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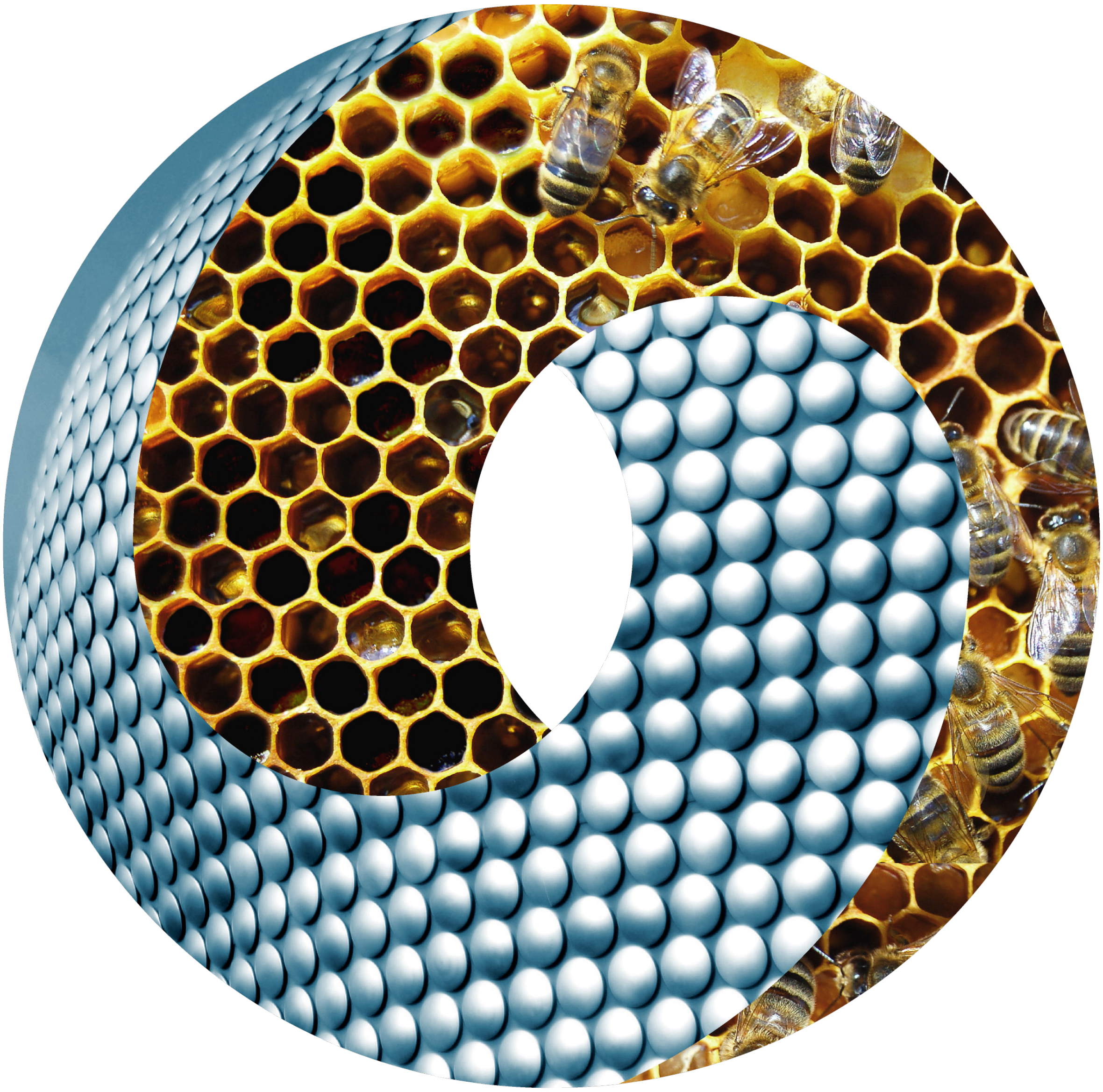

The Chair's Guide to Realizing Value from a Just Transition

22 September 2022

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Introduction

The just transition is both a principle and process that aims to address the fact that climate-driven economic change may disrupt, transform, or eliminate entire industries, workforces and professions. Left unchecked, this could create unjust and enduring economic and social effects.

The concept was first conceived in the 1970s by US trade unionists who worked at the Oil, Chemical and Atomic Workers' Union.[1] It is rooted in the labor movement and sees energy and economic transition as intrinsically linked. It has since expanded to consider the broader environmental transformation of the economy on a wide array of community groups.

The magnitude of change is not new. It is, however, happening faster than previously experienced, necessitating companies to approach the challenge in a different way to succeed.

A just transition is not a 'nice-to-have' or a discretionary extra – it is a critical part of enabling change to occur. Principles of a just transition include fairness, inclusivity, and equitability in the shift towards a sustainable economy. If these principles are not employed, then the business' transition in a climate-neutral economy[2] could fail due to the resistance of those who feel unfairly impacted and disadvantaged. This should be embedded into corporate strategy to enable a thriving future.

- This report forms part of Deloitte's suite of insights about climate and the boardroom, which includes **guides for chairs navigating the climate transition**, a collaboration with the World Economic Forum. This report is intended as a deep dive into the issues outlined in *The Chairperson's Guide to a Just Transition* published by the World Economic Forum in September 2022. Previous briefing papers from the World Economic Forum's series of Chairperson's Guides to Climate include:
- **The Chairperson's Insights into Climate Action**
- **The Chairperson's Guide to Climate Stakeholders**
- **The Chairperson's Guide to Decarbonization.**

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Just transition defined

The definition of a just transition is evolving. The term has been used to cover a broad range of agendas over the decades, from job creation in at-risk industries through to the eradication of poverty worldwide. While a wide variety of definitions have been published (see Appendix A), common elements distinguish a just transition as both a principle and a process:

- As a principle, a just transition represents a fair, inclusive, and equitable transition towards a global economy in balance with its environment and which recognizes that people are at the heart of the transition. Those making transition decisions must consider all people impacted and how they can be treated fairly.
- As a process, a just transition requires social dialogue to negotiate and implement the principle within relevant geographical, political, environmental, cultural, and socio-economic contexts.

'Just transition' has become a mainstream concept due to increasing acceptance that:

- Climate-driven economic change will disrupt, transform, or create entire industries, workforces, and professions.
- The transition to a climate-neutral economy if done well, will likely be a global net job creator[3] which could increase the size of the world economy by US$43 trillion in net present value terms from 2021-2070.[4]
- Changes will disproportionately impact specific groups of workers and communities, especially in regional areas with specialized workforces, and those particularly exposed to the changing climate.

