In collaboration with
Deloitte

Climate Governance Initiative

WORLD ECONOMIC FORUM

The Chairperson's Guide to Climate Stakeholders

Understanding how key groups are responding today and how they might respond tomorrow

BRIEFING PAPER

APRIL 2022

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This guidance is part of an ongoing thought-leadership series designed to enhance climate competence and steward climate action by board directors internationally.

A special thanks to Olivier M. Schwab and Ramya Krishnaswamy of the World Economic Forum for their invaluable insights and connections.

1

Stakeholders respond to climate

These reactions comprise risks and opportunities for business

Key questions

Understand the playing field: What evidence do you have of stakeholders' views of your services and operations?	Understand the influencers and the chain of influence: Do your shareholders have a significantly different view than that of other stakeholders? How will stakeholders influence each other and influence shareholders?	Be ahead of the curve: What is the specific correlation between climate-related events, the role of the company in such events (if any) and the subsequent stakeholder reaction against the company?
What are the risks and opportunities for the business?	How do you monitor how quickly you should move?	Do you understand the cost of action versus inaction?

Key trend

There are both foreseeable and unpredictable stakeholder reactions to climate-related events, presenting economic and non-economic risks and opportunities for companies.

Your stakeholders may include a combination of investors, shareholders, litigants, non-governmental organizations (NGOs) and activists, governments, communities, suppliers, customers and employees.

These stakeholders are increasingly focused on climate-related matters. This is due to a better understanding of climate change risks and increasing political and activist positioning. Extreme weather events like hurricanes, fires and floods, and reports like the Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report, *Climate Change 2021: The Physical Science Basis*, only serve to heighten this awareness.

Relevance to chairpersons and boards

The economic risks of these stakeholder behaviours and reactions to climate events can include changing cost of capital, more frequent and more successful litigation, policy change increasing the cost of doing business, a reduction in customers or difficulty in sourcing suppliers who can comply with your emissions targets.

Reputational risks may include an inability to gain traction and influence with stakeholders, including governments and NGOs, and difficulty in attracting and retaining the best talent for your company.

More high-impact actions or reactions could present existential threats to companies, including material legal actions, significant financing impacts or even violence or attacks on company assets or staff.

Stakeholder reactions to a company policy or proposal may not always be the result of a clear causal link between the company and the issue of concern.

The coincidence of events, rather than causation, can be a more significant factor in reaction severity. Another indication of stakeholder reaction severity is the alignment between a company's actions and current stakeholder expectations – the expectation gap is an important indicator for the board to monitor.

In the Deloitte Global 2021 Millennial and Gen Z survey,[1] 60% of respondents indicated fear that business will deprioritize actions to combat climate change in the aftermath of the pandemic. If companies can find ways to both prioritize climate change and address challenges stemming from the pandemic, they will be ahead of the curve and more likely to gain stakeholder support.

Call to action

It is increasingly important to understand your stakeholders' views on climate events and risks, as well as how your stakeholders may influence each other in their position on these risks or company operations. For example, community responses to new projects may influence the actions of governments or NGO positioning may influence investor behaviour and demands.

Opportunities to be proactive and position your company ahead of emerging issues balance the challenges of stakeholder reactions to climate events.

By taking real and authentic climate action, aligned with stakeholders' evolving expectations, companies can thwart greater impacts and potentially more harmful reactions, and differentiate themselves from competitors. Monitoring and reporting changes in stakeholder sentiment ensure that companies' actions are aligned with the expectations of their stakeholders.

The surest way to avoid stakeholder pressure (especially high-impact responses) is to take rapid, meaningful, measurable steps to mitigate and adapt to climate change.

2

Stakeholders increasingly understand climate risk and action

They expect companies to set targets and anticipate and mitigate the risks

Deloitte reviewed stakeholder reactions to technology and physical climate-related events in order to test potential implications in a pragmatic fashion – i.e. by testing against actual responses to past events.

This review considered the greatest sensitivities and concerns to each stakeholder group, how each group reacted to historic climate-related events, which events caused unexpected or strong reactions and how these reactions are likely to change in the future, including possible high-impact responses.

