Race to Zero: Biz Schools Must Supercharge Firm Engagement

By Katell Le Goulven, The Hoffmann Global Institute for Business and Society; Ilian Mihov, INSEAD Dean; and Mark Stabile, INSEAD

Mixed outcomes from COP26 mean business schools must step up to help business leaders accelerate the transition to a net-zero global economy.

By the end of the 26th Conference of the Parties (COP) to the UN Framework Convention on Climate Change (UNFCCC), countries responsible for over 80 percent of global CO2 emissions had made net-zero emissions commitments. But the Glasgow Climate Pact is no climate action thriller. It keeps alive the possibility of avoiding climate catastrophe by limiting global heating to 1.5°C, but only just.

With climate-related business and financial risks growing, the private sector must now take the lead and fast-track the transition to a net-zero economy. Business schools need to furnish all sectors with the know-how and
leadership to do this as quickly, fairly and effectively as possible.

**COP26 – fragile commitments and flawed compromises**

Mitigation, adaptation and finance, the three pillars of the 2015 Paris Climate Agreement, all saw progress in Glasgow, but not as much as many had hoped.

In total, 151 countries submitted new climate plans – or Nationally Determined Contributions (NDCs) – containing 2030 and 2050 emissions reduction targets. But the reality is that they don’t go nearly far enough and would still mean a disastrous 2.5°C of warming by the end of the century. What matters most is what happens this decade. However, the 2030 targets by some major emitters are so weak, including those from Australia, China, Saudi Arabia, Brazil and Russia, that they offer no credible pathway to net-zero by 2050.

The specific commitment to ‘phase down unabated coal power and phase out inefficient fossil fuel subsidies’ contained within the pact itself, and therefore agreed by all parties to the UNFCCC, typifies the fragile and flawed compromises made in Glasgow. The first-ever reference to fossil fuels in a COP statement does mark a political breakthrough, but the last-minute watering down of the commitment on coal from ‘phase out’ to ‘phase down’ leaves the door open for climate catastrophe. If coal isn’t rapidly phased out, we have no hope of keeping 1.5°C alive.

On a more positive note, the Beyond Oil & Gas Alliance saw Costa Rica, Denmark, France, Greenland, Ireland, Quebec, Sweden and Wales commit to completely end oil and gas production within their jurisdictions. And elsewhere, national governments, cities, states and major businesses agreed to end the sale of internal combustion engines in leading markets by 2035.

In another notable but ultimately limited development, the Global Methane Pledge saw 110 countries, including the US, Japan and Canada, pledge to cut emissions of methane – one of the most potent greenhouse gases – by 30 percent by 2030 compared with 2020 levels, including tackling leaks from fossil fuel infrastructure. More countries may join the pledge but significantly, Australia, China, Russia, India and Iran did not sign up in Glasgow.
COP26 also finally recognised the importance of nature in reducing emissions and building climate resilience. The Glasgow pact encourages governments to incorporate nature in NDCs, and numerous initiatives announced in Glasgow promote engagement with nature-based solutions. Perhaps most notably, 141 countries, accounting for around 90 percent of global forest cover, promised to end deforestation by 2030 – a commitment backed by US$18 billion in funding. But with so many previous pledges on deforestation left unmet, there is understandable scepticism.

Under an optimistic scenario, the Climate Action Tracker estimated that full implementation of all announced targets and policies would still lead to 1.8°C of warming by 2100, while warming of 2.4°C or more cannot be ruled out. This is far short of the 1.5°C threshold beyond which lies potentially catastrophic climate breakdown.

More encouragingly, the Glasgow pact calls on countries to strengthen 2030 targets by the end of 2022, submit strategies for a just transition to net-zero by 2050 and be transparent about their emissions using a common reporting format. And, in a surprise announcement during COP26, China and the US, jointly responsible for about 40 percent of global CO2 emissions, agreed to cooperate on climate change.

**Financing the transition to net-zero**

One of the biggest challenges in tackling climate breakdown is financing both mitigation and adaptation. And here, outcomes from Glasgow offer some hope.

With climate impacts already hitting the poorest and most vulnerable hardest, it was vital that developed countries finally made good on their 2009 commitment to mobilise US$100 billion a year to help combat climate impacts in developing countries. Ensuring an equitable transition should be paramount.

The Glasgow pact expressed regret over past funding failures and recommitted to the provision of US$500 billion for 2021-2025. Importantly, the share of funding used for adaptation will double to at least US$40 billion a year. This is a positive move as traditionally it was more profitable mitigation measures, such as renewable energy, that received the lion’s share of investment. Countries will also develop a new, larger post-2025 climate finance goal.
COP26 also made some progress on the critical issue of loss and damage – reparations for climate impacts to date in developing countries. A new formal dialogue was created, and parties agreed to fund the Santiago Network on Loss and Damage, established at COP25, which at least provides for future progress. Early financial pledges from Scotland and Wallonia were welcome, and loss and damage will be a key issue for COP27.