Without swift concerted action from the business community, a disorderly energy transition could create unjust and enduring environmental, economic, and social effects. A just transition is one sub-component under the broader concept of environmental responsibility and justice, commonly referred to as 'climate justice.'[5] Related terms include 'sustainable development,'[6] and is also covered by concepts such as 'doughnut economics'[7] and 'Sustainable Development Goals.'[8]

The concept of a just transition will continue to evolve as new issues emerge on the path to a climate-neutral economy. In this paper, we focus on the just transition as an important part of the transition to a sustainable, climate-neutral economy noting that the concepts and issues discussed can be applied to other major structural transformations.

> As a principle, just transition represents a fair, inclusive and equitable transition towards a global economy in balance with its environment and which recognizes that people are at the heart of the transition.

A just transition as a critical part of strategy

The world is moving toward a low-emissions economy, driven largely by societal demands, market forces, and government policy. Businesses have a critical role to play in making this transition fair, inclusive and equitable. One hundred active fossil fuel companies have been linked to 71% of global industrial greenhouse gas emissions between 1988 and 2017.[9] 1.5 billion workers are employed in sectors critical to climate stability (such as agriculture and manufacturing).[10] The decisions made by business leaders will significantly impact workforces, communities, and global emissions reductions. Board members will play an important role in shaping those decisions, in turn determining if the transition to a low-emissions economy is just and equitable.

Risks

There are significant risks to businesses that do not plan for a just transition in their strategic decision making. Mismanagement of the social aspects of the transition could increase inequality and amplify social polarization, exposing businesses to risks such as reputational damage, political instability, reduced economic activity, public resistance and weakened decarbonization efforts.[11] Failure to embed climate resilience into transitioning assets could create future costs and risks. By enabling a diverse and inclusive culture, a successful just transition is likely to give rise to new ideas and technologies, and failure to realize these opportunities risks losing significant value-adding potential.

In many countries, maintaining a social license to operate is necessary for long term business success. Failure to bring stakeholders, including government, employees and communities on your journey can jeopardize this social license. Historically, stakeholder expectations are often aligned with elements of a just transition (for example, women's right to work). However, the risk associated with failure to support a just transition goes beyond a threat to social license and reputation. Stakeholders that feel unheard or alienated, may impede the success of the transition by polarizing public opinion on the benefits of climate action. These stakeholders may target individual companies or use social discontent to catalyze a backlash against industry in general.

The transition to a low-emissions economy is unique both in the magnitude of socio-economic and environmental change required and the speed at which the transition is occurring. That is why it is now important to think deliberately, and carefully about which stakeholders' interests may be overlooked as change is enacted.

Opportunities

Successfully integrating a just transition into business strategy can have major advantages. A just transition benefits businesses by helping to reduce systemic risk, enhance human capital and social value[i], provide competitive advantage, improve corporate reputation and reduce systemic risk.[12] As these opportunities are likely to be realized over the medium to long term, board members are well positioned to focus on realizing them as part of carrying out their stewardship obligations.

A just transition also creates an opportunity to address both historic inequities and current challenges, for example through re-skilling with gender balance, or enabling indigenous communities to take a leading role in new industry development. Facilitating these opportunities is a chance for businesses to strengthen positive public perception and to develop new capabilities.

A just transition creates new strategic opportunities for businesses, including unlocking previously underutilized communities or regions, increasing innovation and product development, and transforming business models.

Crucially, a clear just transition strategy is vital to safeguarding the successful achievement of the business' climate strategy and therefore the entire business strategy.

[i] See an example of four complex and interconnected economic systems that will become low emissions in a net zero future in the All Systems Go report

The board's role in a just transition

The board of directors' duties of loyalty, care, and diligence to the businesses they serve extend to navigating their business through the societal transition to a climate-neutral economy.[13] Adopting and applying a just transition framework is a central tenet to achieving success.

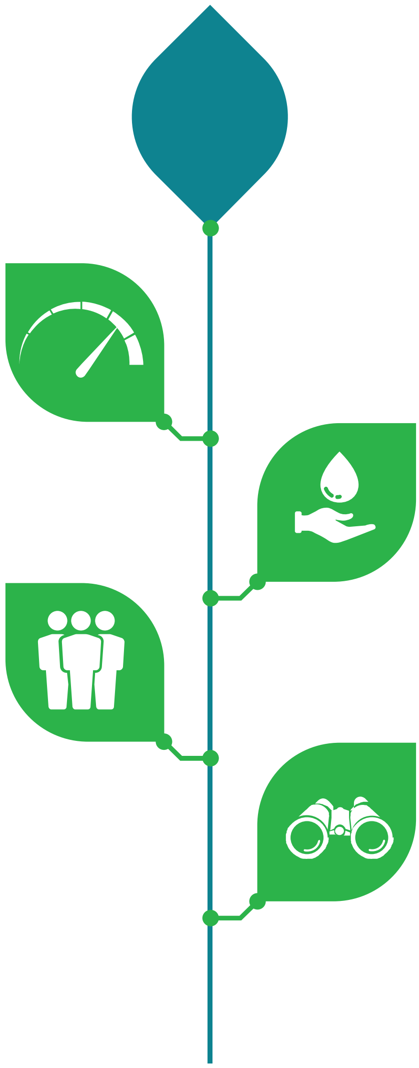
Boards of directors can exert influence to achieve a just transition through four key lenses

Speed of the transition

For many businesses, the pace of change over the next few years is expected to be so rapid that executives most likely will not have the bandwidth or the systems in place to take advantage of the opportunities without the Board's clear direction, support, and oversight of allocation of resources. Moreover, the collaborative process necessary for a just transition can slow the pace of change meaning careful board oversight will be important to reduce the risk of hasty decision-making, leading to potential mismanagement of the transition as the urgency of action rises. Empowering and holding the executive accountable will encourage them to make the optimal strategic decisions with the required agility.

Social sustainability

The transition requires the resolution of complex and interlinked challenges. As the board prepares for the complex and interconnected systems change[ii] that will be required to affect a just transition, there will likely become greater awareness of the five types of capital relied on to deliver products and services (see Figure 1). Specifically, the need to maintain and enhance the sustainability of social capital and human capital will be recognized as core to long term value creation as part of the just transition.



Strengthen social and business value

Boards of directors have a duty to monitor the political and social landscape to assess climate risks and opportunities to create competitive advantage. They should monitor stakeholder expectations and socio-economic trends as well as oversee the management of risk of stakeholder backlash which may inhibit company's progress to net-zero. In addition, they should actively anticipate the impacts, opportunities and inequalities the transition could create along the value chain. Through strategy redesign, the board can strengthen the company's business and social value and thereby positively impact long term financial sustainability.

Outward perspective

A just transition requires shared goals across industries, regions, and governments. To achieve this, companies should move from having an inward-looking focus to an outward-looking perspective. To achieve this change, it typically first requires much internal debate. This impetus to change can be accelerated by a chair who has taken time to educate themselves by attending and actively listening at industry forums and who then encourages the CEO and Executive to engage widely with industry and government and advocate for policy change.