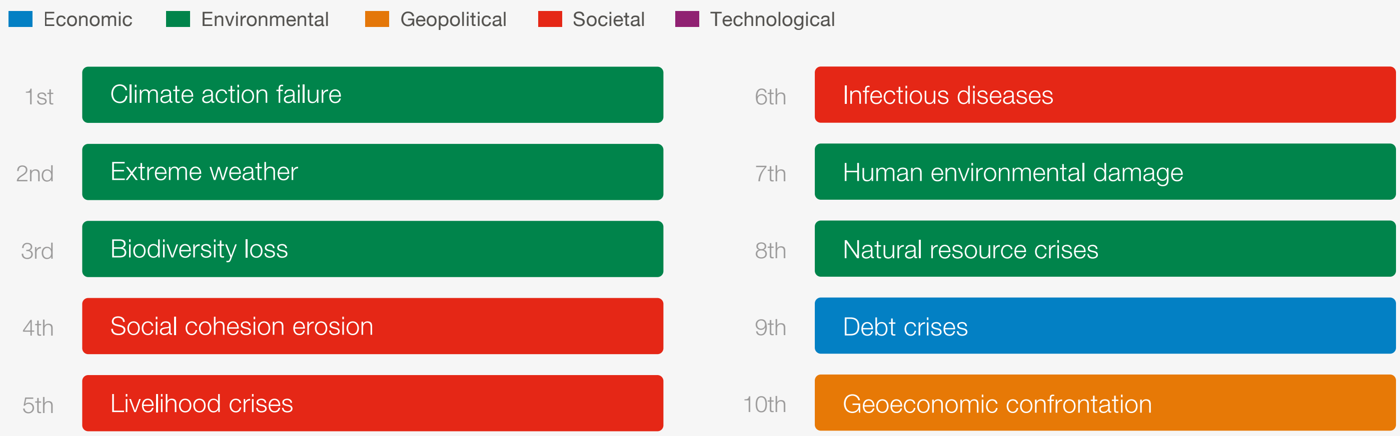
Across and within stakeholder groups there are varying views on the need and urgency for climate action. Gender and age also play a role, with men being generally more sceptical than women about climate change and older people being generally more sceptical than younger people. While in developing nations the biggest determinant of strong supportive views on climate action is education, in developed nations such as Australia, the US and United Kingdom the two biggest determinants are political ideology and worldview.[2]

In 2022, climate-related issues dominated the top ten most severe risks on a global scale over the next 10 years according to the World Economic Forum's Global Risks Perception Survey. The report recognizes the consequences for stakeholders will be far reaching: a loss of agency for individuals, loss of control for governments and loss of market share for businesses.[3]

For those who hold firm views against climate change action, extreme climate events appear to have little impact. However, for those undecided on the topic, these events can have a major impact on driving them to be in favour of action.

FIGURE 1 | **Most severe risks on a global scale 2022**

“Identify the most severe risks on a global scale over the next 10 years”



Source: World Economic Forum, *The Global Risks Report 2022*, January 2022

3

Stakeholders increasingly react to climate risk

While behaviour drivers are somewhat known, there is high unpredictability

What is driving behaviour?

The rapid rate of climate, technological and social change in recent years has disrupted traditional business models and systems, with impacts rippling through families, communities, organizations, governments and nations.

Stakeholders are reacting to these changes in both foreseen and unforeseen ways. The volatility and unpredictability of these reactions are also increasing as stakeholders grapple with the extent of changes. The pace of climate-related changes, such as the manifestation of physical impacts, scientific consensus and technology development, is increasing. Future climate-related events include:

- IPCC reports and climate conferences, government or multilateral policy changes;
- Increased cyclones impacting equipment supplies, operations and customer shipping (e.g. Hurricane Ida);
- More extreme droughts, bushfires and floods causing.

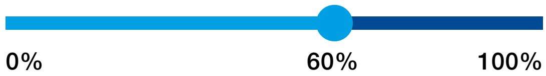
The unpredictability of stakeholder reactions to these and other events in response to the accelerating pace of change is likely to increase. Events not related to climate (e.g. environmental disaster caused by a company) can also trigger reactions that do relate to climate:

- **Foreseen reactions** – Where they were once the domain of activists and "early adopters" of climate action, climate issues are now becoming mainstream and embedded in the institutional responses of many stakeholder groups, including investors, litigants, NGOs and governments. Participants in a consultation process with a multinational client forecast an incremental increase in the severity of reactions from stakeholders over time.
- **Unforeseen reactions** – There is a view that the cumulative effect of a growing focus on climate change, combined with catalysts such as extreme weather events or forecasts within major scientific reports, has the potential to drive step changes in reaction severity. Increasing linkages and interactions between stakeholder groups can also drive high-impact reactions outside of historical norms, such as material legal actions from combined stakeholder groups, significant financing impacts or even climate-inspired cyber terrorism.

