Successful integration of climate change aspects in Nordic businesses

CDP
DRIVING SUSTAINABLE ECONOMIES

2050
Fast Forward to a Greener Future

Contents

CDP is an international, not-for-profit organization providing the only global system for companies and cities to measure, disclose, manage and share vital environmental information. CDP works with market forces, including 767 institutional investors with assets of US$92 trillion, to motivate companies to disclose their impacts on the environment and natural resources and take action to reduce them. CDP now holds the largest collection globally of primary climate change, water and forest risk commodities information and puts these insights at the heart of strategic business, investment and policy decisions. Read more about CDP here: **www.cdp.net**

2050 is a Swedish consultancy firm working in the intersection between politics, research and industry in order to help more stakeholders profit from the transition to a sustainable society within the boundaries of the planet. 2050 adds value to their clients' sustainability efforts through analysis, communication and business development. Read more about 2050 here: **www.2050.se**

Executive Summary

This report describes how Nordic companies integrate climate change into their business strategies. It is intended for business leaders and sustainability executives who want to exploit the business potential and manage the risk associated with climate change. It summarizes the challenges and opportunities to Nordic corporations and provides a step-by-step checklist for successful incorporation of the issues into corporate strategy.

The study is based on corporate responses to the CDP climate change questionnaire in 2014 from 154 Nordic companies. They include listed corporations which cover 85% of the market capital in the Nordic stock exchanges as well as non-listed companies.

The main drivers behind Nordic companies' decisions to include climate change in their business strategies are reduced costs, customer demands, reputational risk, legislation or a moral conviction.

Short term risks and opportunities connected to climate change drive the Nordic companies to act. More than 50 % of the risks and opportunities listed by the companies are expected to occur within three years. One important finding is that the companies find more opportunities than risks from stricter climate-related regulations.

More than 90% of the companies state that climate change is integrated into their overall business strategy. This report finds that the level of integration differs widely between the companies and about one fifth of the corporations fully incorporate the issue into their vision and values. These are the companies which are best placed to benefit from opportunities and mitigate climate risks. Common characteristics for these leading companies are:

- the sustainability strategy is aligned with the overall business goals and governance
- the company identifies itself as part of shaping future consumption patterns rather than just adapting to them
- sustainability work is reported and disclosed in a transparent way

Companies which integrate climate into their strategy are both reducing emissions and increasing long term business resilience, profitability and shareholder value.

Background

Changes in the physical environment as a result of climate change are already impacting, and will continue to impact the business landscape in the future. Climate change mitigation and adaptation is relevant worldwide and will affect citizens, governments and companies acting in a marketplace.

According to the World Economic Forum's (WEF) Global Risk Report 2014, the failure of climate change mitigation and adaptation has been identified as one of the major global risks for the world economy. Other risks identified by WEF are also often linked to climate change, such as water and food crises and greater frequency of extreme weather events. Combating climate change is today highlighted by an increasing number of influential actors as the single most important action needed to maintain a stable world economy. The report 'Better growth, Better Climate' by the New Climate Economy from 2014, shows that the global economy will undergo a deep structural transformation over the next fifteen years. Whatever choices are made by businesses and governments, they will face dramatic changes as the global economy will grow by more than half, a billion more people will live in cities, technology will continue to transform lives and businesses and around 90 trillion USD will be invested in key economic infrastructure.

This study investigates how companies in the Nordic region are facing climate change related issues. Some companies associate climate change with greater risks, while other companies identify numerous business opportunities. The report shows that, besides fulfilling our moral responsibility, it can also be profitable for companies to work actively with climate change.

The report is divided into three sections:

- Why? – Why do Nordic companies integrate climate into their business strategies?
- How? – How do the most ambitious companies integrate climate change into their business strategies and thereby find business value?
- Way forward? - A practical guide (checklist) for integrating climate change in a business value driven way.

The study is a cooperation between CDP and 2050 Consulting conducted during the summer and autumn 2014. The research is based on the answers from the CDP 2014 climate change questionnaire (Investor driven request) by 4th August 2014. All quotes are taken directly from the responses companies have submitted to CDP.

Why do Nordic companies integrate climate change into their business strategies?

Last year several reports proved that climate action is profitable. One of the most recent reports (September 2014) on this subject is "Climate action and profitability" written by CDP. The results from the report show on a clear link between financial performance and climate action. Their analysis shows that, on climate change management S&P 500 industry leaders[1]:

- **generate superior profitability:** 18 % higher ROE[2] than low scoring peers and 67 % higher than non-responders
- **with more stability:** 50 % lower volatility of earnings over the past decade than low scoring peers
- **grow dividends to shareholders:** 21% stronger than low scoring peers

When looking at the potential effects of climate change on companies, it is clear that all companies face different challenges and that the effects differ widely. Some companies see no effect from climate change on their business, but choose to disclose their emissions because they are concerned/feel responsible for the climate on a global level. Some companies identify risks in rising costs, where others see opportunities in new markets that demand climate-friendly products and services. This chapter concludes the main drivers, risks and opportunities that motivate companies to integrate climate change into their business strategies.

"Climate change is one of the global megatrends recognized in Vacon's strategy. Opportunities such as more efficient use of energy and an increase in the use of energy from renewable energy resources are two key drivers for Vacon's future growth."
VACON OYJ

Main drivers

- **Cost** – climate change related initiatives can reduce current costs as well as mitigate risks connected to potential rise of future costs.
- **Customer demand** – many companies see changes in customer demand for more climate friendly products as an important driver for their sustainability agenda.
- **Reputation** – some companies are conscious about potential reputational risks deriving from non-compliance or faults in their sustainability initiatives.
- **Legislation** – some companies highlight future legislation as a main risk and driver.