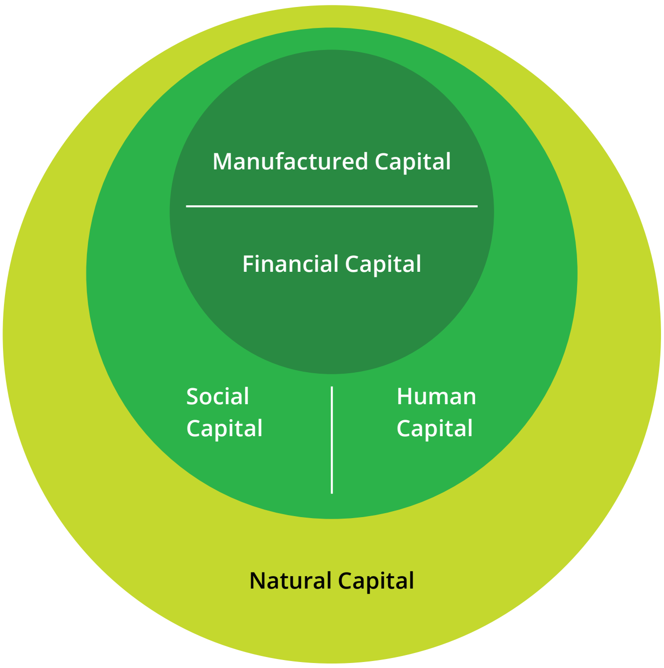
[ii] See an example of four complex and interconnected economic systems that will become low emissions in a net zero future in the All Systems Go report

Board members have a duty to act in the best interests of the company, which may include a consideration of what needs to happen to maximize its value or 'capital'. The Five Capitals model below identifies five types of capital used by corporates to deliver products and services.

A sustainable business will take the time to understand and value each different type of capital, with a view to maintaining and ideally enhancing these stocks of capital assets. This model is useful to provide board members with a better understanding of financial sustainability in the context of the wider environmental and social issues that will impact long term profitability and value.

While the notion of a just transition is inherently a people centric concept, the Five Capitals model assists to make it clear that the whole system (the ecosystem in which it operates) matters as part of the creation of shareholder or stakeholder capital.

Figure 1: The Five Capitals model[14]



Examples of the Five Capitals

- Natural Capital: includes naturally occurring resources and sinks absorbing waste e.g. carbon sinks.
- Human Capital: includes knowledge, skills, motivation and wellbeing.
- Social Capital: includes the networks and institutions that help us maintain and develop human capital e.g. families, communities and businesses.
- Manufactured Capital: includes human made assets that contribute to the production process e.g. tools, buildings.
- Financial Capital: includes shares, bonds, banknotes and is the traditional primary measure of business performance.[15]

Despite the increasing pressure, businesses are falling behind. According to the World Benchmarking Alliance, "the vast majority of high-emitting companies are failing to demonstrate efforts towards a just transition." A 2021 pilot 'just transition' performance review of 180 companies in oil, gas, electric utilities[iii] and automotive manufacturing found that only nine companies scored over 50% in the benchmark. The assessment considered a range of metrics across human rights, social dialogue, social protection, job creation, retain and retrain workers and policy advocacy. The World Benchmarking Alliance highlighted that human rights are a key enabler of a just transition.[16]

Insights from leading chairs, supported by the Principles for Effective Climate Governance[17], emphasize that chairs must educate themselves and their boards on key issues and proactively understand their stakeholders in order to protect long-term enterprise value through the transition.[18]

[iii] Electric utilities covers four main activities: generation, transmission, distribution, and retail/marketing as per the World Benchmarking Alliance methodology', accessed 16 August 2022)

The role of the chair

The chair has a key role in achieving a just transition. Chairs who are focused on achieving a just transition are likely to demonstrate the following behaviors and actions:

Demonstrate personal willingness to listen, learn from, collaborate, and cooperate with communities impacted through the value chain.

Influence the time spent in the boardroom and with shareholders on the topic of climate change and the just transition. Support the CEO by encouraging regular informal and formal training to assist in messaging to shareholders, prompting ideas for scenario analysis.

Drive key decisions by the board that will help enable a just transition, such as:

- Agree with the executive an appropriate level of engagement for board members to have with those people most likely to be impacted.
- Prioritize board agenda items focused on stewarding a just transition.
- Hold the executive to account for embedding a just transition into corporate strategy.
- Propose relevant sub-committees to take a more hands-on role to assist in embedding sustainability into strategy where necessary.

Instill a sense of excitement within the management team via the CEO about the opportunities that could arise for the business by creating significant social value through a just transition.

Challenge the board to consider long term implications of capital allocation strategy in relation to the resilience and inclusivity of investments.

Foster and maintain an effective working relationship with the CEO based on trust, goodwill, and a shared motivation to achieve a just transition through acting in the best interests of the company and its stakeholders.

Continuously remind the board to reflect on its vision for a climate-neutral future and the importance of fairly addressing the diverse impacts on stakeholders as part of its role in shaping strategic direction.

Manage conflict with confidence, encourage decisive dialogue[19] and welcome creative tension in the boardroom and between the chair and the CEO, recognizing that achieving a just transition will require difficult trade-offs, speed, creativity and emotional commitment.

> **We became the first company, to our knowledge, to publish a just transition strategy... we believe it is to the benefit of both the Company and its shareholders if there is enhanced engagement on climate-related matters.**[20]

Sir John Manzoni
Chair, SSE plc

Case Study: SSE plc

UK energy company, SSE, topped the World Benchmarking Alliance's pilot Just Transition Assessment. As champions of the just transition, SSE published its *Just Transition Strategy*, with 20 principles for a just transition.

SSE began as a primarily fossil fueled, energy generator and distributor. Over the past decade SSE has pursued an aggressive transition strategy and is now a leading renewable energy generator in the UK.[21]

SSE recognized the sensitivities surrounding the closure of its coal-fired power plants and worked to ensure early and extensive consultation was undertaken with employees, unions, and local councils before taking action.[22] Additionally, SSE facilitates a just transition by seeking to employ individuals from high-carbon jobs; 1 in 5 SSE employees previously worked in high-carbon jobs.[23]

While 'respecting employees in high-carbon industries' is a critical part of the just transition, SSE recognizes it is only one part of the broader just transition. Its *Just Transition Strategy* is made up of five pillars and 20 principles including:

1. a guarantee of fair and decent work
2. factor in whole-system costs and benefits e.g. include consideration of complex trade-offs in making decisions to support equitable allocation of costs among consumers
3. make transparent, evidence-based decisions e.g. use high-quality impact evaluations to inform choices that make the transition faster, fairer and more successful in a transparent waysupporting competitive domestic supply chains
4. form partnerships across sectors.[24]

Pursuing its net-zero strategy and its just transition strategy, SSE continues to see substantial growth. It reported an FY22 profit of £3.8 billion (US$ 4.8 billion), compared to £1.8 billion (US$ 2.3 billion) in FY17.[25] and projecting an earnings per share of 7-10% (compound annual growth rate) by 2026.[26]

Board framework for a just transition

A multitude of divergent frameworks and approaches exist for the transition to a climate-neutral economy. However, ultimately there are four key steps to navigate a just transition in the boardroom. Below are key questions board members should be asking their CEO and executive in relation to a just transition.

