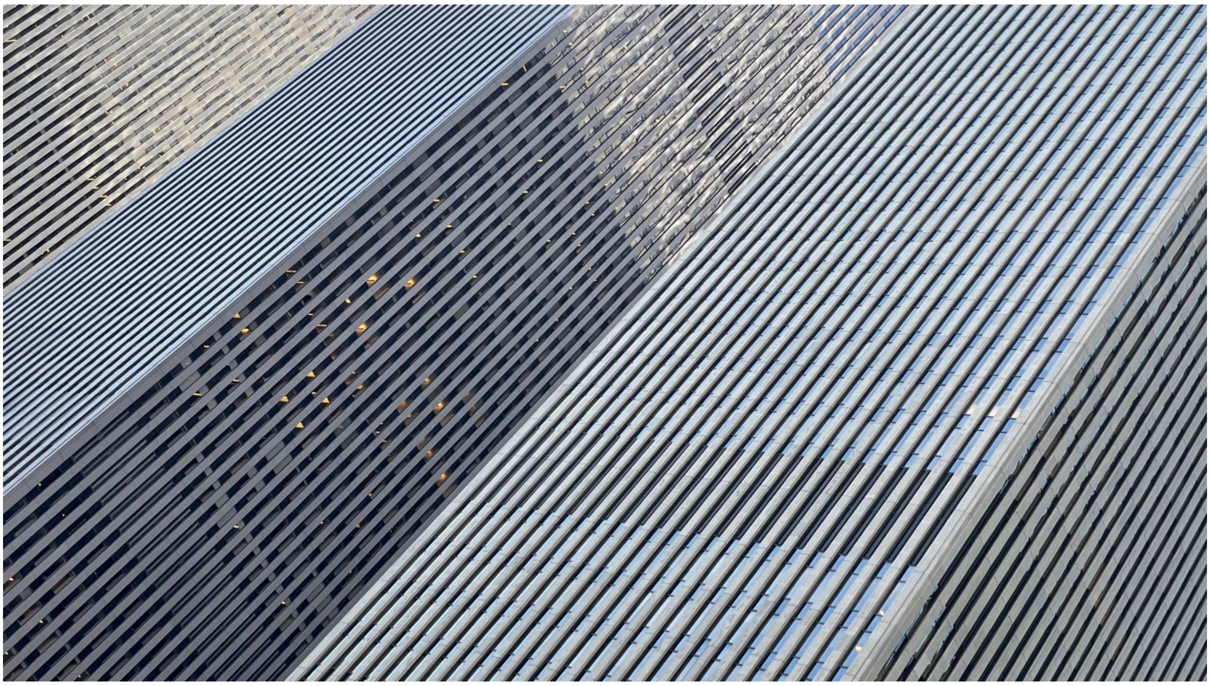
Misplaced morality in companies' climate action



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Most companies have both a moral and a commercial drive for their climate actions. But they are using each in the wrong place. They typically combine a moral stance with commercially-led execution. What is needed is a commercial stance and morally-led execution.

Misplaced morality

Companies are using moral arguments for *why* they are tackling climate change, and commercial arguments for *how*. It needs to be the other way round. Taking a public moral stance as the basis of your climate narrative is unnecessary, because the enlightened commercial argument is robust; it is also unhelpful, because it makes an objectively essential agenda open to question. Conversely, using moral objectives to set specific priorities for climate action could dramatically improve companies' climate impact compared with today's commercially driven, technocratic approach.

Shaky foundations

The moral arguments companies use for their stance on climate change are built on shaky foundations, needlessly putting the whole transition effort at risk. They speak the language of responsible business, stakeholder capitalism, and ESG[1], which opens them to increasing challenge.

The inclusiveness[2] and apparent arbitrariness[3] of ESG ratings have been getting a bad press recently, for reasons I largely anticipated in an article for FT Adviser last year.[4] In particular, ESG mixes climate and biodiversity imperatives that are objective and existential (because the status quo is not an option we can choose), with societal aspirations that are subjective and arguable (because the status quo is an available choice, even if many of us may wish to seek an improvement on it). The effect is to reinforce the misperceptions that make climate action debatable and partisan.