"Customers value energy efficient and environmentally friendly products." NOKIA

"Also employees, shareholders, customers and other stakeholders are increasingly requiring to see the company deliver strong environmental performance. If we fail to do so, we may fail to attract and keep competent workforce and lose valuable investors and customers." MTG

Companies that integrate climate change into their business strategy are driven by four principle reasons.

Costs

A majority of the drivers behind working strategically with climate change are related to the risk of rising energy costs, mainly deriving from higher fuel and electricity costs - a consequence of stricter regulations, fluctuating energy supply, carbon taxes or functioning emission trading schemes. Many companies fear rising costs from various important raw materials due to a growing scarcity, deriving partly from changes in climate, in combination with an increased demand from a growing population. Megatrends such as urbanization, demographic change, safety and concern for the environment and climate change are the interconnected underlying drivers.

Customer demand

Increased awareness and expectations regarding climate change from customers and markets are other central drivers for undertaking strategic sustainability work. However, growing expectations from employees and the ability to meet investor's demands in terms of sustainability are only occasionally mentioned as drivers. These types of drivers also relate back to the potential increased costs associated with meeting the growing demand for climate-friendly products and services and the risk of decreases in revenue if customers choose rival companies that offer these types of products and services.

Reputation

Most companies are conscious about the potential reputational risk deriving from non-compliance or mistakes in the sustainability field. If a company does not work actively with climate change, this might lead to a reduced stock price, loss of growth and sales due to customers' unwillingness to do business together as well as reduced brand value. Moreover, a damaged reputation can lead to difficulties in attracting and retaining talent.

Legislation

Some companies highlight uncertainty regarding future legislation as a main risk and driver. A growing concern from the business sector is that potential legislation may look different across different countries and thereby be difficult to anticipate and prepare for.

Business-related risks and opportunities driven by climate change

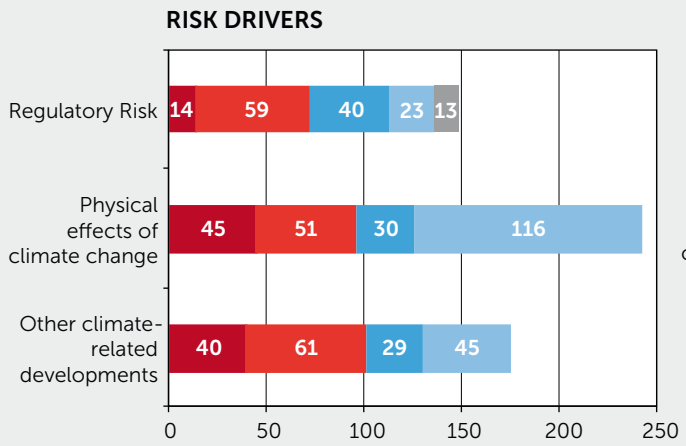

FIGURE 1: The graph shows number of disclosed risks. Physical effects of climate change hold the largest number of risks among the responding companies.

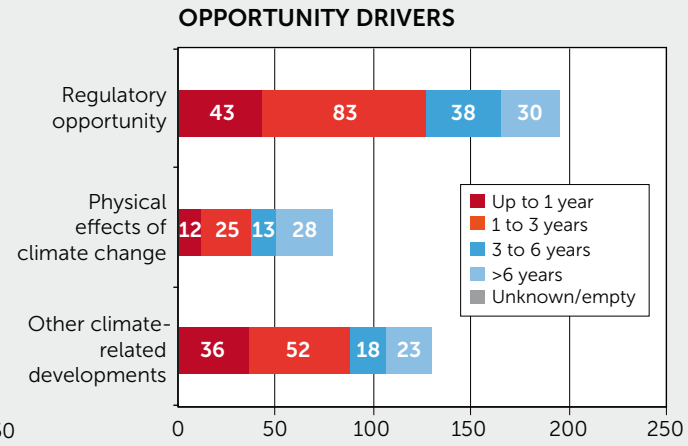

FIGURE 2: The graph shows number of disclosed opportunities. There are more opportunities than risks associated with regulatory changes. In the survey, respondents were able to identify several risks and opportunities within the same category.

Climate change holds both risks and opportunities for the business sector. These can be categorized as driven by changes in regulation, driven by changes in physical climate parameters and driven by changes in other climate-related developments.

Where one company identifies a risk that stems from climate change, another company may see a business opportunity. However, it appears that companies currently identify a greater number of risks associated to climate change than opportunities.

Main findings from figure one and two:

- Climate change already influences the business landscape, and most risks and opportunities are identified in a relatively tight time perspective, already within the next three years.
- The timeframe for identified risks and opportunities to occur differs within the different categories. Quite surprisingly, companies see more business opportunities than risks deriving from regulatory changes.
- Risks and opportunities driven by regulation are perceived as more likely to occur in a near term compared to the other areas. Companies believe that changes in regulation will take place sooner than changes in physical parameters and changes in other climate-related developments. The risks and opportunities associated with changes in regulation are believed to occur within less than six years.