- **Unpredictability** – Unpredictability in stakeholder responses can stem from a concern or fear that possible changes may impact their interests, whether community or financial. Academic research indicates that a lack of clarity on what the changes mean for stakeholders can drive irrational fears and unpredictable behaviours.

Millennials and Gen Zs fear business leaders are not currently focused on protecting the environment.

60% of respondents fear business will deprioritize combatting climate change in the aftermath of the pandemic.[4]



4 Understanding stakeholder views

“ Stakeholders act individually – but also influence each other

It is increasingly important to understand your stakeholders’ views on climate events and risks, as well as how your stakeholders may influence each other’s position on these risks or company operations (e.g. community responses to a new project will influence governments; NGO positioning will influence investors). Figure 3 provides an example of individual stakeholder influence on other stakeholders. It does not describe individual stakeholder influence or importance but rather a method to understand the interactions across stakeholder groups. Read the table in rows to understand how one stakeholder group (in the rows) influences the behaviour of another stakeholder group (in the columns). This exercise should be tailored to your sector, region and business.

FIGURE 3 | **Individual stakeholder influence on others**

Stakeholder being influenced

Stakeholder exerting influence

	NGOs	Communities	Government	Litigants	Investors	Company's customers	Company's suppliers	Employees
NGOs		Unite communities and advocate concerns	Influence voters and lobby for policies	Lead pressure for litigation angles	Provide focus on financial risks	Pressure customers to change behaviour	Pressure suppliers to change behaviour	Cause angst among employees
Communities	Provide examples of where impacts are felt		Influence approval of license to operate	Can be a major party to litigation	Portfolio selection	Limited influence	Limited influence	Impact perceptions and feelings
Government	Provide starting point and respond to NGO action	Social stability and regulations have major influence		Can be a target for litigation	Policy changes present risks	Regulatory measures	Regulatory measures	Regulatory measures
Litigants	Successful litigations guide NGO targets	Litigants seek support and channel concerns	Can force change in regulation		Litigant behaviour increases financial risk	Threat of action can change behaviour	Limited influence	Increase NGO pressure
Investors	Investor concerns focus NGO efforts	Limited influence	Provide a lead to government by guiding finance flows	Provide insights for financial risks		Can apply pressure depending on location	Can apply pressure depending on location	Signal validity of company strategy
Company's customers	Limited influence	Localized impacts may trigger reactions	Export demand influences government behaviour	Limited influence	Customer behaviour impacts company value		Limited influence	Limited influence
Company's suppliers	Limited influence	Limited influence	Limited influence	Limited influence	Suppliers can have some impact on value	Limited influence		Limited influence
Employees	Limited influence	Operational influence on communities	Limited influence	Limited influence	Employees have impact on value	Limited influence	Limited influence	

Low influence

Medium influence

High influence

Source: Deloitte Global, 2022.

Examples of potential high-impact reactions to business operations

Figure 4 highlights examples of potential high-impact reactions to business operations – extrapolated from current real-world events.

