Where do multinationals fit in global efforts to adapt to climate change?

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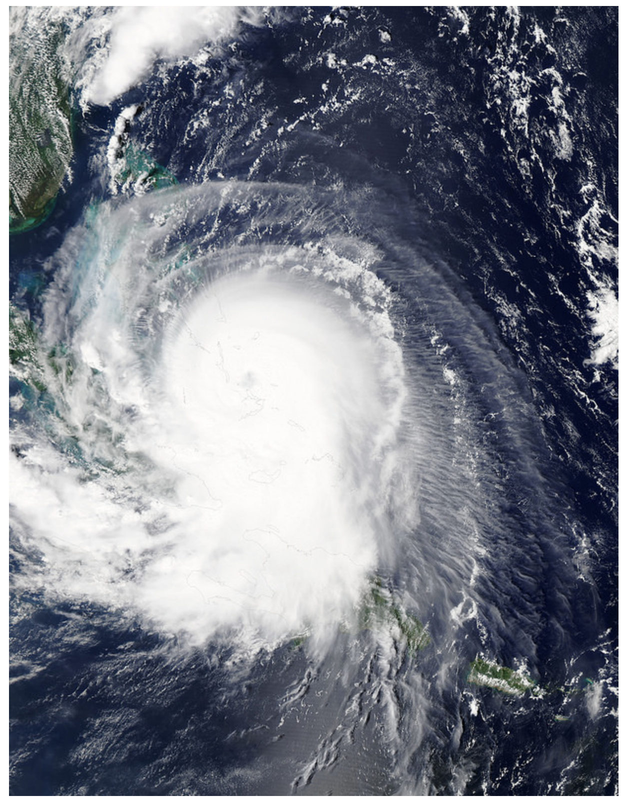
Climate change is widely recognized as one of the critical global challenges on the political agenda and is not a new topic for the boardrooms of multinational corporations (MNCs) either. Ahead of the upcoming climate change summit in Paris in December governments and companies are pledging emission reduction targets and are working on new initiatives to lower their carbon footprint. However, given the scale of current and future climate change impacts, another big topic for Paris is adaptation.



Much too often adaptation to climate change is considered an issue for governments to worry about and an area for public finance. Yet, as a new framework for international climate action is about to be adopted, is there a role for the private sector in improving the resilience of societies? Can governments and business work together on adapting to climate change given the potential of MNCs to finance projects, develop and deploy technologies and innovative solutions and their impact on local economies, in particular in developing countries?

These questions drove the research we have recently conducted with colleagues at the Grantham Research Institute, "Multinational corporations and climate adaptation – Are we asking the right questions?". We sought to understand how MNCs are responding to the risks from climate change, what is driving this response and what outcomes their actions lead to.

While businesses seem to have a clear understanding of mitigation, they seem less clear about the meaning of adaptation and in particular, confuse adapting to mitigation policy regarding greenhouse gas (GHG) emissions and adapting to future climate impacts. Therefore, we define adaptation by MNCs as the process of adjustment by companies to actual or expected climate and its effects through changes in business strategies, operations, practices and/or investment decisions. In our study we considered relevant evidence on responses to the impacts of climate change even if not explicitly labelled as adaptation, as companies use a wide range of terms: resilience, business continuity, enterprise risk management, or flood risk management, to name a few.

Adaptation appears to be motivated by a range of drivers external and internal to a business. Internally it is driven by champions and leadership within the company, and the desire to maintain profitability, reduce costs and minimise disruption to operations in a changing climate. External factors include past experience of climate impacts and extreme weather events, regulatory and legal factors, reputational, corporate citizenship and stakeholder/investor pressure, and market drivers including the demand for new products and services.

