CENTRE FOR CLIMATE ENGAGEMENT
HUGHES HALL
UNIVERSITY OF CAMBRIDGE

Zero Ideas®

Seeking Impact

Using theories of change to assess and guide corporate climate action
Guidance for boards

Foreword

Emily Farnworth
Director, Centre for Climate Engagement
Hughes Hall, University of Cambridge

Seeking Impact provides a clear perspective on why it is so important for corporate boards to step back from the mire of risk and reporting frameworks and take a fresh look at long term goals and how to create a successful path towards value creation—particularly where there is a need for a transformational change in the core business model—to align with a net-zero and climate resilient future.

It guides corporate boards through the complex terrain of current approaches to taking climate action with a clear, actionable framework. It underscores the inadequacy of traditional approaches to corporate sustainability that focus predominantly on risk management, compliance, and superficial ESG metrics. Instead, it champions a proactive, impactful approach that requires a deep understanding of the cause-and-effect relationship between corporate actions, business success and environmental outcomes.

It argues that by using theories of change as a tool, boards can gain clearer insight into the actions needed to develop their business model and contribute tangibly to the global fight against climate change.

The importance of this issue cannot be overstated. Climate change is not a distant threat but a current reality, impacting economies, ecosystems, and communities worldwide. There is an urgent need for companies to actively seek impactful ways to contribute to the broader goal of mitigating climate change. The Centre for Climate Engagement urges corporate boards to embrace the guidance offered in *Seeking Impact*. The corporate sector needs to lead with courage, innovation, and a deep commitment to ensure a sustainable future for all.

In summary…

It's not enough for boards to respond to what stakeholders are asking from them, because today's approach to sustainability is unsustainable.

Whether they say it explicitly, or pursue it through the lenses of risk and opportunity, most companies taking climate action are seeking to have an impact on the world. But the causal links between what companies do and the impact they seek can be obscure, weak, and even broken. Simply following the norms of target-setting, carbon accounting, ESG reporting and disclosures can give a false sense of what is being achieved.

Theory of change is a discipline that boards can use to discover whether what their organizations are doing will drive the impact they are seeking. It is a long-established approach in the sectors that have been seeking societal impact for longest—in public services, philanthropy and among NGOs. Used well, a theory of change makes the critical assumptions explicit so they can be tested.

Research summarized here shows why this validation is vital. The financialization of climate action, through ESG and sustainable finance, dominates the corporate agenda. But as a way to seek impact, it is severely constrained. Mobilizing capital is one thing; creating the conditions where it can be deployed is another.

Climate action combines long-term commitment with game-changing short-term uncertainty. It's not enough for boards to respond to what stakeholders are asking from them, because today's approach to sustainability is unsustainable. Boards need to understand the fundamentals of how their organizations can seek impact, so they can anticipate and influence conditions as they evolve. Used as described here, this is the power and potential of a theory of change.

Looking beyond risk in corporate climate action

If we limit ourselves to a risk mindset, everyone is reacting to everyone else, and nobody is driving the agenda forward.

Most large companies are acting on climate change today. Collectively, the goal is clear: to reduce carbon emissions in line with the Paris Agreement, limiting global warming to 1.5˚C or thereabouts, and to stay within other planetary limits. The urgency and ubiquity of the climate agenda is driven by a desire for this positive impact on the world.

Companies, however, often prefer to see the issue in terms of risk and opportunity—even while setting targets for net zero. Efforts to drive the transition of the economy to limit climate change have been recast as managing 'transition risk': defending the company against loss of competitiveness, loss of customers, stranded assets or higher cost of capital.

Positioning climate action as a business risk issue seeks to align an enterprise's financial and climate concerns. 'Climate risk is investment risk,' wrote BlackRock CEO Larry Fink in his 2020 Letter to CEOs. It also brings climate action within the mandate of financial regulators.

This asserted alignment has allowed the global financial services industry to deploy itself in service of climate action, mobilizing capital on an unprecedented scale. It makes it relatively straightforward for fiduciaries—whether board directors, asset managers, or institutional asset owners—to consider climate issues, to the extent that these are a risk to the financial value that fiduciaries seek to create for their beneficiaries.

Climate action is consistent with a business's financial self-interest over the long term, but a risk lens is insufficient to see it or act on it at scale. Often there are ways for companies to reduce risk to themselves that do not help fight climate change, such as divesting an asset, which changes its ownership without decarbonizing it. And even when commercial risks to a company are real, they may be hard to feel or to quantify (because we haven't done this before), in comparison to the all too tangible and immediate transition costs, so the business case falls through.

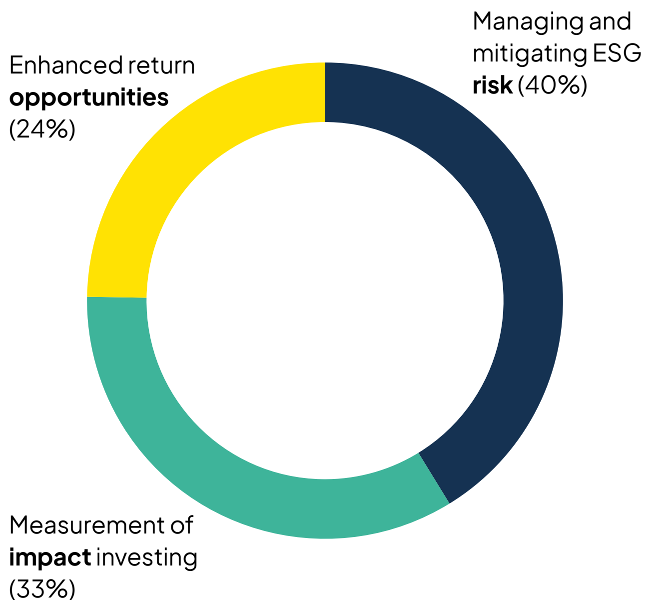
Worst of all, as we limit ourselves to a risk mindset, everyone is reacting to everyone else, and nobody is driving the agenda forward. Companies focus their efforts on disclosures and reporting on 'ESG factors', so that investors can take these factors in consideration in their investment decisions. But as we see below, ESG investing tends to favour companies with superior disclosures and reporting, not superior climate action. And in turn, major investors such as Vanguard say they will not support shareholder proposals that go 'beyond disclosure and [encroach] upon company strategy and operations,' because strategy 'should be decided by its board and management team.'[1]

To deliver what the world needs and what stakeholders want, companies and their boards need to seek impact, not just manage risk. This report offers practical guidance for doing just that.