Regulatory risks and opportunities

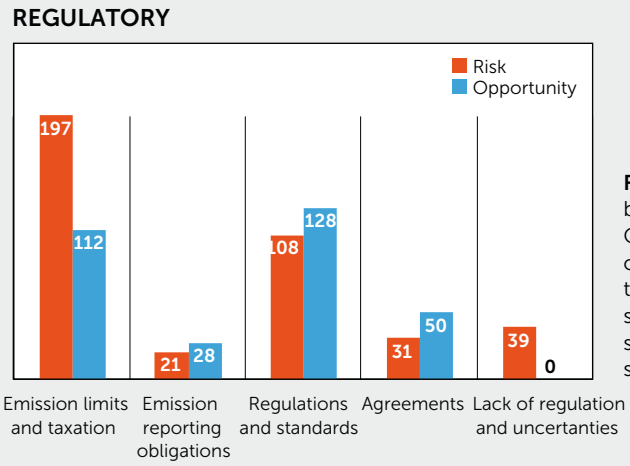

FIGURE 3: This graph shows the number of disclosed risks and opportunities. Overall, Nordic companies identify more opportunities from stricter regulation than they identify potential risks. In the survey, respondents were able to identify several risks and opportunities within the same category.

"The ICT sector can have an impact by providing products and services that help create a more energy efficient society."
ELISA OYJ

When looking at changes in regulation, companies appear to be mainly concerned with the potential increased operational costs that follow from emission limits and increased taxation (e.g. air pollution limits, cap and trade schemes, carbon taxes and fuel and energy taxes). For energy-intensive industries and companies with large vehicle fleets, the increased operational costs from higher taxes on fuel and energy may have a significant financial impact. Companies also see greater risks than opportunities when looking at emission limits and increased taxation. 10 companies identified 39 risks connected to lack of regulation and consequent uncertainty. The uncertainty in what future regulation may or may not look like is cause for concern for almost all companies, especially for those where long-term investments are a vital part of business.

On the other hand, as mentioned, there are also opportunities that arise from changes in regulation. Interesting to note is that Nordic companies overall identify more opportunities from stricter regulation than they identify potential risk. International agreements and subsequent regulation will allow companies that are already in the forefront to avoid costs such as fines due to not complying with new agreements. Moreover, they will see an increase in demand for existing products if these are more resource efficient than others on the market. Another interesting finding is that 17 % of the responding companies see emissions reporting obligations as an opportunity, compared to 14 % that see them as a risk.

"With increasing regulatory drivers to increase the use of biofuels as to lower dependence on fossil fuels, we see a great opportunity with production and sales of biofuel." SCA

Risks and opportunities driven by physical effects of climate change

Changes in our physical climate are identified as a future risk not only for millions of people and ecosystems but also for companies worldwide. In general, companies identify a large number of physical risks that may stem from climate change. The main implications of these risks are increased operational and/or capital costs, disruption to production capacity or potentially the inability to do business.

However, changes in physical climate parameters can also generate business opportunities. As an example, increased wind and precipitation can make investments in renewable wind and hydro power more profitable and increase the supply of renewable electricity. Another example is that if mean temperature rises, this will generate business opportunities in protecting houses, production sites and infrastructure from extreme weathers.

Companies recognize that early adaptation to changes in precipitation extremes and droughts open business opportunities in terms of competitive advantage.

Naturally, companies that offer products and services that will help mitigate or adapt to climate change effects recognize large business opportunities related to climate change. Examples of these types of companies include those that provide products that increase water efficiency, and companies within the tourism sector which would gain from warmer weather conditions.

"Oriflame relies on key raw materials and ingredients for producing its goods. Our efforts to improve the flexibility of our supply may therefore result in a competitive advantage." ORIFLAME

Risks and opportunities driven by other climate-related developments

Offering environmentally and socially sound solutions, services and products will attract both customers and supply chain partners the more conscious they become in their choices of suppliers and products. Companies identifies the opportunity in being recognized as climate-ambitious since investors, consumers and supply chain partners will be more willing to work with climate responsible companies due to their positive reputation. Working actively with climate change will therefore give a competitive edge. Moreover, taking active climate responsibility will help in attracting and retaining talented employees.

More than one third of the companies identify reputation as a key driver to work with climate change related issues. Many companies fear a loss of reputation among stakeholders if they do not work actively with climate change issues.

Interesting to note is that more than 25 % of the companies regard changing consumer behavior as a risk while over 40 % view it as an opportunity. If a company does not work actively with climate change, this might lead to reduced stock price, loss of growth and sales due to customers' unwillingness to purchase, and reduced brand value.

"Consumer preferences are moving from extremely price-driven into climate-conscious as a result of increased sustainability awareness." NESTE OIL

OTHER CLIMATE-RELATED DEVELOPMENTS

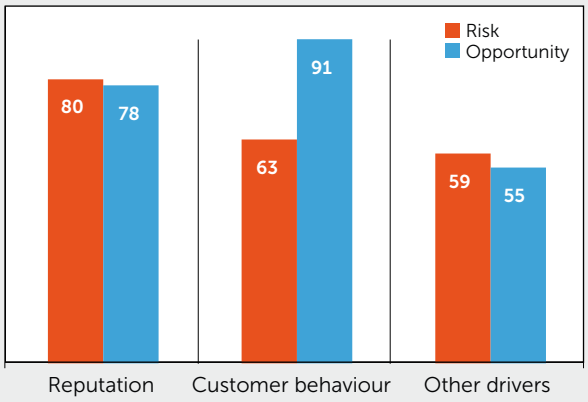

FIGURE 4: This graph shows number of disclosed risks and opportunities. Reputation and changes in customer behavior are two important drivers for companies to work actively with sustainability.