1. Understanding the issue

- Have we identified, engaged and collaborated with our communities, employees, customers and suppliers, as well as local regional economy, competitors facing similar issues, and businesses that could support those impacted across the value chain to assess and address the impact of our transition plan?
- Where are the impacts on our stakeholders most significant? Over what time frame might they occur?
- What potential just transition scenarios exist and how do they influence our strategic choices? How do the different scenarios change the impacts on different stakeholders?
- Our Board would like to hear and learn directly from those most impacted. Can we agree an appropriate level of interaction directly between the Board and our most impacted stakeholders?

2. Strategic alignment

- How could a failure to successfully implement a just transition strategy negatively impact the business and our stakeholder groups?
- Are our desired outcomes for delivering a successful just transition clearly defined (vision, financial and non-financial goals)? Have stakeholder groups been engaged to help define these outcomes?
- Have we embedded a just transition and stakeholder collaboration into our corporate strategy and core business operations?
- How are we integrating/joining the dots between our just transition commitments with our other commitments to achieving the Sustainable Development Goals, International Labour Organization standards, decarbonization and climate resilience outcomes?
- Will we establish or join an ecosystem in order to work collectively with others on creating an economy-wide just transition?
- What changes may be required to our business' operating model to deliver a just transition?

3. Prioritization

- Is our commitment to a just transition clear, transparent and available to all our stakeholders?
- What key stakeholders and issues should we prioritize? How has this been informed by stakeholder engagement? How regularly will we review these priorities?
- Where is our business focusing its resources (capital, time, and effort) across just transition issues?
- What specific actions/ response measures are management taking and how are stakeholders informed of these decisions? (e.g. capital allocation, resource allocation, governance, partnerships)

4. Monitoring

- Have we established ongoing open and respectful multi-party engagement with our stakeholders, including impacted communities, employees, customers and suppliers, industry peers and policy makers?
- What data and analytics are we leveraging to measure performance and risk, in order to pivot strategy and approach?

Stakeholder impacts

Through engagement with five key stakeholder groups of **employees, communities, governments, investors, and key players in the value chain especially suppliers and customers**, businesses can help accelerate the delivery of a just transition.

Employees

Enhance workforce capability and provide right skills to continue delivering long-term value for the future.

Communities

Important for social acceptance of, and support for, business operations.

Governments

Key collaborators to ensure a successful transition and to assist business meet regulatory requirements.

Investors

Key enablers to financing a successful transition and assisting business to meet expectations of shareholders.

Value chain – suppliers and customers

Key to business securing reliable supply and customer demand.

In some regions, many of these stakeholders already face numerous existential threats including war, food shortages, health crises and social inequity. These issues will be exacerbated if both climate change and climate action go unchecked without consideration by corporates of the social implication of their transition plans. Creating a just transition must complement action across other key development goals to effectively achieve a sustainable economy.

A successful climate transition depends upon global cooperation. If stakeholders feel cut out of the benefits from the transition they may mobilize to create a backlash against climate action, therefore risking businesses failing to achieve climate targets. Further, increased unemployment and marginalization may result in groups becoming desperate and becoming drawn to high impact reactions (such as civil conflict or extremism). Engaging the stakeholder groups early and assisting them to acquire new skills and develop new products is critical to economic stability and success in the transition to a climate-neutral economy.

Eni is an example of how businesses can start to implement a just transition to deliver long-term value.

> **We are committed to an energy transition that is socially fair and that, through tangible solutions, preserves the environment and provides everyone with access to the energy they need.**
>
> ***Eni's commitment to a just transition***[27]

Case study: Eni[28]

Multi-national oil and gas company Eni strives to deliver a just transition. The mission of the business is grounded in the UN Sustainable Development Goals and embeds the principles of a just transition.[29] The business model has three pillars:

Carbon neutrality by 2050 – Eni recognises the need to transition away from fossil fuels and has developed a strategy to decarbonise its processes and products.

Operational Excellence –Eni undertook a requalification process to upskill employees in line with the energy transition and has delivered over 1 million hours of training (representing an investment of €27million (US$ 29 million). Eni also recognises the important role of suppliers in the transition and is strengthening its contractual standards to integrate sustainability incentives.

Alliance for Development – In countries where Eni operates, it seeks to promote long-term initiatives to assist access to energy and water, education, community health and economic diversification. In 2021, Eni invested €105 million (US$ 114 million) in local development.

Eni was also one of seven companies to develop the Council for Inclusive Capitalism's *Framework for a Just Transition*[30].

The following section provides details across these five stakeholder groups:

- Questions board members should be asking in relation to that stakeholder group
- The relevance of a just transition to this stakeholder group
- The relationship between the business and the stakeholder group in shaping a just transition
- The role of corporate strategy in addressing the stakeholder group's expectations

Employees/workforce

Questions for your Executive

- How will our workforce capability requirements change, including those across our value chain, in both technical and people skills as we transition?
- Does management have sufficient data to make informed decisions about workforce transition over time? Do you understand how the different transition scenarios will impact these timeframes?
- Do we have a plan to enhance the current workforce and utilize the external market to address future capability gaps?
- What specific actions are being taken to drive cultural change across the business?
- How can we utilize the transition to address other workforce policies, such as diversity and inclusion?

Structural changes in the labor force

Climate change is changing economic structures. Industries will be forced to undertake significant transformations in relation to when, how and what they produce. This will likely cause significant changes to the structure of the labor force.

While the focus of a just transition has thus far centered on the major job losses expected in the high emitting industries, it is important to recognize that job losses and changes will be felt across all industries. As economies restructure under these forces, the focus for transition in the labor market and for individuals should be on skillsets. That is, to deliver economic change which is inclusive, the focus should be on the transition of skills and the capacity to acquire new skills to remain relevant in a changing economy.