Seeking impact – because focusing on risk management won't manage the risk

Figure 1. Asset owners are interested in impact and opportunity, not just risk

Most useful application of ESG data, ratings, indexes, and tools



Source: Morningstar (2023), Voice of the Asset Owner Survey: Quantitative Analysis. n=500.

A risk lens by itself is insufficient and ineffectual. Here's why:

1. Climate risk is systemic. Even if every actor (investor, asset manager, bank, company) acts rationally to minimize the risk they each face, this is a suboptimal way to reduce the overall risk. We need more directed, shared effort to reshape the system.

2. While more and more organizations are accountable for disclosing and reporting, nobody is accountable for acting on the information provided. Carbon disclosure is not carbon reduction.

3. The problem of externalizing costs and exceeding planetary boundaries goes beyond climate change. Even if we could quantify and attribute responsibility for the world's greenhouse gas emissions, where there is a unifying global commodity to measure, the same approach would not work for circularity, biodiversity and other critical agendas.

4. We need creative destruction to drive a transition, but risk management tends to reinforce the status quo. This is partly because of well-documented human biases: confirmation bias, mental discounting, rational inattention, and status quo bias itself. It is also a rational response to the world deviating from the 1.5˚C path it aspires to. If we are not confident of the transition happening, then the commercial risk of getting left behind may be less than the risk of betting too far ahead.

Business leaders may assume that by doing what is expected of them in complying with new reporting regulations and voluntary standards they are managing the long-term risk to their business and delivering for society and for concerned stakeholders, but this is not necessarily so.

The idea that ESG is only about risk is a politically convenient untruth. 'Transition risk' is a risk only because we collectively want and need a transition.

Morningstar's 2023 survey of asset owners found that 'manging and mitigating ESG risk' is just part of what asset owners seek to do with all the ESG data, ratings, indexes and tools (Figure 1)[2]. 'Measurement of impact investing' and 'enhanced return opportunities' together account for a greater use of ESG.

A survey by BNP Paribas found that institutional investors see impact investing becoming the the most prevalent ESG approach in the next two years.[3] While there are commercial opportunities, they are proving insufficient. And like transition risk, they exist only in the context of a quest for impact.

Seeking impact (alongside managing risk) is how businesses can address long-term risk while also delivering for stakeholders and for broader society.

So how can a business make sure that what it is doing has substantial societal impact, at the scale and pace of the issues we face?

'There has to be some reason—some theoretical justification—to expect a program to succeed... It is in probing the theoretical premises of the program that evaluation can ultimately become most practical.'

Carol Weiss
Evaluation Research: Methods of assessing program effectiveness
1972[6]

Does what you do really drive the impact you want? A theory of change can tell you.

Much of today's climate action does not drive meaningful impact. It might drive reporting and disclosures, but not necessarily emissions reductions. It might displace emissions elsewhere in the economic system, rather than reduce them. How can you challenge and validate the causal links that connect what your organization does to the impact you want to see?

Theories of change provide a robust and practical way to answer that question. They are widely used in the non-profit, philanthropic and public policy sectors, where seeking impact has been the norm for a long time.[4]

Often they are used as an organizational creed, or statement of belief. Assumptions are either asserted or unstated. One real-world example: 'The theory of change is that disclosing quality data leads to smarter decisions and informs investors, companies, and governments of the actions they need to take.' But the core idea of a theory of change, as it was conceived in the 1990s, is that assumptions should be made explicit, and then tested. The value is not in the theory itself; it is in the practical validation of the theory.[5]

This validation aspect makes theories of change particularly well suited for use by boards. It provides a framework for interrogating whether the activities that an organization is focused on are truly, causally linked to the impact in the way that is claimed.

In the remainder of this report we provide practical guidance for business leaders and boards, on how to use theories of change to make sure you are seeking impact effectively. The guidance comes from the experience of using theories of change in diverse organizations and settings; from relating theories of change to business strategy and purpose, in the corporate setting; and from using the framework to test the theory of change of the financially driven approaches to climate action, from ESG investing to the Glasgow Financial Alliance for Net Zero (GFANZ), that dominate the corporate climate action landscape.

Our guidance comes in four parts:

1. Work backward from impact to activity.

2. Use financialization as a means not an end.

3. Look strategically at what to build, not reduce.

4. Demonstrate the need and role for government.

1.
Work backward from impact to activity

1. Work backward from impact to activity

Figure 2. Core elements of a theory of change

The building blocks to construct a theory of change are straightforward. Models and nomenclature vary, but in general the theory sets out a causal chain, or 'logic model' (Figure 2), which shows how an organization's *activities* produce certain *outputs*; how these outputs contribute to *outcomes* in a social system external to the organization; and how these outcomes bring about the *impact* you want to see.[7]

Figure 3 illustrates how the Bill and Melinda Gates Foundation, as one of many examples, uses this causal chain to evaluate and direct their programs, using metrics at the 'activities' end of the chain to direct how they operate at a project level, and metrics toward the 'impact' end to direct overall goals and approach.[8]

The causal chain helps you to look beyond your own organization (your *activities* and *outputs*), to your beneficiaries: the *outcomes* you drive for them and the *impact* of these on the goal you are concerned with. This is how a theory of change can help ensure focus on activities and outputs that make a valuable contribution to a societal goal.