How do Nordic companies integrate

"Vision is to create and promote a market for renewable electricity all over the world."
VESTAS

The report *"Linking climate engagement to financial performance"* by CDP and Sustainable Insight Capital management shows that companies scoring high in CDP-rates also produces better financial results. They found that the best CDP-performers produced in average 5 % better return on equity and 18 % better cash flow stability.[3]

Every company has to consider and adapt to their own preconditions when approaching sustainability, e.g. taking factors such as organizational structure, market, industry and legal frameworks into account. All of these conditions make them more or less dependent and/or vulnerable to climate change related developments, which influences their internal priorities and later the type of strategy they choose regarding how to deal with climate change issues internally.

Most of the companies state that climate change is integrated into their business strategy. However, when studying the responses more closely, it becomes clear that the level of integration differs widely, stretching from being fully incorporated, referring to those companies that integrate climate change into their business vision and values, to less advanced integration levels where climate change rather influences the business strategy, or where climate change may influence business related activities but is treated separately from the business strategy (fragmented). The remainder of responders, less than 10 %, simply do not see the value of integrating climate change at all, where sustainability work has absolutely no integration into the business strategy.
All in all, four levels of integration of climate change have been identified, where the most proactive companies are found at the top:

1. **Fully Incorporated** – part of vision and values
2. **Influenced** – driven by reputation, customers and costs
3. **Fragmented** – mainly driven by reputation
4. **No integration** – mainly driven by legislation

More than 90 % of all responding companies state that climate change is integrated into their business strategy. However, the level of integration differs widely between the companies. Whilst more than 80 % of companies are able to demonstrate at least partial integration only around one third meet these criteria completely according to CDP's scoring criteria. This study found that only around one fifth of companies fully incorporate climate change into their vision and values.

Fully incorporated

The companies with the highest level of climate change integration in their overall business strategy share a number of characteristics.

These features are:

- Sustainability is part of the company's vision, mission and/or values

TO WHAT LEVEL IS CLIMATE CHANGE INCORPORATED INTO A COMPANY'S BUSINESS STRATEGY?

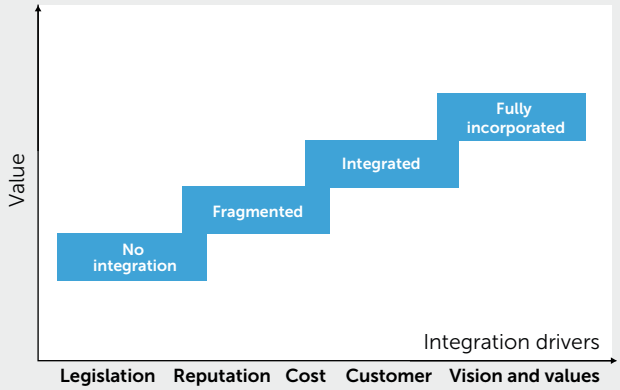

FIGURE 5: Climate change can be incorporated into a company's business strategy in different degrees: from no integration at all to fully incorporated into the strategy.

climate into their business strategy?

- They have a proactive approach towards sustainability
- They are part of shaping future consumption patterns
- They see a clear competitive advantage in integrating climate change
- They have clear sustainability goals that are linked to core business operations
- Climate change is an integral part of their governance structure
- They have ambitious and clear targets
- They have stakeholder engagement and executive involvement
- They have a high degree of reporting and public disclosure of sustainability work

For some proactive companies, sustainability already plays an essential role in the company's vision, mission and/or values. They might have a vision that clearly states their role in the transformation towards a sustainable society. This characteristic can, among others, be found within industries that depend on sustainable development for their future survival such as the transportation sector.

Sustainability engagement can also be part of a company's mission. This can be found, for instance, among companies that serve customers whose purchasing decisions highly influenced by environmental concerns. Due to this, it is natural for the company to create products and services that respond to this growing awareness. Other companies include sustainability in the company mission because they offer solutions which help customers reduce their environmental impact. Some companies thus see a clear competitive advantage in providing products and services with positive climate performance.

A proactive approach towards sustainability can also be characterized by companies pursuing ambitious analysis of global trends and shaping future business decisions thereafter. This proactive approach can be demonstrated by an active dialogue on sustainability and climate change issues with relevant stakeholders, such as policymakers, NGOs, investors, suppliers and customers. In this way, companies participate in setting the agenda for future sustainability frameworks and in the best of worlds, find solutions to common problems.

Another common characteristic among the most proactive companies is the tendency to be part of the movement that is shaping future consumption patterns to be more sustainable rather than "only" adapting to them. They see new business opportunities where others see risks. These opportunities can range from a company offering new sustainable solutions to helping customers enhance their environmental performance. Some companies go so far as adapting new business models that are based on new requirements and constraints. One example of this is Kesko Corporation, a company that does not simply sell products but also provides services related to the products.