FIGURE 4 **Potential high-impact reactions to business operations**

Stakeholder group	Possible high-impact action before 2030	Signals and signposts
Litigants	Major litigation – a combination of those that have suffered loss, activists and class-action lawyers. Could be material and, if successful, would incur balance sheet impacts up to and including bankruptcy[5]	– Tracking the development of jurisprudence (in both successful and unsuccessful litigation) – Successful litigation in other jurisdictions may provide stronger signal – monitor via media monitoring/risk sensing
NGOs and activists	Company loses seat to engage with NGOs, therefore losing the ability to influence perception in the public sphere Direct action or terrorism – extreme activists could move to major cyberattacks or physical attacks on assets or chief executive/executive leadership	– Established NGOs become less engaged – Conventional NGOs increase in size and noise – Climate events with major impacts on rich countries
Investors	Sovereign wealth funds are equity holders of last resort – can have significant impacts on company due to different drivers and governance system Stranded assets that are not able to be sold – major write-downs	– Increasing divestment from institutional and retail investors – Resulting outcomes from United Nations events such as climate change conferences and relevant government positions on key issues – Increasing percentage of individual uptake of socially aware/low-carbon portfolios – Shareholder resolutions/engagement to divest from fossil fuels
Governments	"Green new deal" approach implemented in major jurisdictions and major decarbonization regulations implemented	– European Union enacting more robust climate-related central bank regulations – Increasing political dialogue across multiple jurisdictions
Local communities	Reputation and social value impacted by perception of local communities resulting in boycott and loss of license to operate	– NGO/activist engagement – Environmental studies – Climate projections for each operational site (temperature/water availability/dust or pollution, etc.)
Suppliers	Major issues in supply chains create frequent disruptions across asset production and revenues Widespread and binding requirements for suppliers to cut emissions as companies target scope 3 emissions reductions	– Increasing extreme weather events in critical parts of supply chain – Industry-wide lobby for scope 3 reductions across company's suppliers
Customers	Widespread and binding requirements for customers to cut emissions as companies target scope 3 emissions reductions Complete switching of demand to low-carbon sustainable alternatives reducing demand for traditional products and virgin materials	– Industry-wide lobby for scope 3 reductions across company's customers and among recycling industry/circular economy proponents for mandated recycling
Employees	Failing to retain and attract the best talent leads to gaps in the workforce and in the leadership pipeline Organized employee resistance and demands for climate action, with industry-wide strikes disrupting labour productivity[6]	– Decrease in the number of graduates and vacationer students applying for positions – Competitiveness of roles outside graduate/vacationer programmes – Staff turnover rates/reasons – Age of incoming workforce – Low scores in staff engagement surveys

5

Each stakeholder presents different trade-offs

Climate action is imperative but boards and their stakeholders need to understand the near-term trade-offs