As an operating business, however, starting with activities would imply that you already know what you are doing and you want to show its worth. If instead you know what you want to achieve and are open to how best to achieve it, then work the theory of change the other way around, following the design chain shown in green in Figure 2.

The design chain offers a complementary lens to the causal chain. It represents the same steps in the same chain, following the same logic. But it starts that logic at the impact end, with the change you want to see, and works back to determine what will get it to happen.

Running the theory in this way maps closely to how businesses already think about strategy and planning: from a *vision* of an external goal, to an *insight* about how that goal could be achieved, to *strategy*, to *execution*.

The design chain focuses attention on the critical *outcomes* step. It demands *insight* about what it takes to realize the vision, particularly drawing on the capabilities that the organization brings. It won't accept bland or wishful inference about what a project's outputs might lead to.

Most importantly, the design chain highlights the critical questions to ask at each step in order to reveal and test the assumptions that the causal chain depends on. Figure 4 shows a template for constructing a theory of change using this approach. Figure 5 shows an example application of this template, assessing the theory of change behind carbon accounting based on the Greenhouse Gas Protocol.

Figure 3. Example: Bill & Melinda Gates Foundation's Actionable Measurement Matrix

	Inputs	Activities	Outputs	Outcomes	Impacts
Strategy				Measure changes in populations and systems	
Initiative	Measure progress toward targets, test assumptions, identify what works, how, and why				
Sub-Initiative					
Grant	Track implementation and progress toward targets				
Sub-Grant					

Illustrative actions

Strategy:
Revise theory of change
Modify strategy aims
Set new impact targets

Initiative / Sub-Initiative:
Prioritize new investments to demonstrate delivery of successfully developed products

Advocate for others to fund and carry on approaches demonstrated at scale

Focus investments based on what has worked, what has not, and what may be promising

Grant / Sub-Grant:
Provide feedback to grantees to guide progress toward milestones

Make decisions about renewal requests

Inform decisions about grant proposals for similar work

Source: Bill & Melinda Gates Foundation (2010), *A Guide to Actionable Measurement*

Figure 4. Template for a constructing a theory of change, highlighting the key questions to ask and assumptions to test in order to validate the causal links