"Striving to be in the front, i.e. Norway's first carbon neutral finance company, creates opportunities." STOREBRAND

"Climate change mitigation and our business strategy go hand in hand. At the core of our business is our aim to replace non-renewable materials with products and solutions based on renewable materials."
STORA ENSO

Sustainability governance linked to overall business governance

"ICT sector is facing an immense business opportunity to enable GHG emission abatement to other sectors by offering smart ICT solutions"
TELENOR

"H&M benefits from an employee base that is enthusiastically engaged in the organisation's journey towards sustainability."
H&M

Among the companies that fully incorporate climate change into their business strategies, three actions connected to governance can be distinguished:

- They set clear and ambitious targets, often connected to the business strategy
- They involve business stakeholders and, if possible, make them accountable for climate performance
- They disclose results publically, at the least on a yearly basis

SCA provides a good example of a company that successfully links its climate strategy to concrete actions. A number of strategic blocks are helpful in this process, including clearly stated targets, integration with business operations and transparency. First of all, in order to ensure that long-term climate change ambitions are prioritized across all group and business unit levels, SCA's environmental targets are incorporated into the overall strategy of the group. A lot of time and resources are then devoted to ensure interaction, both vertical and horizontal, across the organization to make sure that all levels take climate change risks and opportunities into consideration when deciding future business strategies. In order to succeed with this work, an important element is to have relevant and supporting data on environmental performance in place that will help in analyzing progress.

Clearly stated targets
Any successful business strategy requires setting targets for revenues, sales, and other core business indicators, as well as tracking performance in respect of these targets over time. The same principle applies to effective climate change management since it involves setting a target for emission reduction.

76% *of the responding companies have an emission reduction target.*

Emission reduction targets can be set in absolute or intensity terms, depending on what they relate to. Absolute targets aim to reduce absolute emissions over time (for example reducing CO_2 by 40 % below 2000 levels by 2020). According to the Greenhouse Gas protocol, one of the main advantages with setting absolute targets is that this method is designed to achieve a reduction of a specified quantity, and thus it is environmentally robust and transparent towards various stakeholders. However, among the disadvantages one can find that it may be difficult to achieve absolute reductions if the company grows unexpectedly,

and that it recognizes a company for reducing GHG emissions by decreasing production or output.

On the other hand, intensity targets aim to reduce the ratio of emissions relative to a business indicator over time (e.g. reduce CO_2 by 30 % per m^2). According to the GHG-protocol, one of the main advantages with intensity targets is that they reflect GHG performance independent of organic growth, and they may allow for better comparability of GHG emissions between companies. Among the disadvantages one can find that there is no guarantee that GHG emissions will be reduced and that it might be hard for diverse businesses to define a single business metric.[4]

Responses to the CDP questionnaire reveal that the largest fraction of companies have an intensity target in place (38 %). Around 20 % of the companies have an absolute target and almost as many (18 %) choose to have both an absolute and an intensity target in place to guide them in their climate work. Slightly more than one fifth of all responding companies (22%) have no active reduction target in place.

The companies that have no emissions reduction target state various reasons for this. One such reason is the claim that there are other ways of measuring steps towards lower emissions than numerical GHG emission targets. For instance, process-based targets or energy efficiency targets are seen as more effective for certain business areas or sectors of operation. Others respond that they simply do not have enough resources to collect this type of data or to develop a sustainability strategy.

Stakeholder engagement and accountability

When motivation comes from the top of the management chain, climate change is more likely to become an integral part of the business. The highest level of direct responsibility for climate change within the organization is, according to 84 % of the responding companies, allocated to an individual/subset of the board or to another committee appointed by the board. This should be a sign that climate change is highly prioritized by these companies.

One way to ensure management involvement in climate change issues is to provide incentives for the progress in related areas. Findings from the 2013 CDP Global 500 Climate Change report[5] indicate that financial incentives are driving emission reductions and that companies who work with incentives are more likely to achieve emission reduction targets. According to the report, incentives are powerful catalysts for climate action.

A majority of the responding companies, around 70 %, answer that they provide incentives for the management according to performance on climate change issues. The types of incentives vary between monetary rewards, recognition (non-monetary) and other non-monetary rewards. Monetary rewards are the most common type, representing 72 % of the total indicators. The rest of the incentives described are non-monetary and relate to recognition and other non-monetary awards. The groups that are mostly entitled to all three types of benefits are; all employees, members of executive team[6], support functions[7] and business unit managers.

Monetary awards can be based on a number of indicators, often depending on who is entitled for it. For members of executive teams, awards range from being based on very specific targets such as energy efficiency targets or sales of a certain low-carbon product line, to more general targets, for example how much the CEO communicates and reports on progress with regards to climate change externally. When it comes to the support functions[8] progress can be measured specifically by looking at CO_2-emissions and energy efficiency or how well they follow-up and disclose results from climate change integration. For business unit managers, monetary rewards can relate to growth of a certain low-carbon portfolio or how much their unit contributes to the company's long-term reduction targets. About one in four companies engage all employees in the sustainability work, however this group is normally noticed through internal recognition rather than monetary rewards.

High degree of reporting and public disclosure of sustainability work

Public reporting of a company's response to climate change means demonstrating transparency in this area - an important step for building confidence among relevant stakeholders for continuous sustainability efforts. A majority of the responding companies (69%) answer that, on top of responding to CDP, they have published information about their organization's response to climate change and their GHG emissions performance in their annual financial reports. Almost as many (63 %) respond that they report on their climate change outcomes in voluntary communications. Voluntary communication can refer to being part of a sustainability or CSR report, information on the company's homepage or in blogs, written articles, CEO or public climate change statements and LCA studies. Almost half of the responding companies (43 %) publish information regarding their response to climate change and GHG emissions performance in both mainstream financial reports and in voluntary communications.