To achieve this, many businesses will need to enact numerous shifts across their workforce to prepare for, and manage, the various job transformations. The occupation groups that will experience the most significant changes are[iv]:

- **Emissions intensive jobs** are directly related to emission intensive activities. As global energy grids and industrial production shifts away from fossil fuel processes, it is expected that demand for labor in these jobs will decline (e.g., thermal coal miners).
- **Growing demand jobs** support general development across the economy and will be a key input to the emergence and expansion of low-emission sectors. Demand for these jobs will increase in the transition period, but the skills and tasks of the role will not dramatically change (e.g., carpenters, production managers etc.).
- **Transformed jobs** are existing jobs where the work and worker requirements are expected to change as the global economy transitions toward climate neutrality (e.g., steelmakers, electricians, farmers etc.).
- **New low-emission jobs** are jobs that will emerge and become prominent as new technology and processes are adopted during the transition to climate neutrality (e.g., fuel cell engineers, carbon market analysts and recycling coordinators etc.).
- **Ecosystem Reliant jobs** are those that are directly related to activities that rely on natural capital inputs or are exposed to the weather (e.g. fishing and forestry workers, crop farm workers, roofers etc.).

The emergence of new occupations

- At the current pace, demand for green talent and skills will outstrip supply. Searches for green skills are seeing double digit growth, however green talent is not growing as quickly. Businesses will have to actively upskill.[31]
- Demand for green talent and skills is coming not just from obvious industries like energy, but from a broad range of industries, including finance, fashion, technology, and transport.[32]
- Bottlenecks in the availability of re-skilled workers could drive up labor prices. This is as much a risk to the climate transition as an opportunity for businesses to address a growing gap in the market.

[iv] This categorisation was informed by the O*NET Green New and Emerging Occupations classification.

In this way, skills are a key input to the transformation of businesses and a just workforce transition. Ensuring that business have access to the skills they need to transform requires:

- **Reallocation of workers** – some workers will pursue new employment pathways, where their skills are in high demand. This could increase competition for talent in the economy and have attraction and retention implications for businesses who demand these skills.
- **Retraining workers** – workers currently employed within 'transformed jobs' , will need to be retrained to remain in role, as the requirements to perform in that role significantly change. There are instances where the skills are so specialized that the retraining is best provided by industry and there will be cases where the education and training sector will need to support businesses in delivering these new skill requirements.
- **Building capacity of workers** – workers in all facets of the economy will need to build capacity in sustainability practices. Just like how the workforce has previously adjusted to, for example, the integration of new technology and regulation, so too will they need to understand how to integrate sustainability principles into how they perform their roles and make decisions. It is expected that this will require minor upskilling, which can be delivered by businesses in line with the firm's broader decarbonization and adaptation strategy.
- **Integration of underutilized cohorts** – the inclusion of underutilized or disengaged cohorts in the economy will help business tap into new pool of supply and provide more people with a place in a low-emissions workforce.

Overall, these changes require significant transformation of the workforce. It is essential that businesses understand the nature of change (e.g., decarbonization strategy, regulation, changing consumer preferences, etc.) expected to impact their business and mitigate expected labor market risks (e.g., skills shortages) through comprehensive workforce planning. Without a plan in place, pressure from employees and unions could rise as certain job types become increasingly at risk. Moreover, businesses will see a growing shortage of skills required to operate in a climate-neutral economy.

Businesses must monitor and proactively manage these issues by planning for disrupted and emerging roles. Evidence indicates that in some circumstances, it is in the financial interest of a businesses to re-skill at least a quarter of their workforce rather than fire and re-hire workers.[33]

Rather than working at odds with employees, it is important for businesses to collaborate directly with the workforce and relevant unions, as well as across their industry (including direct competitors) to support their workforce transition. In addition to internal re-training programs, businesses can collaborate to establish an industry-wide academy or to partner with higher education providers to create courses and apprenticeships that are tailored to the needs of the industry. Industry-led collaboration can reduce reskilling costs and effort by 30%, making it financially beneficial to reskill almost half of the disrupted workforce.[34] Board members should understand how management is planning to work with these stakeholders to plan for a just transition. Poor execution here could undermine business strategy as well as social stability, to the point of potentially imperiling the progress of the climate transition system wide.

Boards should also ask how management is addressing critical employment diversity and inclusion policies, such as gender balance and neurodiversity, through the transition. Research undertaken in 2021 showed that 62 women for every 100 men were considered 'green talent' (defined as someone who has explicitly added green skills to their profile or working in a job requiring green skills). In addition, men were transitioning into greener jobs faster than women. In the period 2015–2021, 66% of transitions into jobs requiring extensive knowledge of green skills, and 63% of transitions into jobs requiring some level of green skills were made by men.[35]

There is an opportunity to design this transition of skills to effectively address historical inequities and disadvantaged groups and thereby create a more resilient and inclusive workforce, and therefore business, for the future.

Communities

Questions for your Executive

- Have we considered the depth and breadth of the community impacted by our plan to transition and understand their fears, issues, and related expectations of our business?
- How do we define the business case for ensuring strong community relations as the company moves forward with its transition?
- How is our business' reputation and brand perceived by community stakeholders, and how might this shift through the transition?
- What resources and capabilities has our business put in place to address our prioritized community issues, expectations, and engagement?
- How will we maintain oversight of community boundaries that are unclear and regularly shifting?
- How is management communicating the transition to the community and providing avenues for engagement and feedback?

Disproportionate impact of transition to a climate-neutral economy

Climate change is profoundly disrupting industries, particularly those reliant on the planet's natural capital. This has a compounded effect on the surrounding communities, often located in regional and rural areas. Such communities are already associated with higher levels of poverty and greater concentrations of disadvantaged groups, particularly the indigenous peoples in some countries who face social, economic, and political marginalization.[36] Rural communities contain most of the planet's natural capital, and are also home to around 80 per cent of those below the poverty line.[37]

Additionally, the physical impacts of locked-in climate change, such as changing weather patterns, adversely effects vulnerable communities. Rapid transition without social awareness can exacerbate these impacts by overlaying multiple stressors, that could include extreme weather events impacting vulnerable communities already affected by the climate transition.

Transition to climate neutrality can help businesses break the cycle of historic inequality and climate change.[38] Investing in new greener climate resilient industries and infrastructure can bring opportunities to disrupt intergenerational inequality, address climate risks, and help local communities to engage and develop a just, environmentally sustainable economy. However, left unchecked this can create unjust and enduring socio-economic impacts,. Decisions to withdraw or enter new industries will have a variety of impacts on the community as:

- Adjacent industries (such as retail, hospitality, construction) are no longer viable without the anchor industry attracting people to the area, resulting in unemployment across the broader community; or
- Existing communities and industries may be impacted by new operations that could:
  - Disrupt the local environment and/or cultural heritage; or
  - Increase competition for local resources (such as water), which could result in incumbent industries no longer being viable.

These impacts could have a number of serious results, including to worsen inequality or create distrust in the business. Not only can this damage the business' social license to operate, but more crucially this can give rise to anti-climate action sentiment if communities feel disengaged and marginalized by businesses. Anti-climate action may result in pushback to achieving climate targets not only impacting the ability for corporates to achieve anticipated returns, but resulting in economic instability and increased physical risk. This is further complicated by different economic, social, political, and cultural realities across and even within geographies.[39]

As influential market players, businesses have a joint responsibility to work with communities, non-government organizations and governments to find beneficial solutions. Therefore, it is critical that businesses take an inclusive, participatory and collaborative approach by considering the perspective of those most disadvantaged in the transition. The following section discusses further the joint role of businesses and governments in a just transition.