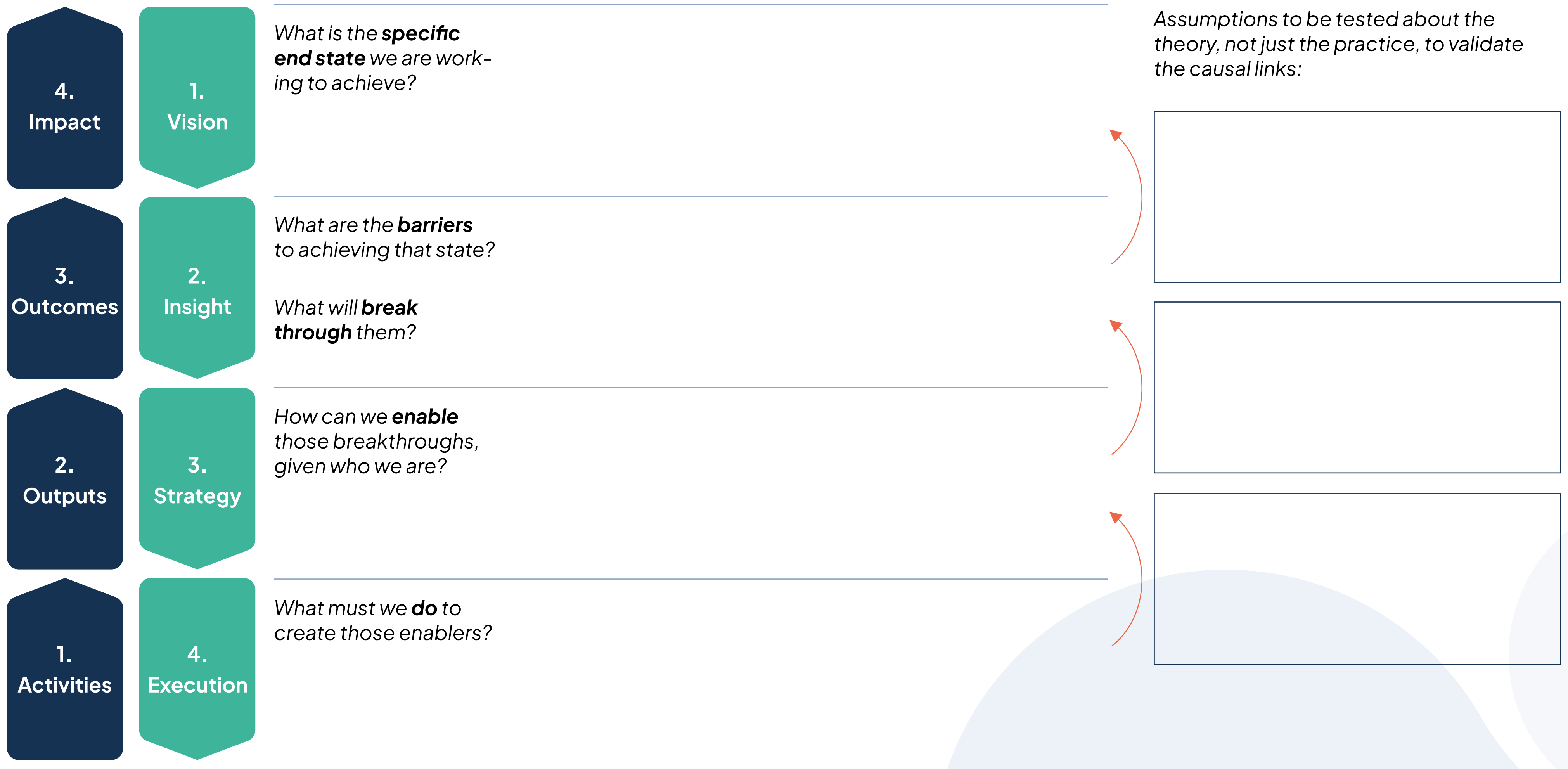
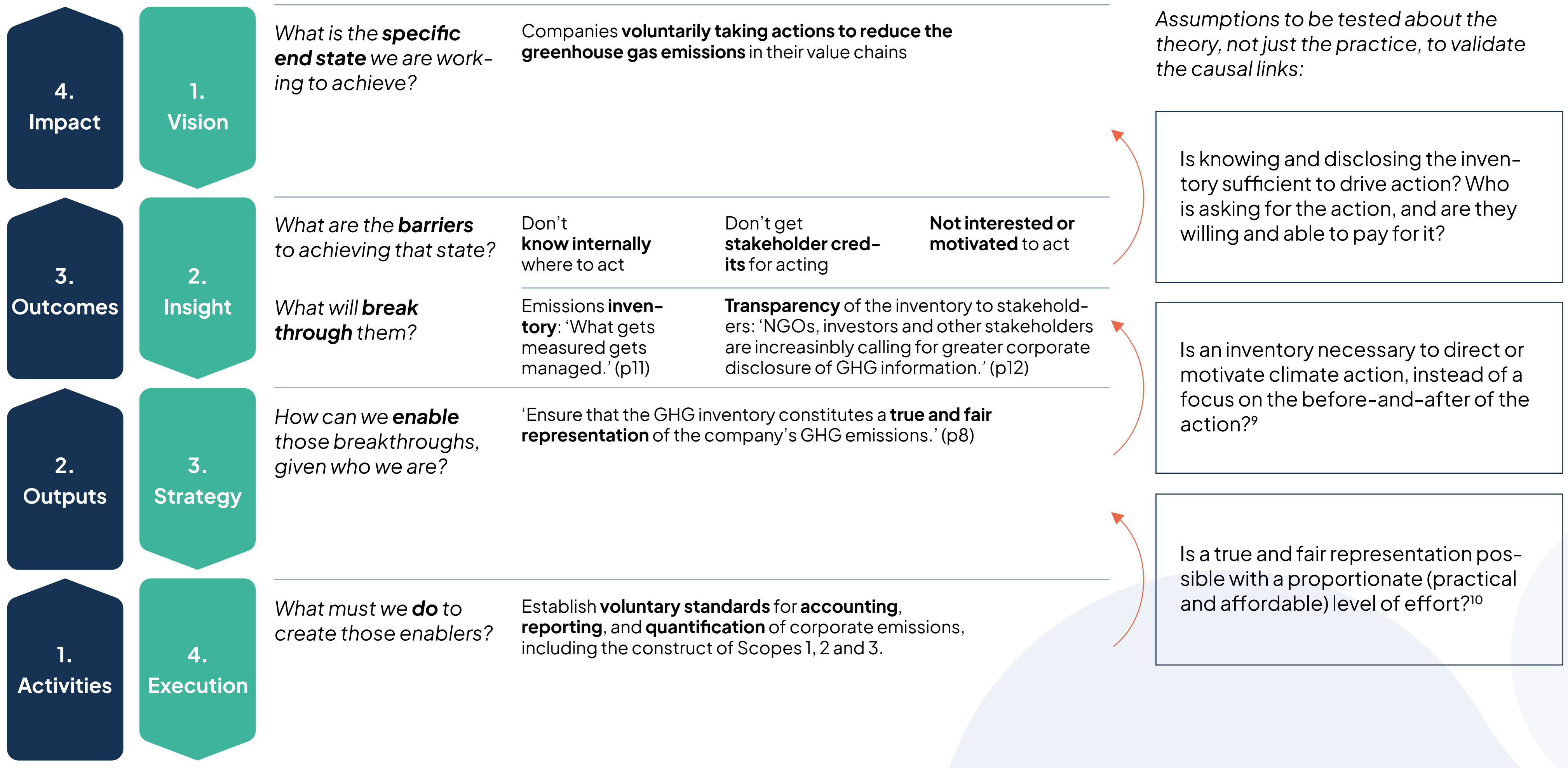


Figure 5. Derived theory of change for using carbon accounting based on the Greenhouse Gas Protocol



Source: The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition 2004

2.
Use financialization as a means not an end

2. Use financialization as a means not an end

'The financial sector's role [is] as a supporter and enabler, but not a driver, of real economy transition.'

Institute of International Finance
The role of the financial sector in the net zero transition
2023

It's clear that the climate transition will require investments on a scale that can only come from the private sector. Across the world, the financial services industry is mobilizing itself to provide all sorts of sustainable finance.

What is less clear is the role that the financial sector can, should or will play. The theory of change behind GFANZ and its consituent net zero alliances gives the sector a driving role: financial institutions make net-zero commitments that affect how they invest and lend, and real-economy companies must align their businesses with these goals if they want continuing access to capital. But the financial sector's industry association, the Institute of International Finance, has recently argued for the opposite. It asks policymakers to recognize 'the boundaries of the financial sector's role as a *supporter and enabler, but not a driver*—of real economy transition.'[11]

The question for the financial sector is the same as for real-economy companies: is it seeking impact, by using its financing role to drive change in the real economy, or is it managing risk for itself, by 'aligning' itself with change that others drive? The answer is of course different for different financial institutions, and some pursue explicit impact goals.[12] But collectively, empirical research appears to support the position of the IIF.