69% *have published information about their organization's response to climate change and their GHG emissions performance in their annual financial reports.*

Influenced

"For every investment decision possible future carbon costs are included and we are testing projects' viability in case of significantly changed prices for oil, gas and electricity and test that projects are robust to changed weather events."

"Environmental issues, such as energy efficiency, are increasingly important for our customer side. Therefore it's closely linked to the overall business strategy."

For the second most ambitious level of integration, referred to as "Influenced" in this study, a number of shared characteristics have been identified. The companies:

- See engagement with climate issues as an investment
- Engage with climate issues in order to minimize risks and any associated costs
- Identify a link between decreased climate impact and lower costs
- Adapt to customer behavior and demand
- Have a sustainability or environmental policy in place, often driven by costs or consumer patterns
- Have key business personnel involved in climate engagement

This group tends to view climate engagement as an investment for continued profitability. Companies that let sustainability issues influence their business strategy often do so as a response to a number of identified risks related to rising costs, customer demand, regulation and reputation. Consequently, they see climate engagement as a future investment – a way to mitigate risks deriving from changed customer demand, rising costs of energy and other important raw materials and stricter regulations. A number of companies include possible future carbon costs when analyzing various investments and the viability of certain projects.

Risk related to reputation is another common driver for these companies when working actively with climate change.

Mitigating risk is not the only reason for companies to work actively with climate change. Climate engagement can both reduce current costs as well as reduce the risk for higher costs in the future. Many companies experience a strong link between minimized climate impact and lower costs. A classic example is energy efficiency initiatives that save money while decreasing emissions. Another common example is when efficiency in logistics and transportation operations leads to less fuel usage and thus decreased costs.

A characteristic that distinguishes this group from the previous one, is the tendency to adapt to customer behavior/demand rather than actively shaping it. Influenced companies recognize changes in customer demand towards more climate-friendly products and services and respond by offering these sustainable solutions.

Companies with business strategies that are influenced by climate change typically have rigid sustainability and/or environmental strategies in place, often driven by costs or customer demand. An employee often carries the responsibility of being involved in the planning, implementation and follow-up of the sustainability strategy.

Study data and methodology

The CDP climate change questionnaire asks companies to describe:

- The internal process for collecting and reporting information to influence the strategy;
- Which aspects of climate change have influenced the strategy;
- The most important components of the short term strategy that have been influenced by climate change;
- The most important components of the long term strategy that have been influenced by climate change;
- How this results in strategic advantage over competitors;
- The most substantial business decisions that have been influenced by the climate change driven aspects of the strategy

The criteria used by CDP to describe full integration of climate change into the business strategy are that climate change has influenced both the short term and long term strategy and that the strategy is linked to an emission reduction target and to climate change risks and opportunities.

For this study, 2050 Consulting has applied its own perspectives to define best practice, here referred to as "fully incorporated". It is aligned, but more demanding, than CDP criteria.

Fragmented

Treating sustainability and environment as a separated, or "fragmented", part of business is the third category. Within this group, sustainability initiatives are typically separated from the rest of the business operation, with little or no connection to the overall business strategy. The following characteristics have been identified in this group of companies:

- Pursue environmental work mainly driven by compliance
- Climate engagement has no strategic impact
- Climate engagement is seen as an obligation and a cost
- Environmental policy is often mainly driven by reputation
- Environmental policy/strategy/code of conduct is treated separately from the rest of the business strategy
- Reactive responses to customer environmental demands
- Focus on risks

In this group, environmental engagement is mainly driven by compliance to regulations and standards established by law. In Denmark for example, the 1100 largest companies are required by law to introduce policies regarding their approach to climate management and to disclose their climate impact in their annual reports. Other examples that can persuade these companies to act are regulations of CO_2 and fuel emissions and environmental protection laws and regulations that differ between countries.

Among these companies in the Fragmented category, climate engagement is not considered to have any strategic impact. It is rather seen as an obligation, a "must do", that typically includes administrative costs. The fear of weakening one's reputation due to a lack of environmental initiatives or policies is another common driver to develop them. To have a certain policy in place is more important than actually following it. Some companies have developed separate sustainability and climate strategies that are isolated from regular business strategies. Other companies have included climate change in the Code of Conduct.
This group gives little or limited response to customer demand for sustainable products and services. Their main focus is risk assessment.

No integration

The fourth and final group consists of the 8 % of responding companies that replied "No" to the question whether their business strategy integrates, or is influenced by, climate change-related issues. It also includes a few companies that replied "Yes" to this question but show weak or no signs of the characteristics listed in the three groups above. The following characteristics identify the group "No integration":

- Sustainability is not seen as a top priority
- They maintain a "We just follow the law"-approach
- Only act when risks are evident and/or when external pressure is high enough

Way forward? – Your checklist

In this final chapter, we have compiled ideas for how companies can integrate climate change issues into the heart of their business strategy. These best practices have been incorporated in a model that includes three fundamental pillars and five recurring activities to secure continuous improvement.

Any company wishing to embed climate change into their strategy should begin by addressing three fundamental questions.

1. What drives your company towards incorporating climate change into your business?
2. What risks and opportunities is your organization facing relating to climate change?
3. How does sustainable development affect your vision and mission in the long term?

