Climate change strategy for business assignment

Yet, climate change remains an Issue that Is primarily seen as one of operational efficiency rather than the creation of long term sustainable value. The majority of companies have focused their efforts on those actions that provide clear and relatively low risk returns, and those where the costs are relatively modest. This wait and see approach, perhaps unsurprisingly, is particularly prevalent in situations where the actions involve significant capital expenditures (e. G. N the power generation sector) or where the actions could commit the company irrevocably to a specific course of action (e. . Discontinuing a particular product line). When challenged, companies cite the huge uncertainties in climate change policy at the national and international levels as the major barrier to them thinking about climate change in any terms other than relatively short term costs and benefits. While there is a logic in this line of argument, it is striking that climate change, in many ways (e. . Pervasive uncertainty, major implications for huge swathes of the economy, changing public and consumer attitudes looks exactly the same as many of the other strategic Issues that impasses need to address. While there may be a concern among business leaders about the risks inherent in responding to – or being seen to respond to – a green issue, the reality is that, from a business perspective, climate change is a long term structural change.

If we frame climate change as a strategic issue, the logical conclusion is that companies should think about climate change-related risks and opportunities In a similar manner to other business risks and opportunities. That Is, they should assess how climate change may affect their business and, based on this assessment, make decisions that allows them to protect their business against downside risks, maximize upside opportunities and ensure that their business strategies are not a one way bet on climate change policy (in either direction).

Expressed another way, companies need to make decisions that take proper account of uncertainty, that properly account for the longer term trajectory of climate change policy but that are sufficiently robust and flexibility to respond to the Inevitable changes In the business, market and policy context In which they work, What does his look like in practice? First, it suggests that companies need to rethink the time horizons they use in their corporate risk assessment and strategy processes.

While most large companies already have structured processes for identifying and assessing the business implications of potential changes in regulation, changes in consumer attitudes, MONGO campaigns, etc. Most tend to concentrate on short to medium term risks, typically those with a maximum time horizon of three to five over a longer time frame, this three to five year frame of reference is likely to see any important dimensions of climate change-related risk simply excluded from analysis.

Second, it suggests that companies need to revisit their capital investment processes. For most companies, the single biggest opportunity they have to future proof their businesses and create longer term business value is when they invest capital, whether into new projects, new products or upgrading existing equipment. If climate change is factored into these decisions (e. G. Wrought a shadow price of carbon, through considering a range of scenarios about regulation and the physical impacts of climate change), it maximizes the likelihood that companies will make decisions that do not result in stranded assets or lost revenues because of regulatory or other action on climate change, and will avoid the need for extensive retrofits at a later date.

Third, it suggests that companies need to develop corporate information, knowledge and expertise on climate change. The companies that have gone furthest in integrating climate change into their business strategies emphasis how much time and effort they have invested in testing new technologies and new approaches. This means that when it comes to investment (e. G. In a new vehicle fleet) they fully understand not only the financial aspects of their decisions (I. . The costs and benefits of a specific technology) but also the operational and other implications (e. G. Maintenance of the new equipment, the availability of specific raw materials). In conclusion, climate change is a strategic issue for companies, and needs to be seen as such. The fact that its origins are in debates around resource consumption and resource depletion make it no less important an issue.