The risk to corporates

Community assent is integral to a business' operations. A lack of awareness of the communities impacted by the transition can exacerbate existing inequalities, which is detrimental to the human, social and network capital on which businesses are reliant.

It is common to see media and non-government organizations rallying to protect disadvantaged groups to ensure they are placed at the heart of the transition by calling out examples where companies appear to have failed. The growing cases of successful litigation and negative media coverage serves to emphasize how stakeholder groups within the climate-neutral transition ecosystem will resort to 'high-impact actions' to protect the welfare of communities (as discussed in the **Chairperson's Guide to Climate Stakeholders**).[40]

The influence of communities cannot be underestimated even within new green industries that would seem to provide local economic benefits. For example, a recent case of a revocation of a lithium mining license following community backlash around health, air, water, biodiversity, and land concerns,[41] shows the importance of respecting and incorporating the local community's voice in decisions. Increased reports around the negative impact of renewable energy projects can result in operational delays, legal costs, and reputational risks.[42] Businesses should be acutely conscious of community nuances and sentiments even when investing in new clean industries.

Ultimately, a lack of awareness of broader community stakeholders can inhibit the path to climate neutrality if communities block climate initiatives. This in turn can result in higher costs to decarbonize and diminish the business' climate policies.

Community resilience as a business benefit

The business case for developing sustainable communities through improved practices and community investment is clear. Improved equality can generate direct and indirect business benefits: bolster economic growth outcomes, improve human and social capital (local workforce productivity),[43] enhance social value, garner customer loyalty, manage risk and reputation, enable better access to resources, and develop a competitive advantage.[44]

Businesses can also use the transition to a climate-neutral economy to address past injustices by establishing mutually beneficial relationships with local stakeholders that have historically been overlooked. This can contribute to improvement in quality of life and help create an environment conducive to investment.[45] For many businesses, particularly multinational firms, this is not a new concept, already having robust community investment schemes in place. Applying a social lens in the transition to a climate-neutral economy, can not only allow businesses to capture such benefits but can also help reinforce decarbonization strategies.

Governments

Questions for your Executive

- What are the evolving expectations from governments across all jurisdictions in which we operate our businesses?
- Are there any current or emerging compliance or policy measures that we need to navigate?
- What are the available government financial and other support mechanisms, and is our business effectively utilizing them?
- How do we collaborate with government to codesign or participate in the regional economic strategy?
- How can we work with peak bodies and chambers of commerce to access government funded training and internship programs?

Governments are key facilitators of a just transition

Governments play a central coordination and enablement role to ensure regional economies diversify and grow through a transition that aligns with future facing industries to mitigate employment, social welfare impacts. Globally, governments signaled this was at the top of their agenda at Conference of the Parties 26 (COP26). This expectation will likely flow on to organizations in most jurisdictions. Boards must be prepared for how their organization will manage rising government pressure and changing legal and regulatory obligations.

COP26 saw 190 Parties form a consensus on governments commitment to a just transition as part of the Glasgow Climate Pact. It requires "*the phasedown of unabated coal power and phase-out of inefficient fossil fuel subsidies, while providing targeted support to the poorest and most vulnerable in line with national circumstances and recognizing the need for support towards a just transition." Recognizing the need to "promote sustainable development and eradication of poverty, and the creation of decent work and quality jobs...*"[46]

> Successful sustainable organizations are those that engage with government, be this through accessing available grants, advocacy or consistent two-way dialogue.

The growing focus and momentum in government for a just transition is also evidenced across a range of regions and countries as shown in the table below.

EU's Just Transition Mechanism	Seeks to provide targeted financial support to EU member countries to alleviate the socio-economic impact of the transition to a clean economy.[47] The Mechanism consists of three pillars: Just Transition Fund, InvestEU 'Just Transition' scheme, and a Public Sector Loan Facility that together are expected to mobilize around €60 billion (US$ 64.7 billion) in public and private investment.[48]
Just Transition Declaration	Signed by 16 national governments and the EU, which aims to support emerging economies to diversify away from carbon-intensive industries while also supporting sustainable development priorities.[49]
United Nations	The recommitment to just transition in April 2020 emphasized the importance of 'leave no one behind' as part of six priority areas for climate action post COVID-19.[50]
United Kingdom	Section 172 of the UK Companies Act, which outlines the duty of company directors to have regard for, amongst other things, the impact of the company's operations on all stakeholders, including the community and the environment.
South Africa	South Africa has a long history of engaging with just transition dialogue. In 2015, it was the only country to mention the just transition in its initial UN Nationally Determined Contribution.[51] The South African government has established the Presidential Climate Commission to oversee a 'just and equitable transition towards a low-emissions and climate-resilient economy.'[52] In 2022, an International Just Energy Transition Partnership was initiated to accelerate the decarbonization of South Africa's economy, with a focus on the electricity system, in partnership with France, Germany, United Kingdom, the United States of America and the European Union.[53]
Philippines	In 2017, the Government of the Philippines passed its Philippines Green Jobs Act. The Act focuses on scaling up sustainable growth and decent job creation while building resilience against the impacts of climate change.[54]
Canada	The Canadian Government is currently contemplating just transition legislation. The draft legislation proposes a set of 'People-Centered Just Transition Principles' and the establishment of a permanent advisory body to provide independent advice on the just transition.[55]

Successful sustainable organizations are those that try to work constructively with government, be this through accessing available grants, advocacy or consistent two-way dialogue. Board members should encourage management to engage with the company's membership organizations such as trade associations and business confederations. Small and medium size enterprises can also work together with peak bodies and chambers of commerce who can help them access government funded training and internship programs. Vitally, businesses need to try to ensure that they have the right capability and capacity to deliver a just transition before it becomes a legal obligation.

Public private collaborations are critical to a just transition

Governments expect organizations to support transition efforts and take a lead role in mitigating impacts on communities. Working closely together can benefit both parties by helping to reduce unemployment in the economy through filling vacant roles where skills are in short supply.[56] As such, it is crucial that governments and organizations work together to orchestrate the transition in a way which maximizes synergies and positive outcomes for impacted stakeholders.