Once you and your organization have answers to these questions you are ready to move on to the second part of the model with more regular work and reviews. For most companies, it is natural to continue with strategy planning, however, the exact order differs from case to case. Once this is done, it is time for implementation and follow-up, to calculate emissions, communicate results and review risk and opportunities.

1. Identify your main drivers

First and foremost you need to identify your main drivers. This helps an organization work strategically with the issues in order to ensure the appropriate level of motivation and financial and human resources that are required for success.

As a start, try to identify what drives your company's efforts in relation to climate change issues, i.e. why should you spend time and effort to work with it? Don't forget to put a price on your drivers.

- **Cost** – to what extent do climate change related initiatives reduce current costs? Looking ahead, costs for important resources might rise in the future, how do you plan to approach this?
- **Customer demand** – do you view changes in customer demands for more climate friendly products and services as an important driver for your sustainability agenda?
- **Reputation** – how badly will your company suffer from reputational loss if something were to happen that would impact the public's view of your company?
- **Legislation** – is there future legislation that would endanger or influence your business model?

Another common driver is more of a moral conviction where taking responsibility for climate change is simply regarded as the "right thing" to do for a company. This might very well be a driver, but in order for it to succeed in practice, it needs to be driven from the owners or the executive team level.

2. Identify risks and opportunities

The next step is to identify risks and opportunities deriving from climate related developments and find out how they might impact your business. For guidance, here are some typical areas to consider when working with risk management;

- **Costs** – what costs might arise in the short and long term that can have an impact on your business? (e.g. electricity, fuel, raw material)
- **Customers** – how environmentally conscious are your customers and what do they expect from your business in this regard?
- **Legislation** – has your company complied with all relevant environmental legislation (current and future)?
- **Reputation** – how is your company viewed by external stakeholders?

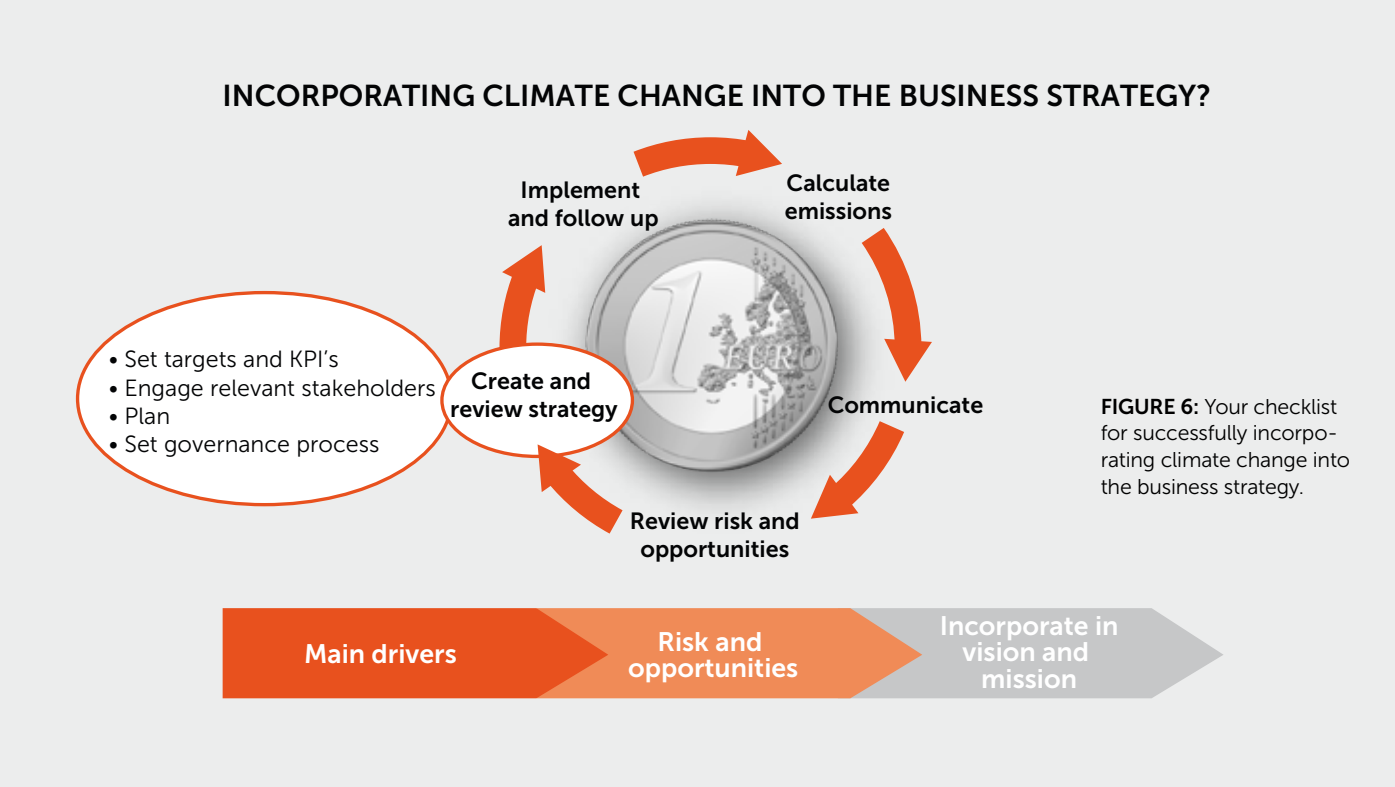

FIGURE 6: Your checklist for successfully incorporating climate change into the business strategy.