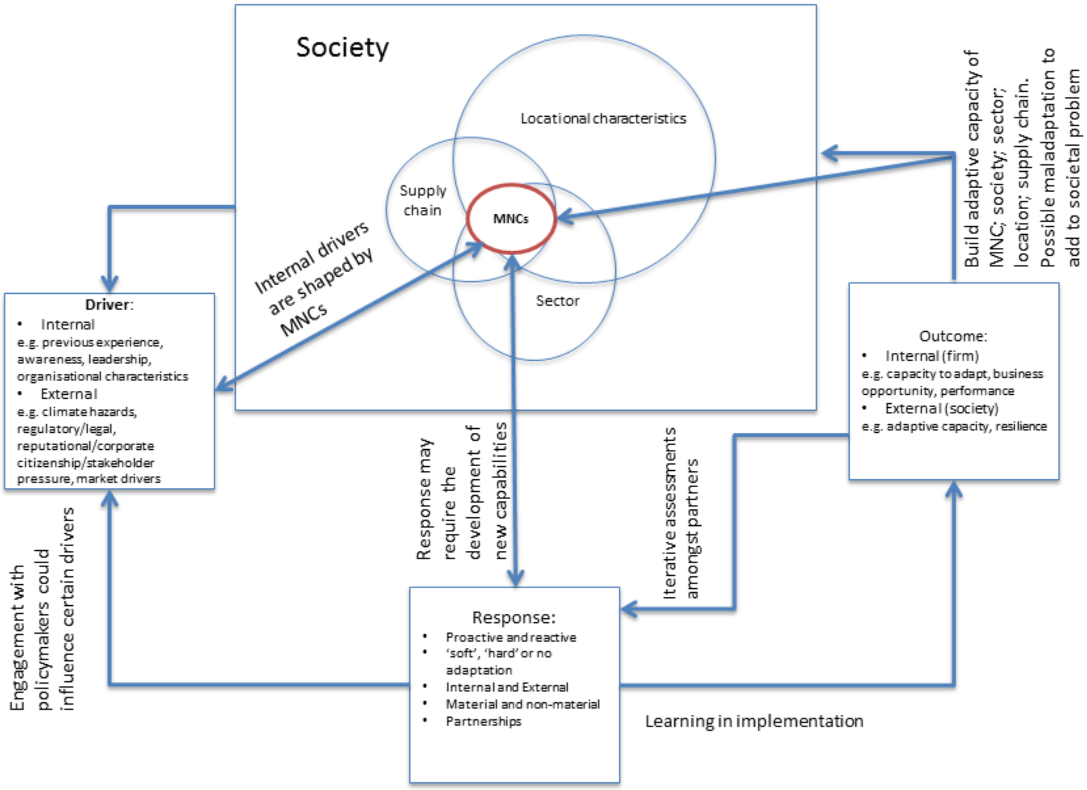


Fig. 1 This figure presents the framework used in our research: drivers, responses and outcomes of MNC adaptation to climate change. The framework summarises the k elements we identified within those three components, includes additional feedback loops between these elements that characterise MNC adaptation, and emphasises the broader societal context which can have a constraining or facilitative effect on MNC adaptation.

Regulation, for example, already requires water supply companies in England and Wales to incorporate climate change in the water supply assumptions they use in their 25-year plans. Financial disclosure rules for companies listed on exchanges in the US, Australia, Denmark, South Africa, Sweden and the UK can require companies to disclose the physical risks from climate change when these risks impact their financial situation. On the other hand, several sectors, including agriculture, consulting, water and insurance, have recognised that adaptation also represents new business opportunities. Several of the leading global insurers and reinsurers, for example, consider adaptation as part of their quest for new growth markets.

Yet many adaptation initiatives are still in their infancy, and reactive responses dominate over anticipatory action by MNCs. Few companies appear to be adopting a structured approach to incorporating adaptation into business strategy, activities and operations. Moreover, given the complex, non-linear and potentially irreversible nature of some climate impacts, new approaches to deal with this discontinuous change may be needed in addition to traditional risk management tools. More analysis is required to understand the full impact of climate change on businesses and value chains and how to build innovative and resilient organisations. Our review shows that there is a paucity of work analysing adaptation actions by companies, their motivations and even less so their contribution to improving the resilience of societies. Nor is there much consideration given yet to the possible instances where actions by companies may increase their own vulnerability or the vulnerability of their suppliers or communities they operate in.

We see this as an important area not only for future research across business and sustainability disciplines, but as a key topic that deserves more attention from risks analysts and strategists in the private sector. First movers can save costs through early learning and action and gain competitive advantage by preparing for and influencing future policy change working in partnerships with policymakers.

From a policy perspective it is critical to understand how synergies between MNC-led and government-led adaptation efforts can be amplified and potential adverse impacts minimised. Considering the growing demand for private sector engagement and finance, it is worth evaluating policies that can support and incentivise private sector adaptation and partnerships between MNCs, governments, NGOs and academia that can enhance the capacity of companies and communities to adapt.

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Note: This article gives the views of the author, and not the position of LSE Business Review or the London School of Economics.

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