The Chairperson's Guide to Climate Stakeholders
Understanding how key groups are responding today and how they might respond tomorrow

BRIEFING PAPER
APRIL 2022
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.
# Stakeholders respond to climate

These reactions comprise risks and opportunities for business

## Key questions

<table>
<thead>
<tr>
<th>Understand the playing field: What evidence do you have of stakeholders’ views of your services and operations?</th>
<th>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?</th>
<th>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?</th>
</tr>
</thead>
<tbody>
<tr>
<td>What are the risks and opportunities for the business?</td>
<td>How do you monitor how quickly you should move?</td>
<td>Do you understand the cost of action versus inaction?</td>
</tr>
</tbody>
</table>
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.
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.
“Identify the most severe risks on a global scale over the next 10 years”

1st: Climate action failure
2nd: Extreme weather
3rd: Biodiversity loss
4th: Social cohesion erosion
5th: Livelihood crises
6th: Infectious diseases
7th: Human environmental damage
8th: Natural resource crises
9th: Debt crises
10th: Geoeconomic confrontation

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
Understanding stakeholder views

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

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

![Low influence](image1.png)  ![Medium influence](image2.png)  ![High influence](image3.png)

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

<table>
<thead>
<tr>
<th>Stakeholder group</th>
<th>Possible high-impact action before 2030</th>
<th>Signals and signposts</th>
</tr>
</thead>
</table>
| **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 bankruptcy⁵ | 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** | Reputations 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 productivity⁶ | 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 |
Each stakeholder presents different trade-offs

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

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.

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.

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.

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.

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.
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?

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.

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?

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.
Contributors

World Economic Forum

Natasha Fortuin
Project Fellow, Climate Governance Initiative

Antonia Gawel
Head, Climate Action; Deputy Head, Centre for Nature and Climate, Member of the Executive Committee

Ramya Krishnaswamy
Head, Institutional Communities and ESG Initiative; Member of the Executive Committee

Olivier M. Schwab
Managing Director

Deloitte

Lucy Mraz
Manager, Deloitte Australia

Rebekah Cheney
Director, Deloitte Australia

Dan Konigsburg
Senior Managing Director, Deloitte Global

John O’Brien
Partner, Deloitte Australia

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.


The World Economic Forum, committed to improving the state of the world, is the International Organization for Public-Private Cooperation.

The Forum engages the foremost political, business and other leaders of society to shape global, regional and industry agendas.