Figure 6 shows the chains of influence that need to operate for the financial sector to drive change in the real economy. In each case, we look at what we would expect to see happening in a finance-led theory of change, and what we see happening in practice, drawing on academic and other studies.

The general picture is that what we would expect to see is not happening—at least not consistently and effectively. That does not mean the financial effort is of no value. Metrics and disclosures provide an important foundation, building awareness and highlighting where the opportunities are. But it does mean that the financial sector's role tends to be supporting and enabling rather than driving.

While the sector can mobilize finance, it can't make the unfinanceable financeable. Its response to that limitation can be to redefine the problem to become something it *can* solve with the tools it has: in this case carbon accounting, sustainable finance, voluntary carbon markets. But this redefining can miss the true impact (see box: *Solving the problem by redefining it? The financialization of poverty*).

What this means is that companies seeking impact need to pursue their own theory of change. It would be easy to let the financialization drive the effort. Reporting requirements have become so demanding that many corporate sustainability teams find they have little time for anything else. But this is not the path to impact. The financialization of climate action can make valuable contributions to your climate agenda. But it can't *be* your climate agenda.

Figure 6. What we would expect to see and what we do see in a finance-led theory of change

Real-economy company

Asset Manager

Bank

Asset Owner

	What we would expect to see	What we see in practice
*Do **banks** drive companies to act?*	Bank engagement influences corporate target-setting	Companies borrowing from Net Zero Banking Alliance member banks 'are no more likely to set climate targets after their lender makes a net-zero commitment, nor do they reduce their verified emissions.'[13]
	Companies with poor transition performance experience divestment and increased cost of capital	NZBA-member banks 'have not differentially divested from emissions-intensive firms... in the sectors for which they have set targets.'[14]
*Do **asset managers** drive companies to act?*	Companies achieving higher ESG scores outperform in ESG impact	'ESG scores are correlated with the quantity of voluntary ESG-related disclosures but not with firms' compliance records or actual levels of carbon emissions.'[15]
	Asset managers use their influence to demand and support climate action by companies	In proxy voting, Vanguard funds 'did not support proposals that went beyond disclosure and encroached upon company strategy and operations.'[16] 'Average support for [proxy vote] proposals seeking corporate action or disclosure plummeted [in 2023] to 21.8%, down one-third from a high point in 2021 of 33.3%.'[17]
	Engagement by asset managers drives changes in companies' activities and/or follow-through by asset managers	'[Big Three] engagement does not seem to change either the voting behavior of asset managers or the corporate governance practices of portfolio firms.'[18]
*Do **asset owners** drive asset managers to act?*	ESG funds deliver sustainably competitive financial performance; or owners are prepared to compromise financial returns, at least at the margins	Research on the Principles for Responsible Investing Blog acknowledges that ESG investing structurally underperforms over time, in theory and practice.[19] Research showing that ESG outperforms is 'a statistical artifact'.[20] Owners say that 'impact on returns' is the biggest barrier to pursuing an ESG investment strategy.[21]
	Impact-concerned ESG investing has a sufficient share of AUM to drive what asset managers do	Investors cite improved returns as a top motivation for ESG.[22] ESG AUM remains moderate, depending on definition. Self-reported, institutional owners say up to 30% 'incorporate ESG'[23], but ESG-focused funds account for only about 3% of global AUM, with inflows slowed substantially.[24]

Solving the problem by redefining it? The financialization of poverty

Microfinance has some striking parallels with climate finance. It came from the private sector and NGOs working together to pursue a societal goal—one where states were seen not to be making effective progress. It built a movement to mobilize capital in pursuit of that goal. It introduced new financial solutions, roles and institutions that were driven by motivations other than directly maximizing financial returns.

So what can we learn from its theory of change and how it seeks impact?

When Muhammad Yunus initiated the microfinance sector in Bangladesh, his theory of change closely followed the steps of the design chain described in this report:[25]

1. A clear *vision* to end poverty, initially for individuals and communities, later for the world.

2. Original *insights* about the barriers and how to break through them: the untapped entrepreneurialism if you can 'turn on the engine of creativity inside each person'; the need to address all aspects of people's lives, 'from the economic dimension to the political, social, technological and psychological dimensions', with microcredit as the foundation but not the whole solution; the extraordinary readiness and ability of people to 'remain faithful to their commitments', driving the 95%+ repayment rate that makes the business model viable.

3. A *strategy* to create a new financial institution (Grameen Bank) and propositions based on these insights, unencumbered by banking orthodoxy on credit and creditworthiness.

4. *Execution* through a social business with a scope, values and culture designed for and dedicated to the mission.

As the microfinance movement evolved, however, not everyone had the same single-minded focus on the societal vision and insight.

A new industry of 'microfinance institutions' grew up to intermediate between investors and entrepreneurs. Socially minded capital providers, who were happy to lend money for no financial return 'to implement their moral visions'[26] found that they were providing 0% finance only to the intermediaries—NGOs and for-profit companies—who were then charging sometimes high rates of interest to the person receiving the loan. Stories emerged of the extreme social pressures that increasingly underpinned the high repayment rates: funding withheld from a community as a group punishment for an individual person's default, driving women to borrow from traditional money-lenders to avoid the social repercussions they would otherwise face in an 'economy of shame'.[27]

Meanwhile researchers sought to validate the assumptions in the original theory of change—in particular, does microfinance reduce poverty? Some microfinance institutions even operated randomized controlled trials, setting up loan offices in some locations but not others in order to measure and compare poverty levels and other outcome and impact metrics.[28]

In 2011 a systematic review of the 'evidence of the impact of microfinance on the well-being of poor people' by the UK's Department for International Development concluded that microfinance has 'foundations of sand'. Its summary finding after detailed examination of 58 different research studies: 'It remains unclear under what circumstances, and for whom, microfinance has been and could be of real, rather than imagined, benefit to poor people.'[29]

