anticipate risks and opportunities?
b) What is needed (materials, capital, stakeholders, positioning), and in which timeframe?

3. Monitoring and reporting

Monitoring KPIs and non-financial information to check on environmental performance and on progress of the strategy. This enables timely adjustments and allows you to quickly spot new risks and opportunities.

Our services

Sinzer – Grant Thornton, supports organisations in the transition towards a more climate-positive, future-proof economy. We help organisations to chart context, dependencies, risks and opportunities, to develop strategies for making the business sustainable, and to measure and report on societal impact and sustainability performance.

Do you have a question about the above?
Please contact

Emma Verheijke
Partner Social & Impact Services
T +31 6 54 39 73 63
E emma@sinzer.org

sinzer | Part of Grant Thornton

info@sinzer.org
+31 6 54 39 73 63

De Passage 150
1101 AX Amsterdam