Building the business case to fight climate change

Beyond responsibility and risk, the rationale of benefit is key. Companies must see that it is in their very own self-interest to take on climate change.

BY LAWRENCE LOH

Companies play a pivotal role in the climate crisis due to intense environment impact, particularly from carbon emission. Building a compelling business case is a crucial lever for action.

However, for businesses to fully accept climate change, a third angle to the triangle is needed – that of “rational”. Companies must see that it is in their very own self-interest to take on climate change. This will entail assessing implications of climate change actions on financial bottom lines.

The rationale angle is still in the early stage as many of the climate-related standards, such as those embodied in the Global Reporting Initiative (GRI) and the Task Force on Climate-related Financial Disclosures (TCFD), are just emerging and being applied.

On business benefit, there has been clear evidence on the financial impact of sustainability as a broader whole. In my study of Singapore-listed companies conducted at my research centre with Asian CSR Network, we found a significant positive relationship between sustainability reporting and firm value.

In a summative analysis conducted by University of Oxford and Arabwatch Partners involving more than 200 studies, it was found that 88% of the studies show that good sustainability practices result in better operational performances. Moreover, 80% of the studies indicate that such good practices give rise to better stock price performance.

But the greatest challenge is to demonstrate that climate change practices benefit the company, one company at a time. The evidence is mostly anecdotal as of now.

In a recent September article, The Straits Times calculated that PSA Corp’s purchase of 200 liquefied natural gas (LNG) trucks, which represented 15 per cent of its truck fleet, reduced its carbon dioxide emissions by 26 per cent compared to diesel trucks. The company stood to gain more than $1.5 million in operating savings over 10 years. And this could increase if PSA ramped up its LNG fleet even more.

The rational view is the most crucial third angle to be triangulated with the angles of responsibility and risk. Only then will we see companies voluntarily embracing the battle of climate change.

Back in the story of the printing house and its taste for sustainability – it is clear that if the company sees the tangible returns, it will be serious about sustainability including climate change. The PDF threat, as feared by the CEO, suggests that the company should switch to a new business model. And this will be rationalised on the fundamental reasoning of self-interest: business benefit.