The problem turns out to lie not in poor execution of the idea but at the heart of the theory of change when applied at scale. Mobilizing capital increases the supply to a low-income community, but 'without any compensating increase in local demand or purchasing power, stimulating an increase in this local supply with the help of microcredit would result in even more intense local competition, which would serve to push down the average profits and wages enjoyed by those already supplying the items and services in question.'[30]

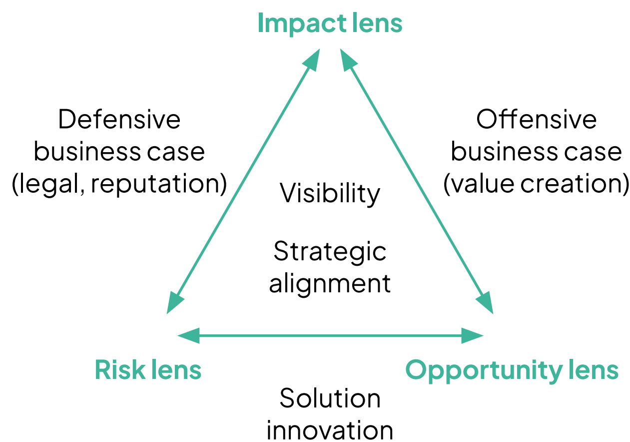
By the time the problem was widely recognized, the industry of microfinance institutions had its own momentum and its own interests and challenges. Growth-seeking intermediaries had to compete for the limited market of micro-enterprises. They were not about to go back to the drawing board to explore if there were better ways to pursue the goal of ending poverty. Instead, they shifted their goal from one they could not achieve—ending poverty—to one that they could: financial inclusion.[31] Their narrative was boosted by the World Bank's 2014 Global Development Report, titled 'Financial inclusion' and dedicated to promoting the idea—even though that report's section on measurement and impact found that 'evidence on microcredit is mixed, with some cautionary findings on the pitfalls of microcredit.'[32]

The significance of this shift, and the relevance to climate, is best seen in the causal chain in the theory-of-change model. The goal has moved from seeking *impact* (ending poverty), to seeking only an *outcome* (financial inclusion). It is an outcome that is intuitively attractive for society, although it has only speculative connection to impact. But it is sufficiently aligned with the narratives and interests of the NGOs and financial services players to energize the industry to pursue it.

3.
Look strategically at what to build, not reduce

3. Look strategically at what to build, not reduce

Figure 7. Risk, impact and opportunity act together



A carbon accounting approach, starting with emissions inventories and looking for reductions, won't work at the scale required. It's a recipe for marginal reductions, not reinvention, and becomes more and more onerous as you extend from climate to nature, biodiversity and circularity. It's how analysts build scenarios, but not how companies build strategies to achieve them.

What makes the transition affordable at a company level is the process of creative destruction: the prospect of winning market share and creating new value—and the risk of losing out as value migrates in the economy.[33]

Building a theory of change using the design chain (as opposed to the causal chain) helps to identify such opportunities, starting from the *vision* and *insight*. What are the barriers to break through? What capabilities does your organization bring to help break through them? What might others bring, that you need to compete with?

Such questions shift management focus and metrics from emissions, which are influenced by many factors and only partly under your control, to the strategic drivers of those emissions, which you can manage and build a business around.

Recycling of packaging substrates may seem a burdensome cost for a plastics manufacturer faced with its Scope 3 carbon emissions. But it can be a strategic opportunity for an aluminium manufacturer: aluminium recycles more cheaply and easily than plastics, creating a growth opportunity with a great environmental impact if recycled aluminium can win share at the expense of plastics—in turn creating a defensive imperative for the plastics company.[34]

To find these insights, it helps to consider risk, impact and opportunity all together. While they are three different lenses, they don't act independently: they reinforce each other (Figure 7).

A risk lens by itself is limiting, as we saw earlier. But risk and opportunity together can drive the innovative solutions behind the breakthroughs needed. Opportunity and impact together can generate the value creation ideas that drive an offensive business case, as in the aluminium example. And transparency about impact—for example through the 'impact materiality assessments' that are mandated by the European Union's Corporate Sustainability Reporting Directive—can highlight new legal and reputation risks that support a defensive business case. Once you publicly attribute a (negative) societal impact to your company, it becomes hard to say that you are not changing anything.

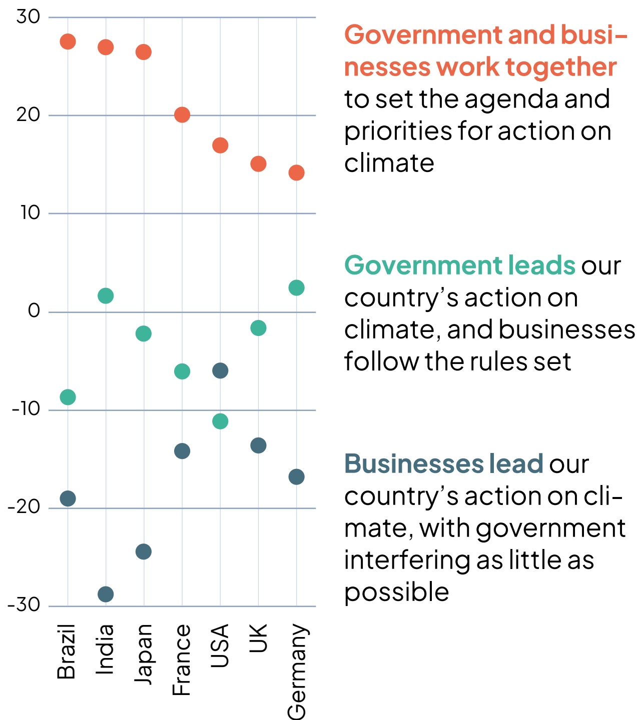
In some organizations, different people are charged with taking the risk, impact and opportunity lenses. To get to a commercially viable and attractive theory of change, there is merit in bringing these different perspectives together.