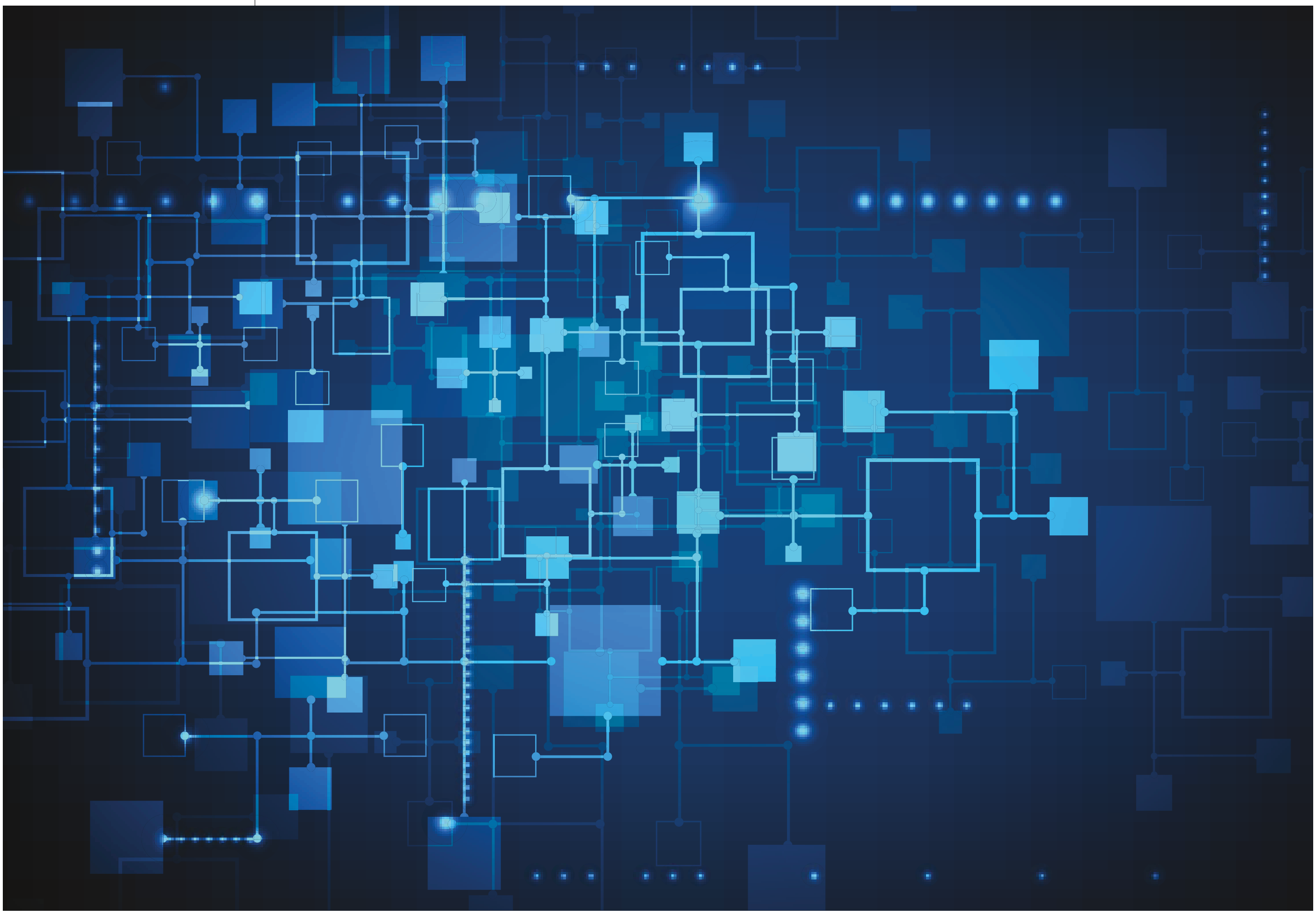


FIGURE 5 | **Potential trade-offs for different stakeholders**

Investors

Short-term profits versus long-term gains

Climate action entails an upfront investment from businesses at the cost of reduced dividends to shareholders. However, limiting global warming through the transition will support sustainable growth and the potential to develop new markets in the long term.

Suppliers

Existing relationships versus long-term supply chain disruption

Global warming will disrupt supply chains through both physical and transitional risks. However, honouring long-term relationships can be a barrier to changing or applying pressure on suppliers.

Employees

Short-term pay and remuneration versus value-aligned career and career longevity

Employees are progressively aware of and making employment decisions based on companies' environmental track record. This is a rising issue for companies attracting talent.

Customers

Cost versus environmental quality

Customers are increasingly demanding environmentally friendly products and services. However, in the short term, this often comes at a greater cost compared to non-environmentally friendly alternatives, forcing customers to decide between low-cost or low environmental impact.

Communities

Upfront transition costs versus long-term socio-economic disruption

Communities are increasingly disrupted by a changing physical climate, including extreme weather events and long-term chronic changes such as hotter temperatures and droughts. These consequences can be mitigated; however, it comes at an upfront cost of transition. This is a difficult decision, particularly for vulnerable communities that have little to invest but suffer the greatest impacts.

Government

Upfront regulatory and policy costs to governments and industries versus long-term prosperity

Imposing regulations and policies to drive the climate transition will have significant economic costs for key industries in the short term, which can sway political preferences. However, modelling shows that unchecked climate change will cause significant economic damage. Taking climate action will be critical to ensuring long-term economic prosperity.[6]

Source: Deloitte Global, 2022.

6 Questions chairpersons should be asking

Understand the playing field

What evidence do you have of your stakeholders' views of your services and operations?

How do these change when climate-related events happen?

What gaps do you need to address?

Recognizing that trade-offs will need to be made, which stakeholders will be most impacted by financial trade-offs? What level of board engagement is appropriate for those most impacted?

Understand the influencers and the chain of influence

What information will assist the board in balancing the interests of all stakeholders, including shareholders?

What level of engagement with various stakeholders is appropriate for the board?

Whose interests are aligned and competing?

Which stakeholders' interests will have the most influence over other stakeholders?

Be ahead of the curve

What is the specific correlation between climate-related events, the role of the company in that event (if any) and the subsequent stakeholder reaction against the company?

Once you understand the influencers, **what** are the actions to prepare for:

- Foreseeable reactions
- Unforeseen and unpredictable reactions (due to the lack of correlation) to climate-related events.

Do you understand the trade-offs your stakeholders are increasingly required to make decisions on?

Calculate cost of action and inaction, prepare a programme of work, monitoring and evaluation

What is the plan of action? The final key is to question and understand the cost of action versus inaction, which will inform the programme and schedule of work to prepare.

Monitor the situation and influence pathways closely to ensure you implement the work programme at the right time and can accelerate it if necessary.

Analysing the associated risks of the potential reactions

What are the risks to the business?

Economic risks include the increasing cost of capital, compensation payments via litigation, policy change – including carbon tariffs, the increasing cost of doing business, fewer customers or difficulty sourcing supplies.

What trade-offs (financial and non-financial) may you need to make?

Non-economic risks include an inability to gain traction and influence with stakeholders, including NGOs, and difficulty attracting and retaining the best talent.

Source: Deloitte Global, 2022.

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