While the role of private enterprise is to develop concrete emissions plans, create decent jobs and develop transition plans for reskilling and retrenchment, the role of government is to act as convenors of social dialogue, regulators and investors.[57]

There is also a role to be played by organizations that can facilitate public-private partnerships. These organizations bring together partners across private enterprise, academia and public sector with the goal of working together to create innovative solutions to tackle climate change.[58] One such organization is Climate-KIC, which is a Knowledge and Innovation Community co-funded by the European Commission, national and regional governments and private funders with the aim to bring together partners in the worlds of business, academic and the public and non-profit sectors. Climate-KIC focuses on innovation, entrepreneurship, education, community mobilization and transformational capital. The 2021 EIT Climate-KIC Impact Report notes that it has over 450 partners across 39 countries and has launched 469 new products and services.[59]

Investors, shareholders, financiers, and insurers

Questions for your Executive

- What collaborations are we exploring to maximize funding and structure financing flows to key initiatives?
- Are we effectively leveraging available financial instruments (e.g. sustainable finance), grants and incentives?
- Have we considered innovative equity and investment structures (e.g. community, indigenous based co-investment)?
- How do we engage with investor groups to help ensure just transition disclosures meet market expectations and standards?
- How will our land and asset use, rehabilitation and re-use strengthen our just transition priorities and impact our insurance rating?

Why investors, financiers, and insurers care about the just transition

Organizations will likely begin to see pressure grow from these stakeholder groups to address the just transition. While the relationship and levers may differ, investors, shareholders, financiers and insurers are all driven by similar concerns. The Grantham Research Institute identifies five reasons investors will increasingly care about the just transition:[60]

Understanding systemic risks	A just transition is critical to the stability and functioning of the financial system. Failure to consider social impacts of the transition could lead to deepening inequality and poor economic growth outcomes.
Reinvigorating fiduciary duty	Investors must manage economic, social and environmental trends in a holistic manner to ensure the delivery long-term investment returns across generations.
Recognizing material value drivers	Investors need to understand how companies are implementing a just transition. Poor management could impact an organization's return on investment, while proactive and effective implementation can create additional value for investors through productivity and social license gains.
Uncovering investment opportunities	Investors can take advantage of new and innovative business ideas born from the just transition. Additionally, investors can use the transition to leverage private capital for place-based investment strategies focused on vulnerable regions and communities.
Contributing to societal goals	Investors can use their expertise and resources to promote a well-functioning economy that delivers social value in line with the UN Sustainable Development Goals.

Growing pressure from investor groups

For these reasons, investors, shareholders, and other financial stakeholders will expect transparency from organizations on how they are managing the transition. Several new finance led initiatives and pledges have demonstrated the increasing pressure on organizations:

Glasgow Financial Alliance for Net Zero (GFANZ) - boosted the number of financial institutions with net-zero targets to more than 450, representing around 40% of global assets at US$130 trillion. In its progress report, GFANZ highlights the importance of including the just transition in both the real economy and the financial sector transition plans that now need to be designed and implemented. Banks, insurers, investors, and other financial institutions will need to show how their climate action plans incorporate the interests of workers, communities and consumers, in line with the United Nations' Sustainable Development Goals.[61]

Climate Action 100+ - a leader in informing investor stewardship through climate change benchmarking and assessments, led by around 700 investor groups, responsible for US$68 trillion in assets and which covers companies responsible for around 80% of corporate greenhouse gas emissions. Climate Action 100+ have identified four priorities as part of their just transition assessment metrics for companies: Acknowledgement, Commitment, Engagement and Action.[62]

Sustainable Insurance Facility (SIF) of the Vulnerable Twenty Group of Finance Ministers (V20) – the Sustainable Insurance Facility is an initiative led by the V20 which consists of Finance Ministers from 55 vulnerable nations. The SIF seeks to 'support the development and availability of climate-smart insurance solutions for micro, small and medium sized enterprises in vulnerable economies. These solutions include access to insurance to enable the carbon neutral transition, and insurance to protect from climate risk.[63]

Accessing new sources of capital

There are also significant investor-led opportunities. Large pools of funding and support are available for organizations seeking to develop green or future-facing business ideas. For example:

Green/Transition and social impact bonds – green and transition bonds are a class of bond where the proceeds are used to fund the organization's green transition projects.[64] Similarly, social impact bonds are designed to fundraise for projects with positive social outcomes.[65] They can be used to help fund the significant costs of a just transition to a climate-neutral economy. Bonds are particularly relevant for companies in high emitting industries with complex transition needs. For example, Brazilian beef producer, Marfrig Global Foods SA, is using the proceeds from its bonds to buy cattle from ranchers in the Amazon region who comply with non-deforestation criteria.[66]

The Just Transition Fund – established in partnership with the Rockefeller Family Fund, the Just Transition Fund leverages public and private resources to create economic opportunities for frontline communities and workers in the US that are hardest hit by the transition away from coal.[67] The Fund provides grants to stimulate entrepreneurship, prepare workers for the jobs of tomorrow and incubate newly developing transition efforts.[68]

The Ruhr Valley Transition – the transition of the Ruhr Valley from the coal heartland of Germany to the technology and innovation hub it is today is widely regarded as an energy transition success story. The transition took place over many decades, but the last phase of the coal phase-out occurred following a tripartite agreement between the consolidated coal company (which became a Foundation funded by sale of its profitable business), representative trade unions and federal and state governments. This agreement was designed to achieve a just transition through a gradual phase-out of subsidized coal accompanied by a set of just transition measures including early retirement, relocation, training and support for workers.[69]

> **Governance is the core structure by which boards can oversee the creation of sustainable, long-term value. Appropriate risk oversight of Environmental and Social considerations stems from this construct.**
>
> **BlackRock,**
> **Investment Stewardship Global Principles[70]**

Case study: BlackRock

Major global investment manager, BlackRock, is clear in its conviction that 'climate risk is investment risk,'[71] and that companies that 'position themselves to navigate a strategic, timely, and just transition towards net zero' are most likely to 'provide shareholders with durable returns.'[72]

BlackRock expresses its desire to understand companies' 'approach to contributing to a smooth and equitable transition,' as part of their strategy[73] and has laid out a number of focus areas when engaging with companies, including[74]:

- Systems to understand the needs of employees, suppliers, communities, and customers in the context of the energy transition, including targets and metrics to address those needs.
- Processes to aid constructive dialogue and representation for employees, suppliers, communities, and customers.
- Programs for workers affected by the transition strategy.
- Strong community engagement, including partnering with local communities and indigenous peoples.
- Demonstrating a balance between maintaining affordable access to products and services, including the role the company plays in preserving a reliable, affordable supply of energy, while facilitating a shift to a low-carbon economy. Due diligence standards across the supply chain with respect to environmental and social factors.

To facilitate equitable net-zero transition investment plans, BlackRock is establishing a new capability, focused on incubating transition-focused investment strategies.[75]

BlackRock places particular emphasis on the role of the board in ensuring effective management of environmental and social factors relevant to the business. It warns that where a company fails to adequately disclose or demonstrate a transition plan, it will consider exercising its proxy voting rights against those directors it considers to be particularly responsible.[76]

Suppliers and customers across the value chain

Questions for your Executive

- How can the business support suppliers to successfully navigate their own just transition impacts?
- Can the business support existing and new local businesses in growing toward diversified, future-facing and growing industries and sectors?
- How can the business address human rights concerns across the supply chain as new value chains are created?
- What are your customers doing and what will they expect from you as a supplier in relation to the just transition?
- How can the business influence the downstream value chain impacts of the transition?