These public finance outcomes built some trust in negotiations and will help trigger the scale of private investment required to secure a 1.5°C future – but trillions rather than billions are needed. This makes the announcement that came from the Glasgow Financial Alliance for Net Zero (GFANZ), responsible for a massive US$130 trillion in assets in 40 countries, a potential game-changer. Through participating in the UN’s Race to Zero, all its members are committed to net-zero portfolios by 2050, while also calling for supportive policies. These ambitions must now be backed by credible science-based targets that drive change in the real economy.

How fast companies, financial institutions and countries deliver on pledges made and drive the transition will also be strongly influenced by reporting requirements, disclosure and accountability. GFANZ is committed to transparent reporting, and COP26 also saw the launch of the new International Sustainability Standards Board (ISSB). Next year the ISSB will create a reporting standard that will allow investors to assess companies against common financial and sustainability performance standards for the first time. This will build on the recommendations of the Task Force on Climate-related Financial Disclosures, which some in Glasgow advocated be made mandatory.

COP26 also saw the long-awaited conclusion of negotiations on the Paris Agreement ‘rulebook’, including rules for the global carbon market under Article 6. Crucially, these prohibit double counting – preventing more than one country from claiming the same emissions reductions. They also allocate a 5 percent ‘share of proceeds’ from emissions trading for adaptation. But older carbon credits generated under the Clean Development Mechanism of the Kyoto Protocol have been carried over. COP27 will need to agree on robust guidelines to ensure these represent real emissions reductions.

Break on through
Like the Paris Agreement, the Glasgow Climate Pact is non-binding. But it does send important market signals with the potential to reshape the global economy and recognise the role of the private sector in driving climate action.

In Glasgow, 40 countries representing more than 70 percent of the global economy committed to the Breakthrough Agenda. Its goal: making clean technologies the most affordable, accessible and attractive option in emissions-heavy sectors globally before 2030. This means there is now a compelling case for businesses to join the Race to Zero. That argument looks even more compelling when you consider it could unlock US$26 trillion worth of opportunities in climate smart growth by the same date.

In one year, governments will meet again in Egypt. They will be under pressure to bring the 1.5°C target out of intensive care. Between now and then, the more leadership and progress the private sector can show – and the stronger its collective call for policies and incentives driving global economic transformation – the more emboldened leaders at COP27 will feel. Private sector initiatives could include setting science-based emissions reduction targets, investing in nature-based solutions and creating deforestation-free value chains.

**INSEAD’s Race to Zero**

At INSEAD, our mission is to develop responsible leaders who transform business and society. Fundamentally, we see business as a force for good. And just as sustainability must now be a guiding principle for global economic and financial systems, it must also be the beating heart of business research and education.

That is why we joined forces with European peers to launch the Business Schools for Climate Leadership (BS4CL) initiative in Glasgow. Having sought to build sustainability into our core curriculum since 2017, we are now beginning a full review to determine how best to integrate it across the whole INSEAD curriculum by 2023.

Engaging all our 60,000 alumni in 170 countries, we will also strengthen our lifelong learning offer on sustainability to turn education into climate action. The Community Impact Challenge, led by INSEAD alumni volunteers and now an official Race to Zero accelerator, is just one example of how we can help catalyse a net-zero economy. Reducing our own emissions is also
critical and we are currently working on setting our own targets.

INSEAD and all business schools should now make it their mission to enable business leaders to accelerate and secure the transition to an equitable, net-zero global economy.

Find article at
https://knowledge.insead.edu/responsibility/race-zero-biz-schools-must-supercharge-firm-engagement

About the author(s)

Katell Le Goulven is the Executive Director of the Hoffmann Global Institute for Business and Society at INSEAD.

Ilian Mihov is Dean of INSEAD, a Professor of Economics and the Raising Chaired Professor of Economic and Business Transformation at INSEAD. He is also the Academic Director of the Hoffmann Global Institute for Business and Society.

Mark Stabile is an INSEAD Professor of Economics, the Stone Chaired Professor in Wealth Inequality and the Academic Director of the James M. and Cathleen D. Stone Centre for the Study of Wealth Inequality. He is also is the Deputy Academic Director of the Hoffmann Global Institute for Business and Society.

About the series

Crossroads: Business & Society

The Hoffmann Global Institute for Business and Society at INSEAD explores the intersection of business and society. The challenges of our times are unprecedented, and the decisions made by leaders today determine the future. The aim of HGIBS is to equip these leaders to make decisions in ways that deliver positive outcomes for business, communities, people and our planet in line with globally agreed sustainability goals.

The UN Sustainable Development Goals, or SDGs, offer a cohesive and centralised framework for discussing a new development model that is good for all people and the planet. INSEAD is aligning more closely with the SDGs as more business leaders engage with the SDGs, using the 17 global goals to account for their contributions to society.

This series provides much needed clarity regarding what the SDGs mean for strategies, operations and business models.
Download the free Knowledge App