- **New business/markets** – can you find new customer groups or reach new markets by including sustainability into your products and services?
- **Strategic intent** – If you have a strategic scenario for a changed world due to climate, does it identify business risks and opportunities connected to that scenario?

3. Incorporate in vision and mission

Those companies gaining the greatest financial benefits from integrating sustainability into their business strategy tend to incorporate it into their vision or mission. The vision/mission describes what role the company wants to play in that future, both in terms of mitigation of and adaptation to climate change.

Here are some questions to consider in relation to this:

- Does your vision or mission take into account a changing climate in the future?
- How will your business model be affected by various scenarios deriving from this shift, e.g. if emissions are more expensive?

Once these fundamental parts have been identified, it is time to start working on activities of more recurring nature, i.e. activities that need to be reviewed and revised on a more regular basis.

4. Define and review strategy

Starting with the strategy, a number of points should be considered, among them engaging relevant stakeholders, setting clear goals and targets, creating a plan of how to achieve the goals and finally structuring the governance processes for follow-up and review.

Some questions that need to be considered in order to get a robust business strategy that takes climate change into account are:

- Have you managed to involve stakeholders with financial power in your sustainability efforts?
- Are your products or services somehow relying on, or affected by, better climate performance?
- Try to define KPI's connected to your products or services. Some examples are: (CO_2 per EBITA, sold products, that lowers CO_2 for customer, amount of renewable fuel)
- How can you reinforce your sustainability efforts by designing an effective incentive program? (As shown in this report, the CDP-review indicates that monetary incentives lead to better sustainability results).
- Have you integrated the strategy into regular governance and follow-up routines?

With this in place, the following and final steps of continuous improvement will more or less follow by themselves.

5. Implement and follow up

Moving forward, it is time to "get your hands dirty" and turn the new strategy from words into actions. If you have defined a robust governance process, the success of the implementation is just a matter of being persistent. Many relevant changes have been lost because the executive team wasn't persistent enough.

- Are the needed changes driven by the stakeholders or by the sustainability officer?
- Do you follow the action plan? If not, what can be done to get back on track?
- How do you ensure motivation among the relevant stakeholders over time?

6. Calculate emissions

"Before knowing where to go you need to know where you stand". You would never plan an economic strategy without knowing your financial flows and turnover. In the same way it is fundamental to calculate your emissions as an input to your climate strategy. When calculating your emissions consider the following questions:

- What environmental impact does your company have? (For further guidance, use the GHG-protocol)
- What are the main sources of emissions? (For example business travel, transport, electricity and heating)
- What sources of emissions should be included in your calculation? (Set the scope)
- Do you have enough data to calculate the emissions?
- Is the quality of your data good enough?
- What should you prioritize in order to lower your emissions?

7. Communicate results

One important step for your company is to communicate your sustainability efforts. The credibility of your company and the interest in your products will increase. To maximize this effect you should ask the following questions:

- Do you have a communication plan in place?
- Have you communicated the results to all internal and external stakeholders? (Strategy, goals, actions, calculations etc).
- What forums and in which format are you communicating? (For example on the homepage, in a sustainability report, annual report, PR-activities, newsletters, etc.)
- Are the benefits linked to profitability, for example reduced costs and higher customer satisfaction, highlighted in the communication?
- Have you communicated the potential difficulties with your sustainability ambitions? Remember, transparency and inclusiveness in the process builds trust in the long term.
- Are communication efforts evaluated on a regular basis?

8. Review risks and opportunities

Once a year it is time to review and restart the final steps of the process again in order to secure continuous improvement. Questions to consider are:

- Have any new legislative changes been introduced during the year?
- Are there any new trends that should be taken into account, e.g. a trend that could make your product even more attractive from a climate perspective?
- Is there any research that you could use to lower emissions even further?

FOOTNOTES:

1. Industry leaders are defined as top 25 % of CDP responding companies with highest CDP disclosure score by industry group.
2. Return on Equity (ROE) = net income less preferred dividends, divided by average total common equity (three-year average, 2011-2013)
3. Read the full report from CDP and Sustainable Insight Capital management here: https://www.cdp.net/CDPResults/linking-climate-engagement-to-financial-performance.pdf
4. For more information, please visit:http://www.ghgprotocol.org/files/ghgp/public/ghg-protocol-revised.pdf (page 76)
5. https://www.cdp.net/CDPResults/CDP-Global-500-Climate-Change-Report-2013.pdf
6. The category Members of Executive team includes Corporate Executive teams, Executive officers, Process managers, CEO:s and Board members.
7. The category Support function includes Sustainability/Environment Directors, Risk- and Energy Managers
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Published by: CDP and 2050 AB, October 2014.
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Design: Grön idé AB.
Photographs: cover, page 4, page 8 , page 12, page 15, page 18,
page 6 - Marc Bruxelle/Shutterstock, page 7 - Sanit Fuangnakhon/Shutterstock,
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This report describes how Nordic companies integrate climate change into their business strategies. It summarizes the business challenges and opportunities related to climate change and provides a step-by-step checklist on how to successfully incorporate climate change into the corporate strategy.

The study is based on responses to the CDP climate change questionnaire in 2014 from 154 Nordic companies. They include listed corporations which cover 84 % of the market capital in the Nordic stock exchanges as well as non-listed companies.

The report finds that the level of integration differs widely between the companies and identifies what distinguish the ones that fully incorporate climate change into their strategy from the rest.

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