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# Climate change and business: the momentum stalls



By Grace Segran

**While climate change has been in the headlines in recent months due to the Copenhagen talks and concerns about alleged data manipulation, businesses don't appear to be making much headway in terms of carbon reduction. That's according to a new EIU study due out later this month, which will reveal that net gains by businesses have been close to zero since last year.**

Public sentiment on the science of climate change, on the other hand, has changed remarkably in the past year: 52 per cent of respondents believe the jury is still out, while 31 per cent disagree with it. This scepticism is noticeable across all regions, industries and sizes of company.

“While engagement with climate change has not moved on from a year ago, firms with the best advocates are doing more, and exploring greater potential for a competitive edge over their rivals,” James Watson, The Economist Intelligence Unit’s (EIU) managing editor told INSEAD Knowledge on the sidelines of The Economist’s recently-held Sustainability Summit. “The non-PR opportunities of carbon reduction appear to be real, ranging from

major energy savings, to scope for wholly new products and services.”

The EIU 2010 Sustainability Report, which is due to be published at the end of the month, is a snapshot of the views of businesses leaders from 500 companies around the world.

Watson says the report “provides different scenarios to the outlook for climate change legislation to act as an aid for business leaders trying to make decisions and plan for change coming out in this environment.”

## **Climate change and the recession**

During the global recession, companies have clearly been more focused on staying afloat than grappling with the issue of climate change. Watson, however, says this was, surprisingly, less of an issue than expected. “The downturn had the capacity either to decrease interest in carbon reduction as firms concentrated more on financial survival, or to increase it as companies sought the savings energy efficiency projects - or at least those with short pay-back times - could bring,” he says. “Overall, these countervailing factors mostly cancelled out.”

Bruce Bergstrom

He cites Bruce Bergstrom, Vice President at Li & Fung, a Hong Kong-based sourcing firm, who says that, in looking at suppliers and customers, the company doesn’t “see a clear correlation between interest in carbon issues and the downturn. It may affect priorities. Companies may be compelled to become energy efficient and save money, or they might cancel projects until they have a greater cash cushion.”

## **Increasing scepticism in the science**

The change in public sentiment, Watson says, is linked to several recent developments: the fallout from the so-called ‘Climategate’ scandal involving alleged data manipulation by scientists, the lack of progress at the Copenhagen talks and from the US Climate bill, and even this year’s harsher-than-usual winter. These factors appear to have set back the public’s understanding and belief about climate change. “What this means for executives is that they need to think carefully about how they pitch environmental initiatives within their businesses.”

It's worth noting, however, that some sceptics are not entirely hostile to the notion of climate change. Around half, some 48 per cent, believe climate change is as important an issue as their companies perceive it to be. Around 71 per cent claim to have made some adjustment to their personal habits as a result of concerns about climate change, while only 13 per cent have not.

## **Different approaches**

The study shows while one group is actively looking for new opportunities for carbon reduction, a second group is not convinced this is the right thing to be doing, or the right time.

Companies, which are actively tackling the issue, are far more likely to be large firms, rather than small ones. And among large firms, they tend to be publicly-listed, rather than privately-held. These are firms that are in the public eye and most likely to be subject to regulatory scrutiny, with businesses in the energy sector pushing ahead the fastest.

“But if it means that we are not picking up on the energy and innovation of the start-ups and SMEs (small- and medium-sized enterprises) that make up a huge proportion of our economy, then that is a great concern because they are missing out on potential innovation and opportunity here,” argues Watson.

## **‘More regulation please’**

One of the surprising aspects of last year's survey was that most of the businesses were extremely keen for a clear and coherent set of regulatory policies to be in place. And again this year, as in 2009, businesses still want a level playing field. This remains a unique area where business wants more regulation.

“This is very much a ‘man-bite-dog’ type of story because in all the polls we do of businesses and industries, this never emerges,” says Watson. “The government is somehow never massively popular with business audiences. But in this instance, they seem to be saying that, regardless of the science and what we are trying to do, they know that some form of legislation is coming down the line. And the sooner that level playing field can be created, the better for them all round.”

However, the setbacks now are bigger. The failure of Copenhagen has left deep uncertainty about the ability of governments to bring about some kind of agreement. Other key initiatives in doubt are a US cap and trade bill, carbon taxes, and follow-up climate talks.

An unclear regulatory environment is cited as the second biggest barrier to further progress; more than half of respondents agree that policy uncertainty makes it difficult to plan strategy. Executives have lost confidence in the political leadership: nearly half of executives polled are more pessimistic about the ability of their government to deal effectively with climate change.

“This is unfortunate because government policy is by far the biggest influence on businesses in the area of environmental policy,” Watson says.

## Deja vu

For the majority of companies, the climate change issue feels like the internet revolution of the mid-90s. “Lots of isolated pockets of innovation were going on, but mostly being led by the geeks in their garages,” recalls Watson, who was covering the technology beat at that time. “No technology standards were in place; a lot of new players were entering the market and for most businesses it was simply off the radar.”

There are parallels today. “It feels like we’ve not got the Microsofts, Ciscos or Googles of this industry in place as yet,” Watson says. “As a result of all this, many executives are simply unsure of what are the right things to do, or the right technologies to invest in. As such, the attention within many companies remains focused on changing light-bulbs and recycling paper.”

Barring a small percentage of companies which are more committed to tackling the issue, most firms either spend nothing, or less than one per cent of their revenues on such issues.

The other side to this is fear of competitive impact, in terms of cost, Watson adds. “Concerns over costs remain one of the key barriers for further progress within businesses, along with regulatory uncertainty, and general business survival.”

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