4. Demonstrate the need and role for government

4. Demonstrate the need and role for government

Figure 8. Global public desire for government and businesses to work together on climate

'Utility' (a combination of preference and importance)



Source: Potential Energy, Yale Program on Climate Change Communication, Meliore Foundation, Zero Ideas (2023), *Later is too late*

One thing that the financial sector and real economy companies are united on is that a successful transition depends on regulation. Even most voluntary action by companies has a business case that depends on anticipating a future cost of carbon or some other regulatory pressure.[35]

In claiming only a supporting, not driving, role for the financial sector, the Institute of International Finance highlights the need for government to drive: 'Over-reliance on the financial sector and its regulators to deliver the net zero transition risks diverting attention from the fundamental policies needed to catalyze actions across the entire economy.'[36]

It is therefore often appropriate to consider and make explicit the role for government in a theory of change, and avoid the false impression that the private sector can do it alone.[37]

The rationale for government involvement is both economic and political.

Economics

While the headline numbers for the cost of the transition are enormous, the incremental costs beyond normal cyclical reinvestment are more modest. And at a societal level, the business case for action vs. inaction is clearly established. Companies are often able to make the investment needed if given a level playing field, because the primary demand elasticity for their products is quite low.

Without a level playing field, however,the same companies stand to lose market share if they proactivelyincrease their costs (and prices) even moderately, because the *cross* elasticity for their products is high.

Politics

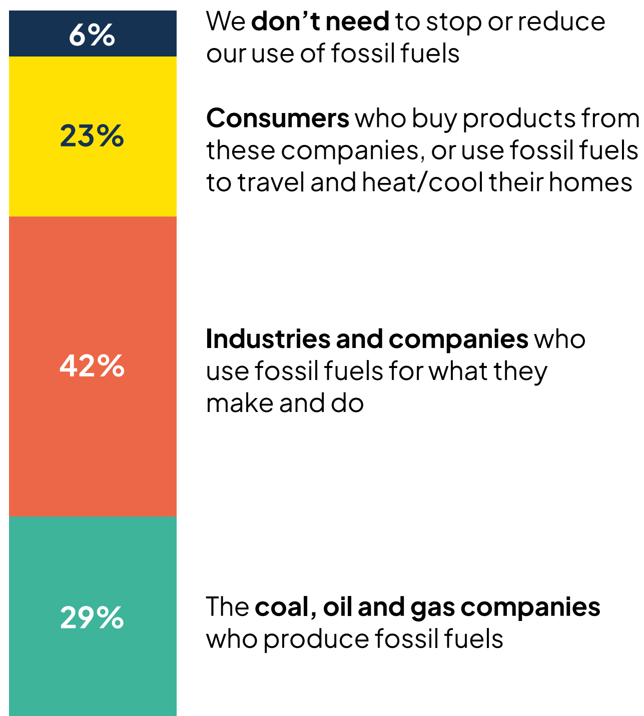
Climate action, and sustainability more broadly, involve moral choices and trade-offs. These are recognized in the idea of a 'just transition' that is written into the Paris Agreement. How to evaluate the human-rights and local-environmental issues of mining for the elements that enable the energy transition? How to evaluate wind farms built where indigenous people hunt reindeer? These are public policy issues. Companies, and especially banks and asset managers as financial intermediaries, are understandably reluctant to be the moral arbiter.

In pursuit of impact, government and business need each other—not just as antagonists holding each other to account, but as collaborators with complementary roles.[38] This collaborative approach is what the public wants: it is the clear preference of the public in almost every country, across the G20 and beyond (Figure 8).[39] Building the government role explicitly into a theory of change, rather than treating the policy environment as an exogenous dependency, can help to bring about the constructive collaborations we will need.

Afterword: People are watching

Figure 9. The public expects general business to lead the transition from fossil fuels

'If we want to stop or reduce society's use of fossil fuels to limit climate change, who needs to lead the change?'



Source: Potential Energy, Yale Program on Climate Change Communication, Meliore Foundation, Zero Ideas (2023), *Later is too late*

Ultimately, a business's stakeholders are people—whether as employees, as the consumers at the end of the value chain, as the owners or beneficiaries of investment funds, or as voters electing the governments that set the rules. And across the world, people are clear: if we want to stop or reduce society's use of fossil fuels, then the actors who need to lead the change are not primarily the consumers, or the fossil fuel companies, but the industries and companies in between who use fossil fuels for what they make and do (Figure 9).[40]

This finding holds true for every one of the 23 countries where the public was asked the question, across demographics and across the political spectrum. (It deliberately excludes government as an actor, to focus on where people see that responsibility lies along the commercial value chain.)

How and whether this expectation will be realized is a different question. As we have seen throughout this report, the mechanisms that translate that expectation into anything with the power to shape what companies do need work. This is why we need robustly tested theories of change.

But as carbon emissions continue to rise, and as the world diverges further from the 1.5˚C pathway it aspires to, it is clear who people are watching. People know that it won't work to simply constrain the supply of fossil fuels without substituting demand. And they know they can't make this happen themselves with the choices currently on offer as consumers.

That doesn't make it any easier for industries and companies. But it does suggest that their ultimate stakeholders are mandating them to lead the effort, if we can get the theories of change right.