Value chain is a critical element of consideration for both the decarbonization agenda and in a just transition. This is reinforced by the International Labour Organization, just transition 'should generate decent jobs all along the supply chain'[77] and the UN 'consider the wider environmental, health, social and employment impacts of the operation of global supply chains, including the importance of building climate resilience into supply chains across all industries.'[78]

There are five key considerations for businesses navigating transition across their value chain:

Supply chain volatility due to climate change	Supply chains will likely become more volatile as climate change-induced disasters increase and chronic impacts, such as rising sea levels, are felt. Natural disasters are threatening farm outputs, as droughts, floods and storms reduce crop yields, increasing the vulnerability of food security.[79] Mass migration due to climate change is creating workforce shortages, with estimations that workplace disruptions from climate change could result in more than US$2 trillion in productivity losses by 2030.[80] Businesses might also need to consider losses to customer base due to climate change-related disasters and the effect this may have on their supply chain.[81]
Rising pressure to decarbonize	As businesses feel the pressure to decarbonize, they are likely to pass on net-zero expectations to their suppliers in order to reduce scope 3 emissions.[82] Suppliers that do not meet these expectations may see loss of business from major clients who set high standards. This will particularly be felt by small to medium enterprises (SMEs) and local businesses who lack the necessary resources to transition at pace. Additionally, as major corporates start to adjust their business operations, such as through automation, the need for some suppliers may diminish. The loss of these local businesses may further exacerbate unemployment and inequality as described in the community section.
Localization has global tradeoffs	There are rising concerns over the environmental impact of a complex and dispersed global supply chain. Increasingly, localization has been identified as a way to reduce supply chain emissions through reduction of transporting goods. However, there are trade-offs to be considered. For example, increased local procurement may adversely impact other industries by competing with other local needs.[83] Nearshoring could mean withdrawing from offshore suppliers, which may impact the local communities in the offshore region, noting key offshore locations are almost all exclusively in emerging and developing nations.[84]
Opportunity for ethical sourcing	In addition to transparent emissions reporting, businesses are under pressure to become transparent around human rights and labor issues attached to supply chains.[85] As supply chains are rewired through the transition, businesses can use this to review human rights issues and embed ethical sourcing of products, particularly in developing countries.[86] Businesses should have written policies and active due diligence measures which are aligned to the UN's guiding principles on business and human rights to ensure all are protected in the just transition.[87]
Duty to supply essential products	Ensuring affordable and reliable supply of essential products and services is vital to the transition.[88] The rising cost of living has been shown to be a critical issue for people and communities, and in some cases has resulted in riots and protests.[89] Businesses must ensure they build resilience so they can continue to reliably and affordably deliver essential products and services to people and communities.[90] Inability to build resilience may result in community backlash to the transition and subsequently delay climate action.
Company reputation	Businesses perceived to be mismanaging the transition by disregarding social outcomes as a result of a hasty transition may damage their reputation and risk losing customer demand. Moreover, companies may risk losing business customers that increasingly demand consideration for the just transition as part of their procurement policy.

Conclusions

The global economy is in the midst of a transformation that is arguably both exciting and, at times, overwhelming. As boardroom leaders in a time of change, chairs have a role to promote a just future, one which recognizes and perpetuates the symbiotic relationship of social welfare and long-term enterprise value.

Chairs, as with all board members, must understand a just transition is critical to:

- Maintain the necessary **speed of the transition** by empowering and holding the executive accountable to encourage them to make strategic decisions with the required agility,
- **Strengthen social value** by actively anticipating the inequalities the transition could cause,
- **Enhance social sustainability** in order to protect and enhance a business' social and human capital, and
- Have an **outward-looking perspective** in order to create the shared goals across industries, regions and governments necessary for a just transition.

To successfully achieve climate targets, chairs should understand, align, prioritize and monitor the just transition. This involves identification and continuous dialogue with the wide variety of stakeholders at play. Whether it be employees, communities, governments, investors or suppliers and customers, each stakeholder group will have their own unique issues that requires a unique understanding and approach. Chairs are well positioned to play a key part in the transition by bringing many dimensions together to create a cohesive strategy in which all mutually benefit in the transition to a climate-neutral economy.

> A transition to a climate-neutral economy will transform the way people, communities and ultimately businesses operate.

Appendix A: Definitions of just transition

Diverging definitions for just transition

Paris Agreement:

"The imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities"[91]

International Labour Organization (ILO):

"A just transition means greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities, and leaving no one behind.

A just transition involves maximizing the social and economic opportunities of climate action, while minimizing and carefully managing any challenges - including through effective social dialogue among all groups impacted, and respect for fundamental labor principles and rights"[92]

International Institute for Sustainable Development (IISD):

"Energy transitions are about people: the ones who make the decisions and the ones affected by those decisions. A "just transition" approach ensures that the affected people are considered by those making decisions.

Just transition is not a fixed set of rules, but a vision and a process based on dialogue and an agenda shared by workers, industry and governments that need to be negotiated and implemented in their geographical, political, cultural and social contexts."[93]

Just Transition Alliance:

"Just transition is a principle, a process and a practice. The principle of just transition is that a healthy economy and a clean environment can and should co-exist. The process for achieving this vision should be a fair one that should not cost workers or community residents their health, environment, jobs or economic assets.

Any losses should be fairly compensated. And the practice of just transition means that the people who are most affected by pollution – the frontline workers and the fenceline communities – should be in the leadership of crafting policy solutions."[94]

Climate Justice Alliance:

"Just Transition is a vision-led, unifying and place-based set of principles, processes, and practices that build economic and political power to shift from an extractive economy to a regenerative economy. This means approaching production and consumption cycles holistically and waste-free. The transition itself must be just and equitable; redressing past harms and creating new relationships of power for the future through reparations."[95]

Just Transition Centre

"A just transition is an enterprise-wide process to [reduce emissions] based on social dialogue between workers and their unions, and employers. This includes a company's supply chains. The goal is to reduce emissions and increase resource productivity in a way that retains and improves employment, maximizes positive effects for workers and local communities, and allows the company to grasp the commercial opportunities of the low-carbon transition."[96]

Intergovernmental Panel on Climate Change

"Climate justice generally covers three principles:

- Distributive justice - the allocation of burdens and benefits among individuals, nations and generations;
- Procedural justice - who decides and participates in decision-making; and
- Recognition - basic respect and robust engagement with and fair consideration of diverse cultures and perspectives."[97]

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