Taking a moral stance positions companies as moral arbiters on behalf of society, making them open to challenge and to the pushback against 'woke capitalism'.[5] Banks that try to take these positions have found that good and bad are sometimes not clear-cut;[6] the banks themselves are asking if they should get to 'play God' on ESG, having the say on what should and should not get to happen in the world.[7]

Without a broader global, societal consensus, there is a real risk of legal and investor pushback obstructing climate action that is built on such foundations. Yet the whole advantage of the corporate-led approach has been its ability to make progress without depending on a global and societal consensus, which there is no time or mandate to bring about. We cannot afford to lose that advantage.

This is all an unnecessary dilemma, because companies do not need moral arguments for why they should act on climate. Enlightened self-interest does the job. But to make such a commercial argument hold, companies need to do two things that don't come naturally. The first is to work with unusually long time horizons, exacerbated by all the unknowns of policymaking, technologies and other players' moves during that time. The second is to get the counterfactuals right. A future outcome of climate action will rarely look attractive compared with today, but today is not the alternative. Companies need to compare alternative futures, with and without their climate action, to make a meaningful comparison.[8]

Morality where it matters

We do need companies' moral drive though – where it is currently often missing. We don't need it for *why* companies are acting on climate; but we do need it for *how*.

It is not enough to drive your 'how' agenda commercially or technocratically. You can put in place all the metrics of carbon accounting, and even a carbon price; they are helpful indicators but structurally flawed.[9] They cannot see through the complexity and dynamism of the transition to reveal how you could have most impact. They tend to drive you to focus on risk to the company first, business opportunity second, and climate impact third. All three outcomes matter, but not necessarily in that order.

They are not a substitute for a morally-led vision that asks, 'Given who we are and what we do, how can we have the most impact (with a sustainable level of profit and risk)?'

This is what IKEA asked themselves ten years ago, when they went all-in on LED lightbulbs – a hard decision to defend commercially, as the costs were far too high for IKEA's affordable prices, but one that used their extraordinary purchasing power to help drive unit costs down by a factor of five in just three years. It is the question AT&T asked themselves last year when they embarked on their Gigaton Goal, 'to develop connectivity solutions that enable customers to reduce a gigaton (1 billion metric tons) of greenhouse gas emissions by 2035.'

IKEA and AT&T each started with the vision and conviction to see the impact they could have and the role that they could play. That ambition set the targets – in terms of a specific outcome to make happen. In both cases there is then plenty of commercial discipline to achieve that goal profitably, as for any other business goal. But the most sophisticated carbon budgets won't achieve much without bold vision and moral commitment setting their agenda.

Let's use our morality where it matters.

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Zero Ideas is challenging business thinking on climate change. We seek to accelerate and deepen the approaches that businesses take to tackling climate change by stimulating a curious and visionary mindset among business leaders, encouraging them to go beyond today's focus on carbon accounting and reporting.

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[1] Environmental, Social and Governance

[2] *ESG should be boiled down to one simple measure: emissions – Three letters that won't save the planet*, The Economist, 21 July 2022

[3] See for example Christian Hetzner, *Musk claims S&P 'lost their integrity' after Tesla gets booted from sustainability index while Exxon is included,* Fortune, 18 May 2022

[4] Simon Glynn, *The five tensions facing ESG providers*, FT Adviser, 9 June 2021

[5] Andrew Edgecliffe-Johnson, *The war on 'woke capitalism'*, Financial Times, 27 May 2022; see also Vivek Ramaswamy, *Woke, Inc.: Inside Corporate America's Social Justice Scam*, 2021

[6] Patricia Nilsson, *OnlyFans founder blames banks for ban on porn*, Financial Times, 24 August 2021

[7] Nicholas Swee Yang Lua, *DBS CEO Gupta ponders if bankers should 'play God' around ESG*, Bloomberg, 27 July 2022

[8] Simon Glynn and Simon Cooper, *To transition to net zero, model the alternative*, MIT Sloan Management Review, Volume 63, Issue #3, 3 January 2022

[9] Simon Glynn, *We must stop building a Soviet carbon economy*, Zero Ideas, July 2022