References

1 Vanguard Investment Stewardship (2023), *U.S. Regional Brief*

2 Morningstar (2023), *Voice of the Asset Owner Survey: Quantitative Analysis*

3 BNP Paribas (2023), ESG Global Survey, *Taking action: Institutional investors progress on the path to sustainability*

4 Karen Wendt (ed.) (2021), Theories of Change: Change leadership tools, models and applications for investing in sustainable investment, *Springer*

5 Carol Weiss (1995), in New Approaches to Evaluation Community Initiatives: Concepts, methods and contexts, *The Aspen Institute*, p66

6 Carol Weiss (1972), Evaluation Research: Methods of assessing program effectiveness, *Prentice-Hall*, p84

7 Swee-Sum Lam and Xiang Ru Amy Tan (2021), Towards a unifying framework of impact assessment in impact investing, in Karen Wendt (ed.) (2021)

8 Bill & Melinda Gates Foundation (2010), *A Guide to Actionable Measurement*

9 Roger Ballentine (2023), The unusual suspects, *Oxford Open Climate Change*, 3(1)

10 Roger Ballentine (2023)

11 Institute of International Finance (2023), *The role of the financial sector in the net zero transition: Assessing implications for policy, supervision and market frameworks*

12 Legal & General Investment Management (2021), *Reaching net zero: LGIM's approach*

13 Sastry, Verner and Marques-Ibanez (2024), Business as Usual: Bank Net Zero Commitments, Lending, and Engagement, SSRN

14 Sastry, Verner and Marques-Ibanez (2024)

15 Aneesh Raghunandan and Shiva Rajgopal (2022), Do ESG funds make stakeholder-friendly investments?, *Review of Accounting Studies*, 27:822–863

16 Vanguard Investment Stewardship (2023)

17 Heidi Welsh (2023), Assessing anti-ESG efforts in the 2023 proxy season, *Sustainable Investments Institute*

18 Aggarwal, Litov and Rajgopal (2023), Big Three (Dis) Engagements, *Northwestern Law & Econ Research Paper* No. 23–17

19 Pastor, Stambaugh, and Taylor (2022), Dissecting Green Returns, *Fama-Miller Center Working Paper*, ssrn.com/abstract=3864502; summarized in PRI blog 24 August 2022

20 Luca Berchicci and Andrew King (2022), Corporate sustainability: A model uncertainty analysis of materiality, Journal of Financial Reporting, Vol 7 No 2, 43–74

21 Morningstar (2023)

22 Pastor, Stambaugh, and Taylor (2022)

23 BNP Paribas (2023)

24 Morningstar (2024), *Global Sustainable Fund Flows: Q4 2023 in Review*

25 Muhammad Yunus (2007), Creating a world without poverty: Social business and the future of capitalism, *PublicAffairs*

26 Philip Mader (2015), The political economy of microfinance: Financializing poverty, *Palgrave Macmillan*

27 Lamia Karim (2008), Demystifying micro-credit: The Grameen Bank, NGOs, and neoliberalism in Bangladesh, *Cultural Dynamics* 20(1)

28 Philip Mader (2015)

29 Duvendack, Palmer-Jones, Copestake, Hooper, Loke, Rao (2011), What is the evidence of the impact of microfinance on the well-being of poor people? London: EPPI-Centre, Social Science *Research Unit, Institute of Education, University of London.*

30 Bateman, Blankenburg, Kozul-Wright (2019), The rise and fall of global microcredit: Development, debt and disillusion, *Taylor & Francis*

31 Peter Heller (2021), The lessons of microcredit, in Karen Wendt (ed.) (2021)

32 World Bank (2014), *Global financial development report 2014: Financial inclusion*

33 Satoshi Ikeda and Simon Glynn (2023), Economic incentives are key to driving sustainability at scale, *MIT Sloan Management Review*

34 Oliver Wyman and Climate Group (2023), *Climate action at scale: Aligning corporate and climate interests*

35 Oliver Wyman and Climate Group (2023)

36 Institute of International Finance (2023)

37 Simon Glynn (2024), Just because you should doesn't mean you can, *Responsible Investor*

38 Satoshi Ikeda and Simon Glynn (2023)

39 Potential Energy, Yale Program on Climate Change Communication, Meliore Foundation, Zero Ideas (2023), *Later is too late*

40 Potential Energy, Yale Program on Climate Change Communication, Meliore Foundation, Zero Ideas (2023)

Author

Simon Glynn
Founder, Zero Ideas
simon@zeroideas.org

Contributors

This report has been shaped by interviews conducted with leaders and senior practitioners in North America, Europe, Asia and Australia. Most have asked to remain unattributed, so we thank them all here collectively and anonymously, but no less fully.

Our interviewees shared their experience and perspectives from their positions in asset management, banking,corporate strategy, corporate advisory, NGOs, academia, and government.

April 2024

Copyright © 2024
Hughes Hall, University of Cambridge

Cover image of a man in a mangrove:
Rob Barnes under licence from AGEDI

About Zero Ideas

Zero Ideas is a research and education charity established to challenge leadership thinking on climate action. We conduct primary and secondary research and publish articles and research reports to inform business and other leaders on climate issues and to drive a more ambitious leadership mindset regarding climate action.

Recent research projects and collaborations have explored what moves and motivates people to support climate action across the G20 and beyond; why sustainable finance supply needs industrial strategy demand; understanding and responding to public demand for nuclear energy; and keeping politics out of companies' climate action.

Zero Ideas is a Charitable Incorporated Organization in England & Wales.

www.zeroideas.org

About the Centre for Climate Engagement

The Centre for Climate Engagement at Hughes Hall, University of Cambridge plays a unique role in bringing leading academic research to a targeted audience of chairs and non-executive directors to accelerate climate leadership on boards in the private and public sectors.

The Centre is uniquely placed to develop insights drawing on academic expertise from across the University of Cambridge and the wider research community, together with independent expertise from the business sector.

The Centre supports new areas of research particularly relevant for board members with a specific focus on climate law, governance, and organizational change. Our research is carried out directly by postdoctoral researchers, and indirectly via partnerships and collaboration with relevant experts.

www.climatehughes.org